

Audit Quality Monitoring Report 2022

Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.

The Secretary of State specified PSAA as an appointing person for principal local government bodies from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015

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Executive Summary

We present our Annual Quality Monitoring Report for 2022. This covers the work of local auditors appointed by PSAA for the 2020/21 financial year and provides relevant related information.

PSAA is committed to working with all parties so that appropriate quality audit services are provided to its opted-in bodies. Along with several national audit agencies PSAA has adopted the International Auditing and Assurance Standards Board's *Framework for Audit Quality* (IAASB framework) as the model for its appointing person audit service quality monitoring arrangements. This is widely regarded as a definitive statement on overall audit quality. The IAASB framework recognises there is a complex interplay of many factors in audit quality and notes the need for a rounded approach. We have taken the attributes that the IAASB framework expects to be present within a quality audit and distilled them into three tests which we use to monitor the quality of audit services provided by auditors under our contracts:

- Adherence to professional standards and guidance;
- Compliance with contractual requirements; and
- Effective relationship management.

It is over two years since Sir Tony Redmond's review of local authority financial reporting and external audit was published. The report highlighted the significant challenges and turbulence within the new system of local audit, emphasising that at present local government audit is under-resourced, undervalued and is not having impact in the right areas. Whilst there are mitigating factors, to date the situation has deteriorated, especially in relation to the timeliness of audit opinions.

We reported last year that only 41 (9%) of 2020/21 audits had been given by the publishing date of 30 September 2021. A substantial proportion of organisation's have had to prepare their 2021/22 financial statements with the previous year's audit still incomplete, and the backlog of delayed audits continues to increase. Only 12% of local government bodies' 2021/22 audit opinions were given by the publishing date of 30 November 2022. Although this is slightly higher than last year's 9%, the publishing date is two months later than last year. In total more than 630 opinions are currently delayed. [The National Audit Office \(NAO\) published its second progress report on the issue](#) on 25 January 2023.

Delayed audit opinions have a public-facing impact, undermining the ability of local bodies to account effectively for their stewardship of public money to taxpayers. Too many of them are having to make decisions, managing multiple financial challenges and laying plans for the future with limited assurance about their underlying financial positions. As in previous years we urge every part of the local audit system to play its part in restoring the norm of timely opinions as soon as possible.

The vulnerability of local audit is linked to the limited number of audit firms in the market, which also severely impacted PSAA's ability in our recent procurement to secure 100% of the required auditor supply at the first time of asking. Two of the UK's largest audit firms decided to exit the market and, whilst the procurement was ultimately able to obtain just enough supply, there will be a significant increase in the audit fees payable by bodies. The results of the procurement provide clear evidence that local audit remains highly fragile and vulnerable.

Adherence to professional standards and guidance

Information on the quality of local audit work in this report comes from the reports provided by the audit regulators, the Financial Reporting Council (FRC) and the Institute of Chartered Accountants of England and Wales (ICAEW). [The FRC issued its Local Audit Inspection Report](#) (FRC report) on 28 October 2022, containing the results of the inspections by the Audit Quality Review (AQR) team of engagements completed in 2020/21. It also included the results of reviews undertaken by the Quality Assurance Department (QAD) team of the ICAEW, and firms' own internal quality monitoring arrangements. The scope of the report covers the whole of local audit, including those not opted-in to the PSAA appointing person arrangements and NHS bodies, but we are able to use the overall findings to inform our contract monitoring arrangements. [The QAD have produced a Feedback video](#) on the outcomes from their inspections.

The FRC also highlighted the concerns on timeliness reporting and commented that *'As local public bodies face financial pressure and some engage in increasingly commercial activity, it is essential that high-quality financial reporting and the audit process identify and respond to risks on a timely basis'*.

Financial Statements

In total the AQR and QAD inspected 37 financial statement audits. They reported that 29 (78%) met the required standards (which is being assessed as 'good or limited improvements required'). This proportion is the same as the previous year and an improvement on 2018/19 where the proportion was 63%. However, overall four of this year's inspections concluded that significant improvement was needed (the lowest grade) compared to one in 2019/20 and two in 2018/19.

The FRC report identified the key findings that contributed to the increase of unacceptable ratings. These were inadequate financial statements review procedures, ineffective evaluation of identified misstatements, and insufficient justification for issuing a qualified audit opinion. Firms also need to continue to improve the evaluation and challenge of management's investment property valuations. The FRC reported their concern at the ongoing inconsistency in the quality of audits inspected, in that they also identified good practice in these areas including at the firms where they reported that improvements were required. The FRC report also included other good practice examples in risk assessment, execution of the audit, and completion and reporting including use of internal consultations to assess whether the work completed sufficiently addressed the audit risk identified.

