

Final Audit Quality Monitoring Report for audits 2018/19 to 2022/23

Public Sector Audit Appointments Limited (PSAA) was incorporated by the Local Government Association (LGA) in August 2014. PSAA is a not-for-profit company limited by guarantee without share capital. The company's sole member and guarantor is the Improvement and Development Agency (IDeA), which is a subsidiary of the Local Government Association (LGA). PSAA is operationally independent of both organisations. PSAA's financial statements are not consolidated into the LGA's as neither the IDeA nor the LGA exercise control over PSAA or benefit from its results and financial performance.

In July 2016, the Secretary of State for Housing Communities and Local Government specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

Acting in accordance with this role PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme.

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Introduction

1. This is PSAA's fifth report under our appointing person responsibilities as set out in the Local Audit (Appointing Person) Regulations 2015 (the Regulations). The report provides the results of our Quality Review Process (QRP), spanning the work of local auditors appointed by PSAA for the audit years ended 31 March 2023, covering the audits encompassed by the introduction of the first statutory backstop date.
2. This report is shorter than in previous years as the impact of the audit backlog has restricted the range of information for us to consider and report.

The state of Local Audit

3. Delays and a growing backlog of unaudited accounts have overshadowed local government audit for too long. An initial report by Sir Tony Redmond in September 2020, reports by the National Audit Office, and the work and reports of the Public Accounts Committee and the Housing, Communities and Local Government Committee (or equivalent) together with Departmental and Ministerial Statements have provided background information and identified potential solutions. Our [written evidence](#) to the Levelling Up, Housing and Communities Committee inquiry on Financial Reporting and Audit in Local Authorities in April 2023 provides a chronology of how the situation developed.
4. [July 2023](#) and then [February 2024](#) saw the issuing of ministerial statements bringing forward proposals to tackle the backlog with a three phase reset, recovery and reform process. This was intended to clear the historical backlog of opinions by introducing a statutory backstop date, provide a period of recovery to rebuild assurance whilst the reforms necessary to address the systemic challenges were addressed.
5. The new Government announced in [July 2024](#) that it would continue with plans for the reset and recovery phases with the introduction of statutory backstop dates for all audit years to 2027/28. It also decided that an overhaul of the local audit system was needed to deliver the reforms required '*to enable taxpayers to get better value for money*'. This was a commitment that we strongly supported.
6. Revisions to the Accounts and Audit Regulations and a revised Code of Audit Practice were laid in September 2024 to give legal effect to backstop measures to deal with the backlog. This set a date of 13 December 2024 by which remaining opinions for all years to 31 March 2023 should be given. The need to clear the backlog with widespread disclaimed audit opinions is a painful reminder of the consequences of the failure of the local audit system.
7. On 18 December 2024 the Ministry of Housing, Communities and Local Government (MHCLG) launched their consultation on local audit reform – [A strategy for overhauling the local audit system in England](#).
8. We welcome the strategy detailed within the consultation which provides a vision of a more cohesive system where local audit is geared to the needs of the sector, providing assurance over public money and reporting promptly where there are concerns. However, the strategy also highlights the extent of the change that is needed, the

difficult decisions that lie ahead and the hard work that will be needed to implement them effectively. We have published our [response](#).

Approach to audit quality monitoring

9. 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
10. 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.
11. This report covers the audits of years up to 2022/23 encompassing the passing of the first backstop date. It covers our supplier firms' compliance with our contractual requirements and provides limited information on adherence to professional standards guidance given the regulators' suspension of routine inspections. We are unable to report on effective relationship management due to our decision to suspend our client surveys because of the volume of delayed audits.

Compliance with Contractual requirements

12. We monitor firms' compliance with their contractual requirements by considering a range of performance indicators across expected local audit deliverables.
13. During the year we have reported publicly on firms' performance against areas of particular interest to opted-in bodies. This has included information on delivery of audit opinions and auditors' use of powers to issue Public Interest Reports and make recommendations under Sch 7(2) of Local Audit and Accountability Act 2014 (LAAA 2014) (known as Statutory Recommendations).

