



FINANCIAL REPORTING AND AUDIT IN LOCAL AUTHORITIES

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ICAEW welcomes the opportunity to submit evidence to the inquiry into **Financial Reporting and Audit in Local Authorities** launched by the House of Commons Levelling Up, Housing and Communities Committee (LUHCC) on 3 March 2023, details of which are available from this [link](#).

High quality financial statements and audit are vital to delivering value for money

- Financial statements underpin good decision-making, governance, and accountability.
- Their preparation is critical to the operation of internal financial controls.
- Audit provides essential assurance to give confidence in local authority finances.

Weaknesses in financial reporting and audit delays are hampering effective governance

- Poor quality financial statements hinder risk identification and management.
- Many finance teams have insufficient capacity and capability.
- Delays to audited financial statements affect their usefulness.

Local authority annual reports and accounts need to be made more understandable

- More understandable financial statements would be of greater use to stakeholders.
- Streamlining could address the “impenetrability” identified by Sir Tony Redmond.
- Better understanding of financial performance, position and risk would enhance transparency and decision making.

Councillors should be treated as the primary users of financial statements

- The principal purpose of accounts is to enable organisations to be held to account.
- A single set of primary users would enable more focused financial reporting.
- Experience from central government reporting is that other users would also benefit.

Accounts should be central to local authority financial management and accountability

- Accounts should be used to improve risk management and decision making.
- An annual financial results presentation to full council should be mandatory.
- A clear line of sight is needed between budgets and the outturn reported in accounts.

Central government should make better use of accounts in overseeing local authorities

- DLUHC is not collecting and using financial data that already exists at a local level.
- Accounts present a broader picture of balance sheet risks than outturn returns.
- Accounts provide an opportunity to support local authorities in improving outcomes.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of sustainable economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports, and regulates more than 165,000 chartered accountant members in over 147 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical, and ethical standards.

This response has been prepared by ICAEW's Public Sector team within the Reputation & Influence Department in consultation with the ICAEW's Public Sector Advisory Group and Financial Reporting Committee. We support members working in and with the public sector to deliver public priorities and sustainable public finances, including over 11,000 in ICAEW's Public Sector Community. ICAEW engages with policy makers, public servants, and others to promote the need for effective financial management, audit and assurance, financial reporting and governance and ethics across the public sector to ensure public money is spent wisely.

For questions on this submission please contact our Public Sector team at representations@icaew.com quoting REP 32/23.

INTRODUCTION

1. ICAEW welcomes this inquiry into the purpose, understanding and impact of financial reporting and audit in local authorities. This is an extremely important inquiry given the current challenges facing local government in England, delays to the publication of audited accounts, and recent governance failures.
2. The Public Administration and Constitutional Affairs Committee's (PACAC) 2016/17 inquiry [Accounting for Democracy: making sure Parliament, the people and ministers know how and why public money is spent](#) had a positive impact on central government financial reporting. We hope this inquiry will have a similar positive impact.
3. ICAEW recently published a [vision for local audit](#) on how to bring confidence to the finances of local public bodies. Our vision makes the case for better financial reporting, high quality and more timely audits, stronger financial management and governance, and a thriving profession that is highly valued.
4. Our response focuses on England given that responsibility for local government in Wales, Scotland and Northern Ireland is with the devolved administrations.

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ANSWERS TO SPECIFIC QUESTIONS

USERS AND USES OF LOCAL AUTHORITY ACCOUNTS AND AUDIT

What is the purpose of local authority accounts?

5. High quality and effectively used financial statements, combined with the assurance provided by high-quality external audit, are essential components in the systems of financial control, governance and accountability for any organisation.
6. Together with accompanying narrative reports, audited financial statements provide management and boards with critical information for making financial decisions, determining strategy, monitoring financial performance, and managing risk. They provide external stakeholders with information for holding organisations to account, for assessing the quality of management and for making decisions. They are also essential for transparency, with annual reports and accounts providing a vehicle for disclosures of importance to stakeholders or of public interest.
7. Local authorities spend public money. Properly prepared, local authority annual reports and accounts are the best means of informing taxpayers about how their money has been spent.
8. Just as important as the information that they provide, the process of preparing financial statements involves the operation of multiple controls over the quality of financial records and the underlying transactions. These internal processes, controls and records are the basis of day-to-day decision making and annual budget setting, as well as information needed by those charged with governance.