VFM arrangements

In total the AQR and QAD inspected 24 audits of VFM arrangements. They reported that all bar 1 (96%) met the required standards (which is being assessed as 'good or limited improvements required'). In the previous two years all VFM arrangements work had been judged as meeting the standard.

The FRC report contains the firms' responses to the AQR and QAD reviews and the actions being taken. We will follow up firms' resulting action plans and seek assurance that the concerns are being actively addressed.

Effective relationship management

We surveyed all of our 2020/21 Section 151 officers and Audit Committee chairs to judge the effectiveness of relationships between bodies and their auditors. We received responses

from 183 (39%) Section 151 officers and 113 (24%) Audit Committee chairs. Respondents highlighted the local impact of delayed audit opinions, the shortage of auditor resources, the level of scale fee variations, and the extent of the audit work now required on property and pension valuations.

We asked for views on the usefulness of the VFM arrangements commentary within the Auditor's Annual Report. Of the 182 of 294 respondents bodies that had received a commentary, 85% of audit committee chairs and 60% of finance directors found it useful. Several respondents highlighted that sharing notable practice would be beneficial. We will track this response in future years and discuss with the NAO.

Overall communication remains an area for improvement. As last year around two-thirds of respondents thought that communications during the audit were sufficiently frequent, and just under half of finance directors (49%) and two thirds of Audit Committee chairs (63%) reported that communications were sufficient to provide a "no surprises" basis.

The most common communication issue is the need for auditors to flag earlier the need for audit opinion deferral or the need for fee variation. Reducing the number of delayed audits was clearly expressed as the most urgently required improvement to audit.

Compliance with contractual requirements

Our biggest concern remains the timeliness of audit completion. Only 41 (9%) of audit opinions were given by the 30 September 2021 publishing date. For 2021/22, 56 (12%) opinions were given by the later publishing date of 30 November. Auditor concerns about infrastructure accounting emerged in 2022, halting the issue of opinions at most bodies with material infrastructure assets for several months, with CIPFA leading the search for a solution.

Both the NAO and the Public Accounts Committee have reported on timeliness, with an emphasis on the fundamental importance of timely opinions. The Local Audit Liaison Committee brings together all the key stakeholders, and it has discussed the whole-system action required to address the problem. DLUHC has acknowledged publicly that a full recovery is likely to take several years.

Overall

In summary, the results of all the professional regulatory reviews of financial statement work were consistent with the previous year with 78% of all financial statements audits reviewed assessed as requiring no more than limited improvements, and an improvement on the 2018/19 outcome (63%). However, the FRC reported that inconsistency is preventing firms from eradicating poor quality audits. We noted from the findings that where authorities have unusual and higher risk transactions auditors are expected to expand the depth of their audit work. It was disappointing to note that in the audits judged by the AQR as requiring significant improvement it was because audit procedures had failed to ensure that primary statements were free from material error.

In the first year of the VFM arrangements commentary the FRC was able to report on some good practice matters and, in all bar one case, the AQR and QAD were able to assess the audit work completed as meeting the required standard.

However, the fact that there are more than 600 delayed opinions is a serious concern for users of accounts and anyone with an interest in local government and local democracy. The value of a long-delayed audit to the public is questionable. The causes of the delays are widely documented and covered by both the NAO in its report and the work of the Public Accounts Committee. Tackling the issues and dealing with the current situation must be a priority duty for the whole local audit system and its participants.

We welcome the appointment of Neil Harris as the FRC's first Director of Local Audit, and the development of much-needed system leadership. All stakeholders have a role to play in the clearing of the backlog of opinions, which are vital to providing assurance about the sector's financial position in these challenging times.

Introduction

1. This report summarises the results of the Quality Review Process (QRP) for 2020/21 engagements and related contractual monitoring. This is PSAA's third report under our appointing person responsibilities as set out in the Local Audit (Appointing Person) Regulations 2015 (the Regulations).
2. PSAA has a duty under the Regulation 7(b) to design and implement appropriate systems to:
 - oversee issues of independence; and
 - monitor compliance against contractual obligations.
3. [An overall summary of our approach](#) is provided on our website.

PSAA approach to audit quality monitoring

4. Our approach is grounded in the International Auditing and Assurance Standards Board (IAASB)'s Framework for Audit Quality. This is widely regarded as a definitive statement on overall audit quality. We have taken the attributes the IAASB expects to be present in a quality audit and distilled them into three tests, which we use to consider the quality of audits and auditors under our contracts:
 - adherence to professional standards and guidance;
 - compliance with contractual requirements; and
 - effective relationship management
5. Table 1 shows the main evidence sources that PSAA uses to monitor audit quality for the three tests to provide a rounded view of audit quality.

