

6 MARCH 2024

## **PR5-24 | LOCAL AUDIT BACKSTOP**

### **Introduction**

We are writing in response to the Department for Levelling Up, Housing and Communities consultation on local audit backstop.

The National Association of Local Councils (NALC) is the national membership body that works with the 43 county associations of local councils to represent and support England's 10,000 local (parish and town) councils.

Local councils and their 100,000 councillors are the first tier of local government, closest to the people, and play an essential part in delivering hyper local services, building strong communities, and strengthening social fabric.

Local councils cover more than 90% of the geography of England and over a third of the population and invest over £3 billion per year to improve and strengthen communities.

### **Summary**

- We agree with Smaller Authorities' Audit Appointments (SAAA) that the £6.5m threshold for Category 2 authorities has contributed to the current backlog of audits as Smaller Authorities have become Category 1 authorities (largely Internal Drainage Boards currently). If this threshold is left unchanged it may result in additional Category 2 authorities requiring Full Audit before the backlog is dissipated. On current trends not only will these contribute toward the backlog, but it is doubtful if an auditor will be capable of being appointed. Like SAAA, NALC strongly urges the government to address this issue now as part of Phase 1.
- Salisbury City Council (SCC) will for instance for audit year 2024-2025 be subject to Category 1 full audit. SCC is a parish council, delivering a wide range of public services, with devolved responsibility for street cleaning and ground maintenance across the parish. The council also receives income from a crematorium, property, and car parking. In addition, it will raise £5.6m in precept for 2024/2025. SCC estimates its internal and external audit costs, and staffing costs to comply, will rise by additional recurring cost in excess of £50,000. This is the equivalent of £3.20 on a Band D property precept, or an increase of 0.9%. In addition, there are

likely to be one off cost associated with re-stating its accounts and external support and advice. If SCC is made to enter the full audit regime – like at least 2 Internal Drainage Boards – it may well also find itself flitting between the full audit and light touch regimes which is hardly sustainable.

- In short, we fully support the solution to the £6.5m threshold problem SAAA are proposing which is a change to the regulations such that local councils and Internal Drainage Boards are designated as Smaller Authorities regardless of turnover. If the designation to the Smaller Authorities no longer relied upon turnover, the problem of inflation eroding the £6.5m limit and the need for periodic reviews of the limit is resolved. If this is not possible, as we have argued to government before, urgent consideration should be given to index linking the Category 1 audit threshold and/or increasing it.
- We believe the current limited assurance audit regime works well, unlike the current full audit regime. If local councils and internal drainage boards are to be required to move into Category 1 regime, they will be moving from a regime they are suited to and which works well to a regime they are ill suited to, is costly and was originally designed for strategic, large authorities.
- A “parish meeting” is an informal gathering of all the electors in a parish to discuss parish affairs and pass resolutions on matters of local concern. A parish meeting is not generally classed as a local authority but represents a civil parish area with no local council. Unfortunately, parish meetings, especially those with no income or expenditure, are probably the biggest issue for auditors as significant numbers do not respond to the auditor or submit a Certificate of Exemption as required. The current audit treatment of parish meetings does not represent a cost-effective utilisation of resource, relative to risk. It remains NALC’s view that parish meetings should be abolished and replaced with local councils.
- Prior to 2003 (i.e. under the 1996 Audit and Accounts regulations), all local councils were required to prepare and submit for audit Annual Statements of Accounts, of varying levels of sophistication depending on turnover. Indeed, larger councils (latterly with a turnover more than £1 million – originally over £500,000) accounts were (subject only to regulatory changes since that date) largely in the format currently required under the Category 1 regime. However, audit changes made since 2003 have

ironically made it even harder for local councils to comply with Category 1 now.

- The government should increase the £25,000 audit threshold and introduce a transparency code for councils with annual turnover between £25,001 and £200,000. Councils with a turnover below £25,000 or above £200,000 must comply with transparency codes which require the publication of certain information, however there is no such requirement on councils in between. The £25,000 lower limit was set eight years ago in 2015 and between 2017/18 and 2022/23 an additional 449 Smaller Authorities have been drawn into the Limited Assurance regime, as the percentage of exempt authorities has fallen from 55% to 50%.

### **Consultation questions**

NALC's responses to the main consultation questions relevant to local councils in the consultation document are below:

**Q6. Notwithstanding the possibility of exemptions in exceptional circumstances (covered by questions 7 and 8 below), do you agree that Category 1 local authorities should be required to publish audited accounts for financial years 2023/2024 to 2027/2028 by the following dates (agree, disagree, unsure)?**

**2023/24: 31 May 2025**

**2024/25: 31 March 2026**

**2025/26: 31 January 2027**

**2026/27: 30 November 2027**

**2027/28: 30 November 2028**

**Do you have any comments on these dates?**

We have no comments on the dates as regards principal authorities (Category 1) as NALC does not represent them. However (see summary above) we are aware that at least one local council, Salisbury City Council (SCC), will qualify as a Category 1 authority at the end of the 2024-25 financial year and will require complete support from the Department, sector bodies and relevant auditors to transition to the full audit regime. So, any deadlines set within the next five financial years for publication of audited accounts by local councils newly

qualifying into Category 1 – will need to be flexible enough to accommodate that. In short clarity will be needed from the government, and full and timely support from auditors.