What role do they play in local accountability and democracy?

9. Audited financial statements are essential to the UK's system of local accountability and democracy. They provide information on financial performance, position and risk to cabinets, councillors, lenders and credit rating agencies, voters, residents, officers, employees, central government, and other interested parties. They are also important to enhancing trust in public sector bodies at a time when trust is increasingly being challenged.
10. Information produced by the accounting system that underpins annual reports is the basis for most financial communications by local authorities, including reports provided to management, councillors, residents, and central government.
11. Local authority financial statements should inform local voters and their representatives how taxpayers' money has been spent. However, they are too complicated and therefore not being used as effectively as they should be in many local authorities, detracting from their effectiveness as a tool for local accountability and democracy. They are not read and understood by enough councillors or other stakeholders. In addition, significant delays to the publication of audited accounts in England have undermined their usefulness.
12. ICAEW believes that this situation needs addressing as a priority.

Building on that answer, what is the purpose of local audit?

Does it ensure compliance with requirements, assure the credibility of the accounts, assess the local authorities themselves through value for money work, etc.?

13. Yes, the external scrutiny provided by an external audit of the financial statements should provide assurance that the numbers are materially accurate, that disclosure requirements have been met, and they comply with the law. This is important to the credibility of the accounts as well as providing important insight into the operation of financial processes and controls.
14. Local audit has a wider role than corporate audit, with auditors providing a commentary on arrangements to secure value for money and holding the power to issue public interest reports or statutory recommendations. These can provide a vital early warning system for alerting councillors and other stakeholders of the need for action to address critical matters.

15. Local audit also provides a communication channel independent of management to those charged with governance, typically via the audit committee. Where this works effectively, this enables councils to hold management teams accountable for the quality of their financial records and systems, for accounting judgments, for addressing weaknesses in financial controls, and for managing financial exposures and other risks.
16. The annual external audit also complements the operation of internal financial controls and governance procedures, as well as the work of internal auditors, in ensuring that financial transactions are recorded and reported accurately. For finance teams, knowledge that your work is going to be checked each year is an important incentive to get things right.
17. However, the usefulness of local audit has been undermined in recent years by delays to the publication of audited accounts, weak governance arrangements in local authorities which means serious audit findings are not always acted upon, and misalignment in the perceptions of the areas of greatest risks between regulators, auditors, and local authorities.

Who currently uses local authority accounts?

What do they use the accounts for?

18. In practice, the principal current use of audited financial statements is one of passive assurance. The absence of red flags and the knowledge that annual financial statements and the external audit have been completed provide a degree of comfort to stakeholders.
19. Stakeholders regularly use financial information that has been derived from the accounts. For example, councillors make budget decisions based on the level of usable reserves.
20. There are however not enough people that actively read local authority annual reports and audited financial statements. One Section 151 officer informed ICAEW that tracking data indicated that the accounts at their authority were only accessed by finance team staff and the auditor.
21. From ICAEW's engagement with those working in and with the public sector, we are aware of the following users and uses:
 - The more effective local authority audit committees actively use financial statements to hold management to account.
 - The Local Government Association (LGA) uses audited financial statements to check the accuracy of returns submitted to DLUHC.
 - Banks and other lenders use audited financial statements to understand the financial position of local authority clients to inform their risk management decisions.
 - The Department for Education uses audited financial statements to provide assurance to its auditor, the NAO, that the Dedicated Schools Grant has been used for the purposes intended.
 - HM Treasury uses returns based on audited financial statements to produce the Whole of Government Accounts (WGA).
 - Treasury advisers and financial consultants use accounts to advise local authorities on capital management strategies.
 - A small number of journalists use accounts in their reporting on financial management issues or controversial commercial investments. For example, Gareth Davies at The Bureau of Investigative Journalism first identified Thurrock Council's investments by reviewing their financial statements.
 - Occasionally, local electors use their powers under the Local Audit and Accountability Act to raise potential instances of unlawful expenditure or wrongdoing with auditors.