Table 1: PSAA's audit quality monitoring

PSAA test	Evidence source
Adherence to professional standards and guidance	Professional regulatory reports; and Firm transparency reports
Compliance with contractual requirements	Contract performance indicators Method statement monitoring
Effective relationship management	Satisfaction survey scores

Source: PSAA

6. The relationship between the IAASB framework and our audit quality monitoring arrangements is shown in Table 2 below. Audit quality formed a core part of the

evaluation of tenderers in our 2017 audit procurement, which commissioned the audit work covered by this review.

Table 2: IAASB Framework elements

Key element/PSAA test	Adherence to professional standards and guidance	Compliance with contractual requirements	Effective relationship management
Inputs:			
Values, ethics and attitude	Y	Y	Y
Knowledge, skills, experience and time	Y	Y	Y
Process:			
Audit process and quality control procedures	Y	Y	
Outputs:			
Auditors' reports	Y	Y	Y
Transparency reports	Y		
Professional regulators' reports	Y		
Key interactions	Y		Y

Source: PSAA

- Responsibility for providing audits of appropriate quality rests ultimately with an appointed auditor. However audit quality, efficiency and effectiveness are a shared responsibility across appointed auditors and audit firms, PSAA as Appointing Person, chief finance officers (CFOs) and audit committees, regulatory and supervisory bodies, the Comptroller & Auditor General (C&AG) and the National Audit Office (NAO), and government, specifically DLUHC. The IAASB framework notes that all parts of the financial reporting chain have a role in contributing to and encouraging an audit environment that supports provision of an audit service of the expected quality.

Adherence to Professional Standards and guidance

- Information on the firms' adherence to professional standards and guidance comes from the results of professional regulatory reviews completed by the Audit Quality Review team (AQR) for the Financial Reporting Council (FRC) and the Quality Assurance

Department (QAD) for the Institute of Chartered Accountants in England and Wales (ICAEW), the Recognised Supervisory Body (RSB) for local audits in England.

9. The AQR inspects a sample of the largest local government and NHS audits. These are known as 'Major Local Audits' (MLAs) and are those bodies with income or expenditure above £500 million. The QAD reviews a sample of local audits that fall below this threshold. The inspections cover both financial statement and VFM arrangements work. The publicly reported results cover all local government bodies, including those which have not opted-in to the PSAA appointing person arrangements, as well as NHS bodies. However, our judgement is that we are able to use the general findings as reported to inform and support our contract monitoring arrangements.
10. The regulatory reviews focus on identifying areas where improvements are required and individual ratings will reflect a wide range of factors, which may include size, complexity and risk of the individual audits selected for review. The FRC notes that because of this and the small non-statistically valid nature of the review sample, the inspection findings may not be representative of audit quality across a firm's entire major local audit portfolio. It follows therefore that they are not expected to be representative of all audits undertaken in the local government and NHS sectors. Nonetheless, any inspection cycle which identifies audits requiring more than limited improvements is a cause for concern and indicates the need for a firm to take action to achieve the necessary improvements.
11. On 28 October 2022, [the FRC issued its Local Audit Inspection Report](#) (FRC report) containing the results of its audit quality inspections of engagements completed in 2020/22. It also included the results of reviews undertaken by the Quality Assurance Department (QAD) team of the ICAEW, and firms' own internal quality monitoring arrangements. This provided the review results of 57 financial statement audit and 40 VFM arrangements files.
12. In January 2022, the FRC reported that they had fined Mazars £250,000 in relation to a 31 March 2019 year end audit. The FRC considered that it was necessary to impose a sanction to ensure that Mazars' local audit functions are undertaken, supervised and managed effectively. The FRC had previously reported the grade of this inspection in their 2020 report. The FRC's 2021 and 2022 reviews concluded that all of the subsequent Mazars' audits inspected have met the required standard as they were assessed as requiring no more than limited improvement.

Financial Statements

13. Auditors are required to give an opinion on whether the financial statements of an audited body give a true and fair view of its financial position and of its income and expenditure for the period then ended. They have other reporting responsibilities with respect to the preparation of the financial statements, the remuneration report and other information published with the financial statements.
14. This report considers the results of 2020/21 audits as far as is possible. Both the AQR and the QAD reported that due to the large, accumulated backlog of delayed opinions their inspection sample included audits from earlier years that were completed during the period.

15. The FRC report set out that 14 of the 20 financial statements audits the AQR inspected met the required standard (which is being assessed as ‘good or limited improvements required’). They noted that this proportion (70%) was the same as the prior year, and an improvement on the 46% average over the preceding three years. However, of the six audits that did not meet the required standard, three were judged as requiring significant improvement (the lowest grade), compared to none in the previous year. The FRC reported their concern at the inconsistency in the quality of audits inspected, and that the firms must review their individual quality action plans to ensure this deterioration is addressed and that consistently high-quality audits are delivered.
16. Table 3 shows the results of this year’s inspection reviews (by AQR and QAD), together with those from the previous two years (those completed under the LAAA 2014 quality monitoring arrangements).

