Challenges facing external audit nationally

Introduction

At the January 2021 Audit Committee, the Chair of the Committee requested a short paper on the current challenges in delivering external audit (EA) by all audit providers across the public sector.

Discussion

There appears to be the following major reasons why EA is struggling nationally to deliver their workload in a timely manner.

1.	**Increased regulatory requirements**	In response to a series of well publicised private sector company failures, external auditors have faced a significant increase in the regulatory requirements they face, in areas such as professional scepticism and going concern. This has led to an increase in the amount of audit resources and time they need to complete their audits, whilst fee levels have remained squeezed. Changes in the required audit approach have also had the effect of focusing testing on the figures in the financial statements, with less reliance able to be placed by EA on authorities' financial systems or the work of Internal Audit. This has the effect of increasing the peak in work during the opinion visit.
2.	**Shorter timetables**	At the same time CG has pushed for public sector audits to be completed to shorter timetables, to improve the timeliness of the published information, and to aid Whole of Government Accounts preparation.
3.	**Lower resources**	A combination of the above factors has meant that EA has become a less attractive career option, so the supply of staff has diminished, meaning that EA providers are struggling to resource their audits. Specific to the public sector, a large pool of trained public sector external auditors was disbursed and generally lost to the sector, when the Audit Commission was abolished.

4.	**COVID has further impacted resources and workload**	Working remotely has been a challenge for auditors and LA accounts staff, with sickness absence and the need for home-schooling etc lengthening the time needed to complete audits. The pandemic has necessitated additional work on a number of judgements and estimates (e.g. bad debt provisions). At the same time, the additional potential financial pressures have meant more audit and regulatory focus on the statutory accounts. Some EA firms were hoping to alleviate resource shortfalls by bringing in suitable staff from abroad. However the pandemic has meant that this has not been possible.
5.	**Impact of these issues**	The impact of these issues is that audit opinions for 2018/19 and 2019/20 have been substantially delayed. The tables below illustrate this.

2018/19 opinions. Deadline 31st Jul 2019.

486 opinions due

Opinions not given by:	Number of opinions not given	Percentage (out of 486 audits)
31 July 2019	208	43%
30th Sept 2019	142	29%
31st Dec 2019	85	17%
31st Mar 2020	61	13%
30th Sept 2020	37	8%
31st Dec 2020	26	5%

2019/20 opinions. Deadline 30th Nov 2020 (moved back from 31st July 2020 due to Covid).

478 opinions due

Opinions not given by:	Number of opinions not given	Percentage (out of 486 audits)
30th Nov 2020	265	55%
31st Dec 2020	202	42%

		Within these figures I suggest there will be a tendency for the smaller, more straightforward, audits to be completed sooner. In contrast the larger, more complex, audits, particularly for those audited bodies deemed “Public Benefit Entities” and so subject to additional regulatory scrutiny, are likely to take longer.
6.	**Additional pressures on LA staff**	The additional information and testing needed during final accounts’ visits also increases the workload of the LA staff who prepare the accounts and support the EA visit.
7.	**Mitigations – a new regulator**	The above factors were highlighted in the recent Redmond review of EA. Among many recommendations was the suggestion that a new Public Sector Audit Regulator, provisionally called OLAR, was created. This body would have an oversight of the whole field of Local Authority audit regulation, improving the currently fragmented system, where PSAA, the NAO, MHCLG, Standards setters and the Treasury all oversee different elements. [update – it appears that MHCLG may not favour this proposal].
8.	**Mitigations – simpler accounts, higher fees, and a changed audit focus**	Redmond also suggested that accounts should be simplified, fees should be increased, and EA should focus more on the elements of the financial statements that matter to stakeholders, i.e. the overall financial position and resilience of each body, and less on items that do not affect financial performance, such as asset and pension valuations.

Recommendation

The Audit and Standards Committee notes the contents of this paper.

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