Who should be using local authority accounts?

22. ICAEW believes that councillors should be viewed as the primary users of local authority financial statements.

23. As members and elected representatives acting on behalf of their communities, councillors are charged with holding their local authorities to account. They are therefore the principal audience to whom the financial statements and the auditors' report should be addressed.
24. This is similar to the conclusion reached by PACAC in 'Accounting for Democracy', which concluded that Parliament, on behalf of the people of the UK, should be the primary users of departmental accounts.
25. We believe that financial statements that are focused on supporting councillors to hold local authorities to account would strengthen governance.
26. Identifying a primary set of users should not detract from the needs of other stakeholders. Central government departmental accounts are arguably more useful to secondary users, including the public, following the improvements that were made following 'Accounting for Democracy'. This is because by focusing on a primary set of users the annual report and financial statements can be made more coherent and easier to understand to other users than if they are trying to be all things to all people.
27. In addition to councillors, stakeholders potentially interested in local authority annual reports and accounts include management teams, residents, employees, the Department for Levelling Up, Housing and Communities (DLUHC) and other central government departments, the Office for Local Government (OfLoG), Parliament, regulators such as the Financial Reporting Council (FRC), the Local Government Association (LGA), the Public Works Loan Board, the UK Infrastructure Bank, private lenders, commercial partners, community organisations, journalists, academics, think tanks and research institutions amongst others.
28. Missing from the lists of users and potential users above are two audiences present in the private sector that are not replicated in the public sector:
 - Professional analysts who read financial reports in detail and use them to provide advice, commentary and analysis to interested stakeholders.
 - A body like the FRC's Financial Reporting Review Panel, which formally reviews listed company annual reports and financial statements to ensure they comply with the law and reporting requirements.
29. These missing elements from the local financial reporting and audit eco-system mean that local authority finance teams are not benefiting from the feedback, challenge, and oversight that preparers in the private sector receive.

If these groups of users aren't the same, why not?

30. There are several obstacles to potential users using annual reports and audited financial statements more effectively:
 - They are, in the words of Sir Tony Redmond, "impenetrable to many".
 - Severe delays to the publication of audited financial statements.
 - Widespread boilerplate disclosures, lengthy explanations of immaterial matters, poorly structured financial statements and uninformative explanations of key accounting judgements make them difficult even for expert readers.
 - There is no clear line of sight between the numbers used by local authorities for budget and internal financial performance monitoring and those reported in the financial statements under International Financial Reporting Standards (IFRS).
 - Key information, such as expenditure on individual local public services, is frequently not included in narrative commentaries and financial statements. We would suggest that for councillors and local taxpayers and voters, this is a glaring omission.
 - There can be significant differences between the draft unaudited financial statements published by local authorities and the final audited version. For example, errors in Slough Council's unaudited 2018/19 accounts contributed to the need for a Section 114 notice in July 2021.

What information do citizens need in order to hold their local authorities to account?

31. Residents primarily want to know that their local authority is being governed effectively and that public money and resources are being used appropriately in the delivery of local public services.
32. Summary financial information derived from the audited financial statements should be sufficient for these purposes, especially if accompanied by analysis comparing budgets with outturn performance and details of any significant audit findings.
33. The full annual report and accounts should be available to those residents who are interested in finding out more about the financial performance and position of their local authority.

Is this information available in the local authority accounts as they stand?

34. No. Many local authorities provide budget summaries along with their council tax bills explaining how they intend to spend public funds, but very few provide summary financial information to residents on how they have performed against budget.
35. In addition, few residents are aware of delays to audited financial statements or significant findings from auditors. We suspect they might be disappointed to discover that few councils actively use financial statements and auditor reports to hold their local authority leadership and management teams to account.
36. For those residents interested in reading the full annual report and financial statements, these are of variable quality, with some local authorities focusing more than others in trying to communicate their financial performance and position to readers. However, even fully compliant narrative reports and financial statements can be difficult to understand, particularly for those not familiar with local authority accounts. In addition, most financial statements do not include information of interest to many citizens, such as how much an authority has spent on individual public services such as waste management or social care.