Table 3: Financial statements – inspection review gradings

Results of the reviews completed by review year

Grading	Total 2020/21*	Total 2019/20*	Total 2018/19*
Good or Limited improvements required	29 78%	29 78%	17 63%
Improvements required	4 11%	7 19%	8 30%
Significant improvements required	4 11%	1 3%	2 7%

**sample could include NHS and other bodies not within the PSAA contract*

Source: FRC audit quality inspection reports

17. The FRC’s report provided information on all firms reviewed by either the AQR or QAD. The number of inspections at each firm varies by year.

Table 4: Financial statements – firms’ inspection review gradings

Results of 2020/21 reviews for PSAA contracted firms

Firm	Met required standard	Improvements required	Significant improvements required
GT	12	2	1
EY	9	2	1
Maz	3	0	0
BDO	1	0	1
DL	1	0	1
KPMG	2	0	0

Source: FRC audit quality inspection reports

18. The AQR reviewed seven Grant Thornton (GT) financial statement audits: five were assessed as meeting the required standard, one with improvements required and one with significant improvements required. Two years ago, one of the six GT audits reviewed met the required standard. The QAD inspected eight GT audits; seven of these met the required standard with one requiring improvement.
19. The AQR reviewed four Ernst and Young (EY) audits, two of which were assessed as meeting the required standard, and two as improvements required compared to the previous year where three of four EY audits reviewed met the required standard. The QAD inspected eight EY audits; seven of these met the required standard with one requiring significant improvement.
20. The AQR reviewed three Mazars financial statements audits; all were assessed as meeting the standard, as were the four audits inspected last year. In accordance with their cyclical programme Mazars were not scheduled to be reviewed in 2022 by the QAD.
21. Two BDO audits were inspected; one was assessed as meeting the required standard, the other as requiring significant improvement. The AQR reviewed two Deloitte (DL) audits; one was assessed as meeting the required standard, the other as requiring significant improvement. Individual firm information from comparative reviews is not available. The AQR reviewed two KPMG audits; both were assessed as meeting the required standard. The QAD reviewed one audit at PricewaterhouseCoopers which was graded as meeting the required standard. In accordance with their cyclical programme BDO, DL and KPMG were not scheduled to be reviewed in 2022 by the QAD.
22. In the audits judged by the AQR as requiring significant improvement this was because the audit procedures were inadequate as they had failed to ensure that primary

statements were free from material errors. Material errors were present in two sets of audited financial statements, and in the third the unadjusted audit differences reported to the Audit Committee were material. In the audit judged by the QAD as requiring significant improvement there were two material errors in the cash flow statement.

23. As in previous years key audit quality findings included the evaluation and challenge of management and management's experts. In this year's report insufficient procedures were identified in respect of:
 - pension fund asset valuations and investment returns; and
 - assumptions used in investment property valuations.
24. In respect of the audit judged by the QAD as requiring significant improvement the auditors needed to improve the work completed on complex property investments including classification and valuation. Other findings included the need to continue to enhance the audit procedures over expenditure and the testing of journal entries.
25. The FRC's risk-based review scope included matters of particular interest to local government, including expenditure on services, the disclosure of senior officer remuneration, the appropriateness of capital expenditure, investment property valuation, and adjustments between accounting basis and funding basis, such as minimum revenue provision. We noted from the findings that where authorities have unusual and higher risk transactions auditors are expected to expand the depth of their audit work.
26. For each review, the AQR team have an opening meeting with the Audit Committee Chair. These provide an opportunity for the Audit Committee Chairs to highlight any areas they would like to be scoped into the inspection. Following each review the AQR team send a private report to each Audit Committee Chair, with the offer of a follow up meeting. We welcome the FRC involving Audit Committee Chairs in the process.
27. As part of their review of the firms the FRC also considered:
 - Root Cause Analysis (RCA) and audit quality initiatives;
 - Engagement Quality Control Review (EQCR) procedures, consultations and audit documentation; and
 - Audit methodology (property valuations and going concern).
28. The FRC reported that they continued to observe improvements at individual firms that were linked to the implementation of quality action plans developed from RCA. However, firms needed to ensure that the appointment of EQCR reviewers is appropriately focused on quality risks, including at non-major local audits. We are pleased to see that the FRC highlighted the need for 'going concern audit work programmes to be suitably tailored to the sector.
29. The FRC report highlighted examples of good practice across the audit process, including in some areas where there were concerns elsewhere. Good practice examples included:

- Designing audit tests to address the risks from management’s incentive to manipulate its reserves position, including fraudulent revenue recognition;
 - Use of an auditor’s expert to assist with the audit of complex high-risk property valuations;
 - Clear stratification of errors identified in PPE testing to inform the further audit work conducted;
 - Good levels of challenge and corroboration on assessing valuer assumptions including evaluation of assumptions used by management’s valuer using third party market data;
 - Responding to errors identified in testing with robust follow up, including increased testing and challenging management to recognise a prior year adjustment;
 - Use of consultation panels to consider sufficiency of audit procedures in extremely high risk situations; and
 - Clear documentation of the impact of the COVID-19 pandemic.
30. The FRC report included results from the firms’ internal quality monitoring reviews. These reviews covered 20 financial statements audits including 8 MLAs. Of these 18 were considered to be of a good or limited improvements standard (including 7 for MLAs). One MLA was assessed as requiring significant improvement and one other audit as needing improvement.
31. The firms’ internal inspection programmes generally consider the full population of both major and non-major local audits performed. The programmes are varied but are usually risk-based as well as structured to cover all Key Audit Partners (KAPs) over a fixed period of time. Audit files are selected for review based on a number of criteria, including risk and public interest. Reviews are supervised by the firms’ own internal quality teams.

Value for money arrangements

32. [The NAO’s Code of Audit Practice](#) applied for 2020/21, and required that auditors provide a commentary on bodies’ VFM arrangements as part of an Auditor’s Annual Report, rather than as previously a conclusion contained within the opinion on the financial statements.
33. The FRC and the ICAEW reported that, in all but one case, they assessed that the arrangements met the required standards. One audit engagement that was reviewed by the AQR was judged as requiring significant improvement, because the evidence on the VFM arrangements audit file had not been properly compiled, reviewed or archived. Changes were made to the audit file after the AQR notified the firm of the inspection.

Table 5: VFM arrangements – inspection review gradings

Results of the reviews completed by review year

Grading	Total 2020/21*	Total 2019/20*	Total 2018/19*
Good or Limited improvements required	23	32	27
Improvements required	0	0	0
Significant improvements required	1	0	0

**sample could include NHS and other bodies not within the PSAA contract*

Source: FRC audit quality inspection report

34. We were pleased that in the first year of the new reporting arrangements the report highlighted examples of good practice. At four inspections the Auditor's Annual Reports were judged to be comprehensive, well-structured, and made good use of benchmarking data. Communication was clear, including the nature of significant weaknesses identified and their impact on the entity. Additionally, the FRC report noted a joined-up audit approach at one audit with issues identified as part of the financial statement audit being further assessed for their impact on VFM arrangements. It also identified good practice with examples of a timely update to an Audit Committee when a significant weakness in VFM arrangements had been identified and the use of consultation panels to consider complex judgements. The QAD highlighted comprehensive documentation of the VFM arrangements' risk assessment and good tailoring of improvement recommendations to reflect an impending local government reorganisation.
35. The FRC report included findings where limited improvement was required for all firms' future consideration. These included aspects of risk assessment, reporting of significant weaknesses and the use of the findings of other regulatory inspectors.
36. The FRC report included results from the firms' internal quality monitoring reviews of VFM arrangements work. The firms reported that of the 16 VFM arrangements reviews, 15 were of a good standard or required only limited improvements. One review was assessed as requiring improvements.

Transparency Reports

37. The FRC's Local Auditors (Transparency) Instrument 2015 requires firms that conduct major local audits to report annually on information specific to their local audit responsibilities and includes:
- a statement on the effectiveness of the functioning of internal quality monitoring arrangements in relation to local audit work;
 - a description of independence procedures and practices, including a confirmation that an internal review of independence practices has been conducted;
 - a statement on the firm's policies and practices to ensure that Key Audit Partners continue to maintain their theoretical knowledge, professional skills and values at a sufficiently high level; and
 - confirmation that all engagement leads are competent to undertake local audit work and staff working on such assignments are suitably trained.
38. The Transparency Reports published by firms provide information on the results of regulatory reviews and the responses of firms to the matters raised. Some firms produce a specific 'Local Audit' Transparency Report, whilst others publish a firm-wide version. Either way they are available on firms' websites.
39. We found that the required disclosures were contained within each of them, but these were not always clear. Arguably it is more helpful for local audit stakeholders if a separate report is produced covering 'Local Audit' requirements or, if a combined firm-wide report is produced, the matters relating to Local Audit are clearly identifiable.
40. The reports also present an opportunity for the firms to:
- provide relevant, reliable and useful information that facilitates engagement between firms and users of financial information;
 - communicate a balanced self-assessment of the challenges the firms face in relation to audit quality and the effectiveness of their actions to overcome them, including how the independent non-executives at the firms have assessed this; and
 - promote confidence (where warranted) in their systems, processes and governance to engender public trust.

The reports also documented how audit quality was taken account of in partner and employee remuneration packages.