Audit Opinions

14. The 2024 Code of Audit Practice was laid before Parliament in September 2024. This gave effect to the backstop dates set in the Accounts and Audit (Amendment) Regulations 2024. It requires auditors to issue an opinion to enable audited bodies to publish audited financial statements by a statutory backstop date.
15. The first backstop date set for completion for the audits of 2022/23 and earlier years was 13 December 2024. By this date it was hoped that all financial statement opinions would be given, and in cases where insufficient audit work had been completed a disclaimed (no assurance) opinion would be given. This type of opinion would necessarily be

differentiated from those where a disclaimer audit opinion was issued following completion of the audit work.

16. Prior to this legislation the publishing date for 2023/24 financial statements was 30 September 2024. Established practice in local government was that if auditors were unable to issue an opinion at the publishing date, then they would generally continue their audit until they judged they are able to do so.
17. On 30 September 2024 the number of outstanding opinions for 2022/23 and earlier years was 518 affecting 284 local government bodies. Last year we reported that at the historical publishing date of 30 September 2023, only five (1%) of 2022/23 audit opinions had been given. The total number of outstanding audit opinions for 2022/23 and earlier years was 918.
18. Table 1 below provides an overview of the completion of audits and the type of opinion given for the five financial years ended 31 March 2023. This period covers the first audit contracts under the appointing person arrangements of LAAA 2014. During the period a total of 1,935 non-backstopped opinions were provided. At the backstop date of 13 December 2024 the overall number of outstanding opinions remaining had reduced to 77.

Table 1: Audit delivery

Overview of audit delivery and outcomes for the five financial years ended 31 March 2023

Audit Opinion	2018/19	2019/20	2020/21	2021/22	2022/23	Total
Publishing Date***	31/07/19	30/11/20	30/09/21	30/11/22	30/09/23	
Not yet delivered	1	8	16	22	30	77*
Delivered by the original publishing date	280	214	45	58	5	602
Unmodified after the original publishing date	199	240	370	274	210	1293
Disclaimed (backstop)	3	10	33	110	205	361
Non-standard after the original publishing date	4	6	10	3	17	40**
Total	487	478	474	467	467	2373

Source: PSAA

*Five of the outstanding opinions are for two bodies that do not have an appointed auditor

**This covers modifications and additional disclosures in the auditor's report ([Definitions of audit opinions](#))

***13 December 2024 backstop date applies to the publication of audited accounts for Financial Years up to and including 2022/23

19. A key part of the backstop legislation is to bring the outstanding audits up to 2022/23 to an end, but this was only possible with an unprecedented level of disclaimed audit opinions.
20. There were 77 opinions that remained outstanding at the backstop date of 13 December 2024. The NAO Code of Audit Practice provides for an exemption from the backstop under certain circumstances such as the auditor is considering an objection that may have a material impact on their opinion on the financial statements. There are also several bodies which have not prepared financial statements for auditing or do not have an appointed auditor. By 31 January 2025 the total number of outstanding audits had reduced to 49 affecting 18 bodies. We provide [monthly updates](#) on audit delivery progress on our website.

Specific Powers and Duties of Auditors

21. Auditors have specific powers and duties under the LAAA 2014. These include considering whether to issue Public Interest Reports and make recommendations under Sch 7(2) of that Act.
22. The table below shows how auditors have used their specific powers in the period covered by this report. The last quarter has seen a small increase in the auditors making written recommendations under Sch 7(2) LAAA 2014. This is connected to the issuing of audit opinions on delayed accounts.

Table 2: Use of auditors' specific powers

Use of statutory powers by date of issue.

Year	Issued Public Interest Report under Sch 7(1)	Made written recommendation under Sch 7(2)
Year to 30 September 2022	2	6
Year to 30 September 2023	2	8
Year to 30 September 2024	1	7
Period to 13 December 2024	0	4

Source: PSAA

Objections

23. 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. There is an inspection period of 30 days linked to the publication of pre-audit accounts in which to raise objections. At 30 September 2024 there were 34 objections under investigation, compared to 40 at September 2023. Whilst auditors had resolved 34 objections within the last year a further 28 objections had been raised by objectors.