UNDERSTANDABILITY AND ACCESSIBILITY OF LOCAL AUTHORITY ACCOUNTS AND AUDIT

Do the accounts provide a clear picture of the financial sustainability and resilience of a local authority?

37. No, although the changes introduced to the Local Audit Code and Guidance in 2020 to require local auditors to produce a commentary on local authority arrangements to secure value for money, specifically including arrangements over financial sustainability, should improve the quality of information provided to users.
38. As local authorities have a statutory duty to deliver services, the Code requires local authorities to prepare their accounts on a going concern basis. As a consequence, preparers and auditors do not report by exception on the use of the going concern assumption in preparing financial statements as they would in the private sector.
39. We believe that this leaves a gap in the information provided to users about the risks that a local authority will continue to spend 'normally'. Better understanding of the risks that a Section 114 notice might be necessary to restrict spending, that council tax bills may increase significantly, or that public services may have to be scaled back would be helpful to stakeholders.
40. In a [letter](#) to HM Treasury in July 2021 on the public sector impact of audit reforms, Alison Ring OBE, ICAEW's Director for Public Sector and Taxation, advocated the introduction of a tailored resilience statement for public sector bodies to require management to make an assessment of whether their funding mechanisms are sustainable.

How well do users understand the financial position and performance of a local authority from its accounts?

41. A typical set of local authority financial statements does not make it easy to understand financial performance and position. This is because of significant differences between the numbers on a budgetary basis and the numbers reported in the accounts, but also because in many cases financial statements are too long, poorly structured and contain uninformative or irrelevant disclosures.
42. For users with extensive experience of local authority accounts, the financial statements contain useful information on financial position. For example, the capital financing requirement is a critical piece of information on a local authority's need to borrow that is included in the detailed disclosures which may not be apparent to other users. A good narrative commentary will draw this out and explain its importance for the benefit of less expert users, but not all local authorities provide this insight.
43. Improving understanding of financial position, performance and risk requires better and easier-to-read financial statements, better narrative reports, and better financial literacy and support for users, in particular elected councillors. Understandably, councillors have not always understood debt leverage and the risks associated with commercial investments.
44. Making financial statements more understandable requires effort by legislators, standard setters, preparers, auditors, regulators, and government to address a variety of challenges that currently make many local authority accounts "impenetrable". For example:
 - CIPFA LASAAC and DLUHC could work together to increase alignment between the budgeting and accounting requirements. ICAEW would like to see a substantive reduction in the statutory overrides from IFRS that make it difficult for users to understand which numbers in the accounts are relevant to the final outturn against budget.
 - Legislators could usefully decouple the requirement to staple the separate accounts of pension schemes to local authority accounts that makes relevant authority annual reports excessively long.
 - Standard setters could reform the format of the Comprehensive Income and Expenditure Statement applicable to local authorities that is far too complicated for what should be a high-level summary of income and expenditure. Putting 196 different numbers on a primary financial statement, as one local authority did in their (compliant) 2021/22 accounts, does not aid understanding.
 - The model accounts in the CIPFA LASAAC Code Guidance Notes could incorporate CIPFA's advice on streamlining financial statements and best practice on how to provide clear and concise financial statements.
 - Preparers could invest more into the quality of their narrative reporting, providing better insights into the financial performance, position and risk reported in the accounts.
 - Auditors could do more to encourage and challenge preparers to improve the quality and understandability of financial statements.
 - Local authorities could do more to support councillors in understanding their financial performance and position as well as helping them to improve their financial literacy. We believe the Chief Executive and Section 151 Officer should be required to present their financial results to councillors in a similar way to how listed companies carry out an annual results presentation to shareholders.

Do the accounts provide a clear picture of the level of reserves within a local authority, and how these might be used?

45. Yes, although this may not be clear to all users, which demonstrates why good narrative reporting is important. The Movement in Reserves Statement (MIRS) demarcates between usable and unusable reserves. Local authorities are also required to produce a note showing movements in earmarked reserves that should inform users about how a local authority is managing financial commitments.