41. We noted that the Transparency Reports highlighted where firms had received 'unsatisfactory' reviews from the regulator, both in terms of the response to audits being judged as requiring significant improvement, or where the FRC had taken enforcement measures against the firm.

Compliance with Contractual requirements

42. PSAA monitors firms' compliance with contractual requirements by considering a range of performance indicators, and also their compliance with agreed method statements as set out below.

Contract performance indicators

43. During the year PSAA has reported publicly on firms' performance against targets of particular interest to opted-in bodies. This has included information on delivery of audit opinions and other outputs in a timely manner and matters which facilitate publication of annual accounts. Sir Tony Redmond's report on local authority financial reporting and external audit was published in September 2020. Since then the backlog of delayed audits has continued to increase.
44. The Code of Audit Practice from 2020/21 onwards includes the expectation that the audit report containing the opinion will be issued by the publishing date set out in the Accounts and Audit Regulations 2015 (or equivalent) wherever the auditor can do so under the auditing standards and the guidance issued by the NAO. However, the publishing date is not a statutory date, and there is no 'backstop' date by which auditors must issue an opinion. Established practice in local government is that if auditors are unable to issue an opinion at the publishing date, then they will continue their audit until they judge they are able to do so. Regulation 10(2) of the Accounts and Audit Regulations 2015 specifically provides for the circumstances where audited statements are not available before the specified publishing date, in that the body must publish a notice reporting the delay and the reasons for it.
45. The backlog of delayed audits continues to increase. We reported last year that 433 (91%) of 2020/21 audit opinions had not been given by the publishing date of 30 September 2021. Of those, 433, 161 (34%) remained outstanding at 30 December 2022. In addition to the sector issues previously highlighted (e.g. within [the NAO's March 2021 report - Timeliness of local auditor reporting on local government in England](#)), heightened audit risk around the accounting for and derecognition of infrastructure assets led to a general moratorium on the completion of audits for bodies with material infrastructure assets. It has taken nearly a year to broker a short-term solution which meets both accounting and auditing requirements.
46. At the publishing date of 30 November 2022, 56 (12%) of local government bodies' 2021/22 audit opinions have been given. Although this is slightly higher than last year's 9%, this year's publishing date is two months later.
47. It is clear from correspondence and the information received from our client survey that timeliness is considered by our clients as a key element of receiving a good quality audit service. We know that delayed opinions disrupt related work plans for all parties, create uncertainty in relation to the organisation's financial position, and weakened governance and accountability processes. Perhaps most obviously, delayed audited accounts are less valuable and relevant.

48. The causes of the delays are widely documented and covered by both the [NAO report referred to above \(in its recently published progress update\)](#) and the work of the Public Accounts Committee. Tackling the issues and dealing with the current situation must be a priority duty for the whole local audit system and its participants.

Specific Powers and Duties of Auditors

49. Auditors have specific powers and duties under the Local Audit and Accountability Act 2014 (the Act). These include considering whether:
- to issue a public interest report concerning any matter that comes to their attention during the course of the audit which they judge should be considered by the audited body or brought to public attention;
 - an audited body should consider formally and respond in public to recommendations they are making (Schedule 7 of the Act); and
 - to apply to the court that an item of account is contrary to law.
50. The table below shows how auditors have used their specific powers in the period covered by this report.

Table 6: Use of auditors’ specific powers

Use of statutory powers by date of issue

Period	Issued Public Interest Report under Sch 7 (1)	Made written recommendation under Sch 7 (2)
Year to October 2020	2	1
Year to October 2021	2	6
Year to October 2022	1	4
November 2022 to December 2022	1	1

Source: PSAA

Objections

51. Local electors have the right to raise formal objections with the auditor about the financial statements and other matters, a unique feature of local government audits.
52. It is widely recognised that not all cases can be resolved within nine months (the historical industry benchmark), for example, where objections are related to complex or

difficult legal cases, or where a resolution is delayed because an auditor is reliant on others for responses.

53. However the current shortage of experienced local auditors, which is particularly relevant for the exercise of an auditor's quasi-judicial powers, has impacted on the ability of all firms to conclude on objections. As of 31 December 2022 there were 40 objections unresolved within the nine-month time frame, including a number unresolved for significantly longer periods.
54. The 2020 Code of Audit Practice requires auditors to use best endeavours to complete their work on objections within six months including informing the objector and the body of their decision. Where this is not possible, we supported the introduction of a requirement to provide the objectors and bodies with a progress update every three months until the objection is decided.

Non-compliance with Terms of Appointment

55. There have been no significant areas of non-compliance with PSAA's Terms of Appointment (ToA) for the year ended 31 March 2021 (the period of work covered by this report). We reported two occasions during the year where firms were late in requesting extensions to individual's involvement at specific engagements. We reported one occasion where a firm did not provide a copy of a statutory report to PSAA in advance of issue as required.