When the thresholds were originally set for Category 1 by the government, insufficient consideration was given to future proofing them, and there seems to have been little projected expectation that any local councils could in future qualify in Category 1. This is despite continued representations and warnings made by NALC and other bodies such as SAAA on this issue. Feedback reflects that Category 1 is very ill suited as a regime to local councils and smaller authorities in general and is very costly, hence if the government is going to require the likes of SCC to qualify in Category 1 after 3 financial years exceeding the £6.5 million threshold, more support is going to need to be provided to such councils in the future. This is why we agree with the SAAA proposed solution that smaller authorities should always be required to remain as Category 2 authorities, irrespective of turnover. If this is not possible, as we have argued to government before, urgent consideration should be given to index linking the Category 1 audit threshold and/or increasing it.

Local councils currently operate in the smaller authorities limited assurance regime which broadly works well and would be transitioning to the full audit regime which appears chaotic. This is another reason why NALC supports the proposed SAAA solution.

**Q10. The Accounts and Audit Regulations 2015 (regulation 15(1)(a)) currently requires Category 1 local authorities to publish unaudited accounts by the 31 May following the end of the financial year. In light of the proposed deadlines for the publication of audited accounts, do you think the 31 May deadline remains appropriate for financial years 2024/2025 to 2027/2028? (agree, disagree, unsure)**

**Please explain your response.**

Disagree. We are informed that this deadline is completely out of sync with analogous private sector deadlines and was anyway previously brought forward from 30 June annually. We are hearing that as it is, this deadline currently places an almost impossible deadline on principal authorities at Category 1. So, it would likely also place huge pressures on local councils such as SCC currently on the cusp of qualifying at Category 1. Local councils such as SCC will always forward plan well in advance to publish their accounts but must not be let down by auditors not adhering to their own timescales. After all, Category 1 is much more

costly and bureaucratic than the current limited assurance regime and local councils transitioning to Category 1 will require all the support they can get from their auditors – if one can be found for the likes of SCC if it is required to enter the full audit regime.

We believe the current limited assurance audit regime works well, unlike the current full audit regime.

**Q15. Finally, do you have any further comments on the proposed changes to the 2015 Regulations not covered by the questions so far, including relating to any unintended consequences?**

The main unintended consequence the government needs to remember is that the likes of SCC are now beginning to qualify as Category 1 relevant authorities, and this does not seem to have been planned for or scoped out by any government since 2014 when the Local Audit and Accountability Act was passed. We hear for instance that an auditor cannot be located for a relevant Internal Drainage Board to go into Category 1.

More broadly we agree with SAAA that we are not immune from the issues that Public Sector Audit Appointments (PSAA) are currently experiencing, and we need to be seen as part of the broader system and think that 'Phase 3 - Reform', must proceed at pace. Once the immediate problems are resolved, there is a risk that Phase 3 may be on the slow track or kicked into the long grass. It will be important to understand how authorities who move into the PSAA regime and then come out again, including local councils, will be treated in these changes in future. That is why NALC agrees with SAAA that smaller authorities should be permanently exempt from Category 1 full audit.

The government should increase the £25,000 audit threshold and introduce a transparency code for councils with annual turnover between £25,001 and £200,000. Councils with a turnover below £25,000 or above £200,000 must comply with transparency codes which require the publication of certain information, however there is no such requirement on councils in between. The £25,000 lower limit was set eight years ago in 2015 and between 2017/18 and 2022/23 an additional 449 Smaller Authorities have been drawn into the Limited Assurance regime, as the percentage of exempt authorities has fallen from 55% to 50%. We understand this position is also supported by SAAA.

In the limited assurance regime, we do still think that most audit return/timeliness problems are caused by parish meetings. We advocate the removal of parish meetings from the audit regime unless they are 'financially active' and have been

so over the last 3 years. We agree with SAAA that the current audit treatment of parish meetings does not represent a cost-effective utilisation of resource, relative to risk.

The Annual Governance and Accountability Return should be moved online to make the process easier for completing this form, and more efficient.

NALC is keen to work closer with SAAA, the government and other bodies such as the Office for Local Government, to gather relevant data covering local councils of all size and within the different audit thresholds and strata so that when issues arise, and thresholds need to be reviewed, decisions and policies will be framed accurately and backed up by facts.

For further information on this response contact Chris Borg, policy manager, on 07714 771049 or via email at [chris.borg@nalc.gov.uk](mailto:chris.borg@nalc.gov.uk) .

© NALC 2024