46. We have seen understanding of the level of usable reserves being undermined by unclear descriptions for earmarked reserves such as “strategic reserve” or “future projects reserve”. This does not provide the user with sufficient information to understand the nature of each reserve and what they are earmarked for.
47. Debate about the level of reserves can be unhelpful as it is only one element in understanding the financial position and resilience of a local authority. For example, recent increases in local authority reserves across England are sometimes considered to indicate an improvement in financial strength, when in many cases they reflect prudent financial management in the response to funding uncertainty and the risks of a Section 114 notice. Local authority reserves can only be spent once and are not a sustainable solution to underfunding local authorities.

How easy do users find it to locate key information they are looking for in the accounts?

48. Local authority financial statements are far too long, overwhelming potential users and making finding key information difficult. For example, Cornwall Council’s 2021/22 financial statements contain 161 pages and 83 notes, compared to DLUHC’s 2021/22 financial statements that contain 38 pages and 24 notes. DLUHC’s total gross expenditure for 2021/22 was £46.3bn compared to Cornwall Council’s £1.4bn.
49. Too many include irrelevant or immaterial information in their accounts obscuring more important information. We have seen examples of lengthy explanations of accounting policies for finance leases or contingent assets when none are sufficiently material to be disclosed by the local authority concerned. ICAEW commends those local authorities that have undertaken accounts streamlining exercises to remove immaterial information.

Electors have a statutory right to inspect and object to pre-audited accounts. How widespread is this, and how does the current format of local accounts affect it?

50. Our understanding is that these rights are rarely used, which we believe is unsurprising given that few electors would consider they have sufficient knowledge or expertise that would substitute for the roles played by the audit committee or external auditors.
51. We are aware of occasional instances where electors have used their right to bring significant issues to light. For example, Mazars issued a [Public Interest Report](#) in 2021 to the City of York Council about an “arguably unlawful” termination settlement for a former Chief Executive following an objection from an elector.
52. However, we are also aware of these rights being abused by frivolous and vexatious objections, resulting in the local authorities concerned incurring significant costs in a way not intended by legislation.

How well do users understand published audit findings and reports?

Are some outputs more understandable and accessible than others?

53. Local authorities are more transparent than central government and other sectors because all audit findings and reports are published on the local authority website. Audit completion reports, public interest reports and other audit outputs are generally straightforward to understand.
54. Despite the important role played by local auditors, there can be an expectation gap between what they are required to do and what some might hope they could do. This can lead to some stakeholders drawing an inaccurate conclusion from the absence of an audit qualification. For example, a clean audit opinion does not mean that no frauds have been

committed against the local authority, nor that governance failures will not occur in the future, nor that all public money has been spent wisely.

55. For example, it is unclear whether the then Department for Business, Energy and Industrial Strategy (BEIS) was aware that fraud or error in COVID-19 grant payments administered by local authorities was outside the scope of local authority audit opinions when they launched the scheme.
56. The introduction of a commentary on arrangements over value for money in 2020 has partially addressed the expectations gap but further steps could be taken. For example, we want to see greater clarity in regulations surrounding local government. ICAEW recommends that statutory requirements for local authorities to “have regard to” budgeting guidance and the Prudential Code be replaced by a Cadbury-style requirement to “comply or explain”. This would enable local authorities to retain flexibility to divert from recommended practice where they feel it is justifiable but require them to inform stakeholders of the rationale for such decisions.

MAKING LOCAL AUTHORITY ACCOUNTS MEET THE NEEDS OF USERS BETTER

Are local accounting requirements proportionate?

57. ICAEW strongly supports basing the accounting requirements for local government on IFRS. We agree with the conclusion in *Accounting for Democracy* that it “assists transparency” by offering high standards and consistency. It is also important for the purposes of the WGA that local government and central government financial statements are prepared under the same accounting framework.
58. However, we believe that more proportionate requirements are possible within the framework of IFRS. For example, burdensome requirements over operational property valuation predominantly result from accounting policy choices made by HM Treasury rather than being mandated by IFRS. ICAEW welcomes the recent publication of proposals by HM Treasury to move to a simpler deemed historic cost valuation method for specialist assets within the public sector, which we consider will reduce unnecessary burdens on local authority finance teams.