Independence issues

56. We reported one occasion where a firm self-reported that tax services had been inadvertently provided to a local authority-maintained school. Appropriate action was taken to mitigate the risk to auditor independence and a change in auditor appointment was not necessary in this case.

Non-audit services

57. Firms are able to provide certain non-audit services to audited bodies subject to the requirements of the FRC's Ethical Standard and the NAO's Auditor Guidance Note 1. Where the fee for such services exceeds the higher of £18,000 or 20% of the scale fee then the firm must seek PSAA's confirmation that undertaking such work will not compromise their independence as auditor. The requirement that local auditors provide a VFM arrangements commentary is relevant to this judgement. The number of requests made has significantly reduced from earlier years because of changes to the Ethical Standard.

Table 7: Non-audit service requests

Number and value of non-audit service requests for the last four financial years

Year	Number of requests approved for non-audit services	Total fee value of requests approved
2018/19	10	£336,773
2019/20	5	£203,550
2020/21	0	£0
2021/22	3	£185,500
To December 2022	1	£56,500

Source: PSAA

58. We monitor how firms are operating their internal control systems for maintaining their independence. Where breaches have occurred, we have reviewed the underlying cause and the mitigating actions that have been put in place to prevent re-occurrence.

Complaints

59. Complaints can be an indicator of poor-quality audit services. Under our complaints policy PSAA can consider complaints that relate to a possible failure in service by one of the firms of appointed auditors, but we cannot consider complaints about the professional judgements and decisions made by auditors, or the process followed in relation to elector rights as these are matters for the courts. We have a protocol with the relevant regulators for dealing with such complaints.

60. A number of opted-in bodies contacted us regarding the lack of timeliness in audit completion. We share the concerns of our clients. As we and others have reported previously, the reasons at any individual body will normally be a combination of different causes. The position in 2021/22 was exacerbated by the length of time taken by the sector to resolve concerns over the accounting for (and therefore the auditing of) authorities' infrastructure assets (e.g. highways).

61. In the year ended 31 March 2022 there were no formal complaints made to PSAA that were relevant to our responsibilities. We referred one complainant to the ICAEW as the appropriate regulatory body.

Method Statement

62. Certain parts of firms' invitation to tender (ITT) responses in the 2017 PSAA procurement have been incorporated as 'method statements' in their contracts. The method statements cover a variety of topics that were all assessed as part of the tender

evaluation process. PSAA has triangulated its monitoring of compliance with audit quality service information from other sources such as the professional regulatory reviews and client surveys. A client focused version of the 'method statement' was provided to all bodies as part of our client survey and formed part of firms' planning and reporting communications with audited bodies.

63. As audit is a highly regulated profession, much of the firms' method statements are contained in the expectations of the auditing standards in planning, conducting and reporting on an audit. The results of the regulatory reviews are reported above.
64. The findings from our client survey were that 90% of responding finance directors and audit committee chairs considered that, allowing for the pandemic, their audit service was meeting expectations as set out in firms' audit planning documentation to some extent. We report further on the results of the client survey below.

Data Confidentiality

65. We have reviewed and confirmed that all firms have information governance arrangements in place and data confidentiality arrangements remain appropriate. There are instances of breaches such as emails sent to an incorrect recipient, but no sanctions have been imposed by any regulator such as the ICO. Three specific data incidents were reported to us (one laptop theft and two incorrectly addressed e-mails). Our assessment of the incidents in conjunction with the firms and organisation's concerned concluded that there were no notifiable breaches of personal data confidentiality. It seems likely that the introduction of cloud-based data holding, and two-factor authentication arrangements have done much to improve overall security, but there must be no complacency especially as technology will continue to evolve at a strong pace.

Social Value

66. In accordance with our obligations under the Public Services (Social Value) Act 2012, we used the 2017 procurement to seek to improve economic, social and environmental well-being through the supply of audit services under our contract, whilst acknowledging that this is difficult to frame and measure in a national context.
67. Our procurement required firms to specify how many apprenticeships, additional training, development and work experience opportunities would be provided as a result of the contract, and the measures that would be put in place to target these posts at people from more deprived communities. Our five firms committed to providing 400 positions across the life of the contract. Information provided by the firms shows that for the contract period to 2021/22, over 320 positions have so far been created in positions for graduate trainees and school leavers, including year-long work placements. In addition, there have been a further 160 fixed term placements.
68. A particular focus for all firms has been school leaver programmes and attracting employees from lower socio-economic backgrounds. Information on backgrounds is difficult to validate but firms have provided details of the strategies deployed to widen their talent pool and ensure inclusive attraction in order to provide greater opportunities for young people from disadvantaged backgrounds. Whilst measurement of performance

continues to be challenging, we are confident that our initiative has contributed to the encouragement of firms to address these important issues.

