



Department for Levelling Up,
Housing & Communities

Jeremy Pocklington CB
Permanent Secretary

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Dear Dame Meg,

PAC: The Affordable Homes Programme Since 2015: full update on Local Government Audit

Our local audit system aims to facilitate high quality audits in a timely manner, via a properly resourced audit sector. This should operate within a sustainable market, underpinned by transparency and strong governance. However, there remain serious issues affecting local audit, particularly delays, which require a concerted effort across the sector to tackle.

Since July 2021, DLUHC has been acting as interim system leader, including by establishing and chairing the local audit Liaison Committee of senior stakeholders. The Department has led work on a system-wide package of measures aimed at addressing audit delays.

Our programme continues to deliver on initiatives responding to Sir Tony Redmond's independent review, while also addressing broader, complex matters to assist with wider market issues.

Timeliness

The timeliness of local audit continues to be an area of concern to the Department. Of course, we are continuing to implement the measures we committed to in our December publication to improve local audit delays. These issues cannot be resolved without action from across the system and we continue to coordinate input from our key partners. This is also an important consideration for the Financial Reporting Council (FRC) as they begin to step into the system leader role. In the meantime, we are continuing to play our part through the following measures:

- **Funding:** The Government is providing councils with £45m additional funding over the course of the next Spending Review period, in addition to the £15m we provided in 2021/22, to support with the costs of strengthening their financial reporting and increased auditing requirements.
- **Support:** The Department continues to work towards the launch of the technical advisory service and local audit qualification aimed at bolstering capacity and capability in the local auditor market, which will be launched by April next year.

- **Deadlines:** We have made new regulations to extend the 2021/22 statutory deadline for local authorities to publish audited accounts to 30 November 2022, and then 30 September until the completion of the 2027/28 accounts. These came in force on 22 July.

In addition to the above, the Department is working with partners to address an issue brought to its attention earlier this year, that delays to local authorities' 2020/21 accounts were being exacerbated by factors relating to the audit of infrastructure assets and information deficits in respect of these assets. Despite awareness across the audit sector for many years, a solution had not been forthcoming.

While approaches taken by authorities to date have not typically raised concern, some auditors are now indicating that they are likely to begin issuing qualified opinions where the accounting treatment cannot be evidenced. Qualification is a very serious matter, however, in this case there are clearly mitigating circumstances. CIPFA LASAAC and others have been working to develop a temporary solution and we continue to work very closely with them to consider all solutions. We also remain committed to working with CIPFA LASAAC, the Financial Reporting Advisory Board (FRAB) and others to find a long-term solution.

System leadership

Turning to overarching system leadership, the Department's 2021 Spring Update on the Redmond Review proposed that the Audit, Reporting and Governance Authority (ARGA), which the Government intends will replace the FRC, should act as system leader for local audit. Further detail on these proposals were published in [Local Audit framework: technical consultation](#). The Government intends to formally establish ARGA through primary legislation, preceded by shadow system leader arrangements at the FRC.

The FRC appointed Neil Harris as the Director of Local Audit and he took up that position earlier this month to head the system leadership function. The Department continues to work with the FRC and Neil to formalise its shadow system leader arrangements.

Strong governance and public financial management are important features in a well-run local body. Following the Government's response to the technical consultation (July 2022), the Department went further than Sir Tony Redmond's recommendations and committed to making Audit Committees mandatory for all councils, with at least one independent member nominated to each committee. We remain committed to the delivery of this measure.

Procurement

I have updated the Committee in previous letters on the procurement for the 2023/23-2027/28 local audit contracts, following PSAA's Invitation to Tender in April. As you know, PSAA worked closely with my Department and other key stakeholders on the Local Audit Liaison Committee to develop a new procurement strategy which reflected system-wide objectives, including measures to encourage new entrants to the market.

Going into this procurement we were realistic about the capacity issues being seen across the audit sector and worked with PSAA to develop a range of contingency options to mitigate the risk of insufficient bids from auditors. While we cannot comment on the procurement while it is still ongoing, PSAA notified the market in August that they had received bids from firms to appoint auditors to the majority of authorities that opted-in to their scheme and confirmed that they intended to run a rapid supplementary procurement to secure the remaining outstanding capacity. This ran from 25 August to 13 September. PSAA are currently evaluating bids from firms and will make a full statement as soon as the process has reached its conclusion. We are optimistic that this will include new entrants.

This procurement has further highlighted the general lack of supply/capacity across the market which needs to be addressed. As part of its shadow system leader role, we expect the FRC to work with partners to lead activity to improve supply and capacity in the local audit market. As noted above, the Department in the meantime continues to work towards the launch of the technical advisory service and local audit qualification for launch in April next year.

Yours sincerely,

A handwritten signature in black ink that reads "Jeremy Pocklington". The signature is written in a cursive, flowing style.

JEREMY POCKLINGTON