Are the bespoke reporting requirements for local government accounts (as opposed to central government accounts or non-government accounts) beneficial?

59. No, although we do agree that there is a need for guidance on how local authorities can report effectively while complying with IFRS.
60. We believe the use of IFRS across the public and private sectors provides numerous benefits including the transportability of financial skills and the ability to use commercially available accounting software with minimal customisations.
61. Some bespoke reporting requirements, such as the Expenditure and Funding Analysis that attempts to show how accounting outturn reconciles to the budget, are not beneficial given how confusing they are to many users.
62. We agree with the conclusion in *Accounting for Democracy* that greater alignment between the accounting and budgeting basis in central government accounts was essential for enabling Parliament to better hold officials to account for spending against budget. The 2009 *Clear Line of Sight* project in central government removed many of the differences between IFRS and Estimates. We would like to see a similar project carried out in local government, especially as Redmond identified statutory overrides from IFRS as the primary cause of complexity of local authority accounts.

Do local authority finance teams have sufficient expertise and capacity?

63. Our belief is that while there is variation in capacity and capability across local authorities, there is a general need to strengthen finance teams. More investment is needed in financial staff, systems, processes, controls and governance arrangements.
64. This is informed by conversations with local authority staff, audit firms, councillors, and other relevant individuals and by our experience of reading local authority annual reports and accounts, as well as governance failures in some councils.
65. Reports highlighting specific issues include a recent study by the [LGA on local government finance capacity and capability](#), the Comptroller and Auditor General's report on the [BEIS 2020/21 annual report and accounts](#) that commented on the variable quality and timeliness of assurance provided to BEIS by local authorities for COVID-19 grant schemes, and the [Penn Report](#) into Croydon Council that identified underfunding of the finance team as a significant contributory factor in that authority's well-publicised issues.
66. The LGA identified challenges relating to recruitment and retention in technical areas such as financial reporting. ICAEW believes that one of the consequences of local government accounting and finance requirements being so different from other sectors is that it makes it difficult for staff to transfer from other sectors. As local authorities have engaged in more commercial transactions, finance teams have often lacked the knowledge that would have come from private sector experience.
67. High profile financial management failures, unrealistic government expectations given funding settlements, delays to the publication of audited accounts and postponement of adoption of accounting standards such as IFRS 16 have damaged the reputation of local government finance. These factors, combined with underinvestment in development in recent years, have contributed to an emerging pipeline crisis of suitably skilled staff.

Could changes be made to local authority accounts that would both simplify their production and improve understandability for users?

68. Yes. In ICAEW's [response](#) to a CIPFA LASAAC consultation on emergency proposals to address audit delays, we recommended CIPFA LASAAC take the following actions to simplify the accounts and make them more relevant to users:
 - Design the Code on the basis that councillors are the primary users of local authority financial statements.
 - Implement Redmond's recommendation of a standardised statement of service information and remove the expenditure and funding analysis.
 - Redesign the income and expenditure statement to provide a more understandable view of the financial performance.
 - Introduce a segmental analysis note on a standardised basis to enable comparability between local authorities.
 - Improve the requirements around the reporting of the nature of expenditure.
 - Increase alignment between the Code and IFRS.
 - Clarify and strengthen requirements to avoid boilerplate disclosures.
 - Remove disclosures that might be better reported elsewhere, such as the content of museum collections.
 - Make the model accounts more concise and understandable, reducing it, if possible, from the current 134 pages with 59 notes to nearer the 52 pages with 25 notes of the central government 'Department Yellow' template accounts.
 - Redraft the Code and Guidance Notes to avoid repetition of IFRS disclosure requirements and instead focus on differences.
69. Improving local authority accounts is not purely down to CIPFA LASAAC. We need concerted action from DLUHC to reduce statutory overrides, from local authorities to streamline their accounts, improve formatting and remove immaterial information and from auditors to challenge local authorities to improve their accounts.

How could local authority annual report and accounts be more accessible?