Effective relationship management

69. Effective relationship management is a key component of audit quality. Satisfaction surveys are the most effective way of obtaining this information.
70. We commissioned for a third year the LGA's Research & Information team to administer the survey to provide assurance about independence and confidentiality. We sought the views of both CFOs and Audit Committee Chairs, recognising the importance of the auditor's relationships with both management and Those Charged with Governance. We are mindful of the volume of data returns that bodies are required to complete, and so used a short list of survey questions consistent with that for 2019/20. We surveyed all our bodies and received responses from 113 (24%) Audit Committee chairs and 183 (39%) Finance Directors. We reported the survey results in July 2022, and a full copy can be found on our website: [PSAA Quality of Audit Services 2020-21 Survey](#).

Survey Results

71. The survey results reflected the current challenges, and respondents expressed their concerns about the wider local audit regime. The issues documented in the Redmond Report continued to impact on audit delivery and the challenges posed by the Covid pandemic again contributed to the position. With financial statements reflecting increasingly complex structures and transactions and regulatory demands increasing, there is great pressure on the preparers of accounts and a shortage of auditors with the knowledge and experience to deliver the audits of statements of accounts to the expectations of the professional regulators within the timeframe expected. A significant number of 2019/20 audits remaining unfinished, have added to the pressures on audit delivery.
72. Respondents also expressed their concerns about the factors leading to delays in audit opinions including the shortage of experienced auditor resources; the extent of the audit work now required on property and pension valuations; the levels of additional review and scrutiny that firms are building into their processes in response to regulatory challenge; and the format and complexity of the accounts produced under the current CIPFA/LASAAC code.
73. Communication is a cornerstone of relationship management, and we asked specific questions on communications as well as the ongoing impact of the pandemic. This year's results show that there is still room for improvement. More than half of Finance Directors (57%) reported that the need to delay the audit had not been communicated on a timely basis; this is an important requirement for audited bodies managing their own resources and priorities.
74. As last year around two-thirds of respondents thought that communications generally during the audit were sufficiently frequent. Just under half of finance directors (49%) and two thirds of audit committee chairs (63%) reported that communications were sufficient

to provide a “no surprises” basis. Remote working continued at most audits for 2020/21 as a consequence of the pandemic. Two thirds (66%) of finance directors agreed that the audit team worked effectively with officers to deliver a remote audit, and around three quarters (72%) of finance directors strongly agreed or tended to agree that the auditor was able to communicate requirements for remote working to ensure a smooth transition from face to face communication.

75. The shortage of sufficiently experienced auditors is an acknowledged systemic issue. As last year we sought feedback on audit teams. Similar to last year the satisfaction with Key Audit Partners’ skills was highest at 79% (82%), followed by managers at 78% (77%) and audit team members at 56% (58%). Also consistent with last year was that the lowest ratings of 39% and 36% were for those outside the local team (auditors’ experts and firm technical team members). We again asked some relationship specific questions, and this year 56% of finance directors felt their auditor could be approached as a sounding board when required compared with 66% (2019/20) and 74% (2018/19).
76. We asked for views on the usefulness of the VFM arrangements commentary which was introduced in the NAO Code of Audit practice as part of the audit for 20/21 audits. For those audited bodies who had received a VFM arrangements commentary by the time of our survey (182 of 294 respondents) 85% of audit committee chairs and 60% of finance directors reported that they found the commentary useful. A number of respondents highlighted how the audit could add value by sharing good practice. We will track this response in future years.
77. There was a small increase in the number of audit committees that have met privately with auditors from 20% to 28%. Private sessions are widely acknowledged to contribute positively to the organisation’s governance arrangements and specifically to the relationship between the auditor and the committee and are highlighted in CIPFA’s June 2022 position statement on Audit Committees.
78. We have shared survey information with firms to assist in improving the quality of audit services. The nature of the survey means that it is difficult to draw direct comparisons between firms but there is work to be done by all to achieve improvements. The systemic issues referred to by many will need to be addressed if clients’ concerns to receive a timely quality audit are to be addressed.

Actions

79. The FRC report contains the firms’ responses to its findings. We will be discussing with all firms the results of the reviews and the responses that they are putting in place with a particular focus on the audits that achieved the lowest scores.
80. We discuss matters with firms on a regular basis to discuss delivery of the contract and the quality of audit service provided. These discussions include their plans for staffing and overall audit delivery.
81. As a member of the Local Audit Liaison Committee (the body established by DLUHC to co-ordinate the work of the Local Audit Sector Stakeholders) we are committed to

working with all parties to resolve the ongoing concerns within local audit. We contribute to sector consultations and working groups as appropriate and support the work of other stakeholders in addressing the problems facing local audit.