Table 3: Objections under investigation

Progress in resolving objections in the year to 30 September 2024

Audit Year	Objections under investigation 30 September 2023	New objections raised by electors	Objections resolved	Objections under investigation 30 September 2024
2018/19 and prior years	10	1	8	3
2019/20	5	0	0	5
2020/21	13	2	8	7
2021/22	8	6	6	8
2022/23	4	19	12	11
Total	40	28	34	34

Source: PSAA

Non-compliance with Terms of Appointment

24. We have issued Terms of Appointment to our contracted firms which set out requirements that audit firms must comply with and cover matters of practice and procedure that are of a recurring nature.
25. On two occasions in the year ended 31 March 2024 firms did not provide a copy of a statement of reasons issued to an elector in advance of issue as required.

Independence issues

26. We have no matters to report in respect of the year ended 31 March 2024.

Non-audit services

27. 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 making this judgement. We typically receive very few requests.

Table 4: Non-audit service requests

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

Financial Year	Number of requests approved for non-audit services	Total fee value of requests approved
2020/21	0	£0
2021/22	3	£185,500
2022/23	1	£56,500

Source: PSAA

Complaints

28. Complaints can be an indicator of poor-quality audit services. Under our complaints policy PSAA can consider complaints that relate to maladministration by one of our supplier firms, 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 arrangements with the relevant regulators for dealing with such complaints.
29. Some bodies contacted us about the lack of timeliness in audit completion. We share their concerns. However, as we and others have reported previously, the reasons for delay at any individual body are most often for a combination of different reasons.
30. Our policy is that complaints about auditors should, in the first instance, be dealt with under firms' own processes, independently of PSAA. Therefore, as and when we receive a complaint that has not already been investigated by the relevant firm, we will pass to the firm's contact partner to deal with in the first instance. In the year ended 31 March 2024 we partially upheld one complaint; this related to undue delay in responding to an objector's correspondence.

Adherence to Professional Standards and Guidance

31. In November 2024 the Financial Reporting Council (FRC) published its 2024 [Report](#) on the quality of major local audits. The scope of the report was constrained by the local audit backlog, and the FRC's decision to suspend its inspections of routine local government audits to support system recovery. It provided the results of only a limited number (eight) of predominantly NHS audit inspections. The FRC reported that no audits inspected in 2023/24 required significant improvements and 75% of audits inspected required no more than limited improvement. 100% of auditors work on VFM arrangements was judged as requiring no more than limited improvements.
32. The report also contained the results of the Institute of Chartered Accountants in England and Wales (ICAEW) most recent inspections of four audits across two firms.

These judged that all work across both financial audit and VFM arrangements was considered good or generally acceptable.

33. The FRC identified three themes for general improvement. These were the auditing of group accounting, the evaluation of uncorrected misstatements (including whether they are material by nature, and the use of substantive analytical procedures). They also highlighted good practice at individual audits on professional scepticism and challenge, the valuation of investment properties, oversight of component auditors, and VFM arrangements reporting in Auditors' Annual Reports. The ICAEW identified good practice in the audit of property valuations.
34. Both organisations will continue to limit their inspections of local government audits to support firms during the period of local audit overhaul. In our response to MHCLG's strategy consultation we called for inspections to cover all aspects of the audit work to deliver a Code of Audit Practice. Just over 40% of the 535 local government, police authority and related pension fund audits are classified as Major Local Audits within the FRC's inspection regime. The remainder are covered by the ICAEW.

Going forward

35. The Government's consultation on the plans to overhaul the local audit system closed on 29 January 2025. The cornerstone of the planned reform is the establishment of a single co-ordinating body, the Local Audit Office (LAO). The LAO will have a focussed and clear remit to lead the required reform to tackle the three systemic challenges identified by MHCLG:
 - Capacity – a severe lack of auditors with a limited number of firms operating in the sector;
 - Co-ordination – multiple organisations with a statutory role to oversee and regulate audit, across various sectors, countries and with responsibilities for different frameworks. There is no clear ownership of the system which limits the ability to align incentives and establish a single vision; and
 - Complexity – financial reporting audit requirements are disproportionately complex, beyond the system's capacity and inadvertently incentivises risk aversion. Standards are largely modelled on corporate audit rather than the needs of local audit bodies.
36. We look forward to working with system partners to develop a more cohesive system of local audit that is both geared to the sector's needs, and that provides the necessary assurance over the use of public money.