70. In addition to changes to the content and format of the accounts, ICAEW would like to see steps taken to make the accounts a more central part of local authority decision making and scrutiny. The annual budget setting process involves two full council meetings, as well as significant scrutiny and public consultation, but there is no equivalent accountability event for the outturn against the budget.
71. Alongside Redmond's recommendation for the auditor to present the annual audit report to Full Council, we recommend a requirement for the Chief Executive and Section 151 Officer to make an annual results presentation to Full Council.
72. To support councillors to make better use of the accounts, we believe there needs to be improvements in financial literacy. ICAEW is keen to work with stakeholders on a programme of financial training for councillors.
73. Councillors on audit committees would benefit from the support and expert guidance from financially qualified independent members. We urge all local authorities to follow the guidance in the CIPFA position statement on audit committees and for government to legislate for local authority audit committees with independent members as soon as possible.
74. The Government could also take steps to increase the profile of annual accounts, such as by using them in its monitoring activities in place of additional returns. This would reduce burdens on local authority finance teams and enable them to devote more of their limited resources to producing good quality and timely accounts, accompanied by good quality working papers. We see a role for OfLoG in analysing and drawing out key messages from local authority annual reports and accounts.

What is the role of the new local audit system leader in improving local authority accounts?

75. ICAEW believes that the Audit, Reporting and Governance Authority (ARGA) requires powers over local authority financial statements and governance similar to those over corporate financial statements and governance. We are concerned that without these powers, ARGA may not be able to achieve its planned objective of "ensuring the local audit system operates effectively" as high quality and timely audit depends on good quality accounting records, internal controls and financial statements.
76. We believe the system leader should support local authorities to improve their accounts and flag pervasive issues with DLUHC and CIPFA LASAAC. We recommend local authority equivalents of the Financial Reporting Review Panel and the Building Public Trust Awards to drive up the quality of local authority accounts.
77. An immediate priority should be resolving the disconnect in the views of risk between the different stakeholders in the local authority reporting ecosystem. The view amongst local authorities that there is excessive focus on areas such as operational property valuation contributes to the perception that the accounts preparation is a compliance exercise and, therefore, an unattractive career option. We urge the workforce strategy to consider finance teams as well as auditors.

ADDRESSING FINDINGS IN AUDITS AND SHARING BEST PRACTICE***To what extent can local authority audits identify issues prior to the most significant difficulties being known?******Is there a sufficient advance warning mechanism when issues are identified to ensure action is taken?***

78. The current mechanisms should be sufficient if operating effectively.
79. It is vital that when issues are raised by auditors, local authorities and DLUHC act appropriately to address them. Our [vision for local audit](#) calls for greater proactivity by DLUHC to monitor accounts and audit findings to allow it to offer support at an earlier stage. We also want to see auditors make earlier use of their reporting powers to ensure action is instigated before not after failures occur.

To what extent is there a framework for auditors in local government to work together and to share best practice? Should such a framework be formalised?

80. The National Audit Office operates technical networks for local government auditors to discuss difficult issues and share best practice. We understand that these functions will be handed over to ARGA once it becomes system leader for local audit. In addition, ICAEW has a Public Sector Advisory Group with representatives of firms carrying out local audits, as well as other personnel working in or with public sector finance.
81. The Government has also announced plans for a technical advisory service to support new entrants with complex technical issues.
82. The unnecessarily high barriers to entry to the local audit market for suitably skilled auditors are a contributory factor to capacity issues. ICAEW would like to see changes to statute to allow auditors with equivalent overseas qualifications to become Key Audit Partners (KAPs) and changes to the guidance that currently makes the newly introduced training route to obtain KAP status unworkable for most firms not currently in the market.

To what extent has a recent absence of multi-year funding settlements hindered budgeting and forecasting?

83. ICAEW believes this has been a significant problem, especially with respect to capital programmes where longer-term planning is required to ensure value of money. Turning spending off and on to meet short-term budgetary constraints costs more in the long run, as does rescheduling projects into subsequent financial years or phasing projects over multiple years rather than getting on and delivering them.
84. Many councils choose to build up earmarked reserves to mitigate the risk associated with uncertainties about funding. Ever-changing restricted funding pots have meant that finance teams often amend budgets at short notice.
85. Research by the LGA in 2019 identified 448 different funding streams, meaning valuable council finance team time is wasted identifying available funding, preparing competitive bids, and signing off assurance returns.