



Department for Levelling Up,  
Housing & Communities



HM Treasury

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Members of the Liaison Committee:

CIPFA, FRC, ICAEW, LGA, NAO, PSAA, BEIS,  
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Dear Liaison Committee member,

**MEASURES TO IMPROVE LOCAL AUDIT DELAYS**

The timely completion of local audit remains key to ensuring that local authority financial arrangements are transparent to the taxpayer and that we provide assurance for the public sector through the Whole of Government Accounts. We all recognise the challenges facing local audit in recent years. Currently 45% of local audit reports for 2020-21 remain outstanding.

Since July 2021, the Department for Levelling Up, Housing and Communities has acted as interim system leader for local audit. Since that time, government and key stakeholders have worked together to address immediate issues and lay the groundwork for tackling fundamental challenges which require a longer-term approach. As a result, the coordinated approach which Sir Tony Redmond called for in his independent review is already underway, although there is much more to be done.

Ahead of the forthcoming publication of our consultation response, this letter takes stock of progress.

**Whole of Government Accounts – local audit threshold**

HMT has raised the threshold for local authority Whole of Government Accounts (WGA) returns from £500m to £2bn, effective for returns for 2020-21. This is reflected in the [2020-21 Whole of Government Accounts User Guidance](#). Using 2019-20 as a baseline indicator, moving to the higher threshold would remove 159 local bodies from the need to audit data inputs for WGA, with around 10 remaining above the new threshold, though we expect some entities to move between boundaries. A reduction in the number of local authorities which need to have their WGA returns audited will help alleviate pressure on the audit system.

**HMT Thematic Review of non-investment asset valuation**

HMT has appointed external advisors and started work on the thematic review of non-investment assets for financial reporting purposes. HMT expects to present some preliminary findings to the Financial Reporting Advisory Board in the Summer and complete the Review in late Autumn.

## **Infrastructure Assets**

CIPFA has established a [Task and Finish Group](#) to address the issue of derecognition of infrastructure assets following renewals/replacement expenditure. Following discussions by the Group, CIPFA LASAAC has issued a [consultation](#) setting out a temporary resolution to the issue, which is a technical accounting one. Guidance from CIPFA will follow shortly to assist local authorities with any related practical or technical issues that might arise. Fuller consideration of the infrastructure assets issue will then follow either through CIPFA's annual consultation, which normally commences in July, or a further separate consultation.

## **Consultations on changes to the Accounting Code and Key Audit Partner guidance**

As set out in our December package, CIPFA has consulted on a temporary change to the Accounting Code for 2021/22. This has resulted in a deferral of the adoption of IFRS 16 leases for local authorities which should ensure that financial reporting burdens do not increase. This is set out in CIPFA's [updated statement](#) to local authorities on the deferral of IFRS 16. The FRC's consultation on changes to Key Audit Partner guidance has concluded, revised guidance will be published shortly.

## **Additional funding for local audit**

DLUHC has distributed £15m to local bodies to meet additional local audit costs in 2020/21. The department will allocate a further £45m for the next three years. Any changes beyond annual adjustments to the current methodology for this funding allocation would be subject to a further consultation/bi-lateral agreements with Other Government Departments.

## **Audit Committees**

With support and input from the LGA, PSAA, and others, CIPFA has produced strengthened guidance on audit committees. DLUHC and Home Office have endorsed [CIPFA's position statement](#) on the updated guidance, which was published at the end of April.

## **Local Audit deadlines**

In line with our December commitment to move the local audit deadline for 2021-22 from September to November, we are now consulting local authorities on the change so a Statutory Instrument can be laid before the summer recess.

## **Clinical Commissioning Group part-year audits**

The Health and Social Care Bill will implement Integrated Care Boards (ICBs) part way through the 2022-23 financial year. ICBs will legally replace Clinical Commissioning Groups (CCGs), at the point of ICB implementation. We can confirm that Government will not require part-year audits of CCGs to be completed within the 2022-23 financial year. We hope this addresses any concerns that the requirement for part year 2022-23 CCG accounts could affect 2021-22 Local Government audit delivery.

## **Technical Advisory Service, new local audit training diploma**

In advance of new local audit contracts starting in April 2023, we will start pre-market engagement shortly for the Technical Advisory Service specification, ahead of tendering later in the year. DLUHC is also exploring with the sector options for a new diploma in local government reporting and financial management designed to meet the technical training needs of experienced Registered Individuals (RIs) who have not met the full existing criteria for local audit experience, as well as expand the pool of RIs.

## **System leadership**

We also continue to progress longer-term work to establish effective system leadership across local audit and address fundamental audit capacity issues. The FRC has now appointed its first Director of Local Audit. Neil Harris, a Key Audit Partner at Ernst & Young with over 20 years' experience of public sector audit, will lead the dedicated local audit unit in shadow form from September. We are currently working closely with FRC on proposed shadow activities, a MoU and a business case. As part of its commitment to establish strong networks, FRC plans to start early engagement with key stakeholders across the summer.

We would like to thank you for this coordinated effort and we would urge you to share this update with your networks. We will also publish this letter on the [Liaison Committee page](#) on Gov.UK.

Yours faithfully

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