

Audit Committee

29 February 2024



Addressing the Local Audit Backlog in England – Proposals published for Consultation.

Paul Darby, Corporate Director of Resources

Electoral division(s) affected:

None

Purpose of the Report

- 1 To provide the Audit Committee with a summary of the proposals for addressing the Local Audit Backlog in England which have recently been published for consultation.

Executive summary

- 2 The backlog in the publication of audited accounts of local bodies in England has grown to an unacceptable level. The number of outstanding opinions peaked at 918 on 30 September 2023. As at 31 December 2023, the backlog of outstanding audit opinions stood at 771.
- 3 The Department for Levelling Up, Housing and Communities (DLUHC) has worked collaboratively with the Financial Reporting Council (FRC), as incoming shadow system leader, and other system partners (including the National Audit Office (NAO)), to develop measures to address the delay in local audit. The proposed measures consist of three phases:
 - **Phase 1: Reset** - legislating for a statutory backstop date for the publication of audited financial statements up to and including financial year 2022/23. Auditors will be required to issue opinions based on the work they have completed by the backstop date – which may lead to a modified or qualified opinion – and are expected to prioritise to ensure that their audit work provides as much assurance as possible ahead of the date;
 - **Phase 2: Recovery** - a series of statutory backstop dates covering the financial years 2023/24 to 2027/28 to allow auditors to rebuild

assurance over a five-year period of local bodies' financial information, which has been subject to a modified opinion as part of the reset. To reduce burdens on preparers and auditors, CIPFA will make temporary changes to the Code of Practice on Local Authority Reporting;

- **Phase 3: Reform** - the FRC, alongside DLUHC and other system partners, will continue to work to address systemic challenges in the local audit system and embed timely financial reporting and audit.

4 These proposals for addressing the audit backlog and embedding timely audit have been published for consultation. The consultation commenced on the 8 February 2024 and concludes on 7 March 2024. The proposals consider:

- DLUHC's intentions for amending the Accounts and Audit Regs including a joint statement providing context and explanation of the proposals and how their various elements are intended to interact;
- NAO intentions for amending the Code of Audit Practice; and
- CIPFA LASAAC proposals for temporary changes to the Accounting Code to reduce burdens on those who prepare and audit local body accounts (not yet issued).

5 Whilst not directly affected by the proposals, the Council will consider its response to the consultation.

6 Durham County Council are within a minority of Local Authorities who have received external audit opinion for all previous years Statement of Accounts and are therefore not directly subject to the backstop proposals.

7 The 2023/24 audit opinion deadline for backstop affected authorities, however, has been extended to 31 May 2025. Discussions have been undertaken with the External Auditor to gain assurance that resources will not be redirected from the Council's audit to fulfil backstop duties elsewhere within the system.

8 The External Auditor has advised that Durham County Council is scheduled as a phase one audit within their plan and therefore the backstop proposals should not impact on opinion timeframes for the Council.

9 The Council and External Auditor are therefore working to achieve the statutory deadline (for non-backstop authorities) of 30 September 2024.

Recommendation

- 10 Members are asked to note the Addressing the Local Audit backlog proposal consultation, and its considered impact on the Council.

Background

- 11 The backlog in the publication of audited accounts of local bodies in England has grown to an unacceptable level.
- 12 In July 2023, the Minister for Local Government published a cross system statement setting out proposals to tackle the local audit backlog. Since then, organisations involved in the regulation and oversight of local body financial reporting and audit (“system partners”) have been working collectively to agree a proposed solution to clear the outstanding historical audit opinions and ensure that delays do not return.
- 13 A significant number of local audits in remain outstanding. The number of outstanding opinions peaked at 918 on 30 September 2023. As at 31 December 2023, the backlog of outstanding audit opinions stood at 771.

Addressing the Local Audit backlog

- 14 To clear the backlog of historical accounts and ‘reset’ the system, the Department for Levelling Up, Housing and Communities (DLUHC) proposes putting a series of dates in law (the “backstop date”) by which point local bodies would publish audited accounts for all outstanding years.
- 15 These proposals have now been published for consultation. They comprise:
 - DLUHC’s intentions for amending the Accounts and Audit Regs including a joint statement providing context and explanation of the proposals and how their various elements are intended to interact;
 - NAO intentions for amending the Code of Audit Practice;
 - CIPFA LASAAC proposals for temporary changes to the Accounting Code to reduce burdens on those who prepare and audit local body accounts (not yet issued).
- 16 The proposed measures consist of three phases:
 - **Phase 1: Reset** - legislating for a statutory backstop date for the publication of audited financial statements up to and including financial year 2022/23. Auditors should issue opinions based on the work they have completed by the backstop date – which may lead to a modified or qualified opinion – and are expected to prioritise to ensure that their audit work provides as much assurance as possible ahead of the date;

- **Phase 2: Recovery** - a series of statutory backstop dates covering the financial years 2023/24 to 2027/28 to allow auditors to rebuild assurance over a five-year period of local bodies' financial information, which has been subject to modified opinion as part of the reset. To reduce burdens on preparers and auditors, CIPFA will make temporary changes to the Code of practice on Local Authority Reporting;
- **Phase 3: Reform** - the FRC, alongside DLUHC and other system partners, will continue to work to address systemic challenges in the local audit system and embed timely financial reporting and audit.

Phase 1: Reset

17 The key elements within the proposal are as follows:

- (a) The backstop dates will be deadlines by which authorities must publish audited accounts, and auditors would be required to issue an opinion based on the work they have been able to complete to enable authorities to meet the publication deadline. The proposed date for accounts up to 2022/23 is 30 September 2024.
- (b) Auditing standards already provide for the impact of backstop dates. System partners will provide clear explanations of what the different types of audit opinions mean, especially to clarify that modified / disclaimed opinions attributable to the backstop date do not necessarily indicate significant financial reporting or financial management issues in the audited body.
- (c) Reporting on VFM arrangements will remain a high priority, focussing on enabling auditors to produce a single commentary on VFM arrangements covering all outstanding periods for 2022/23 and earlier years.
- (d) There are expected to be very limited exemptions (if any) for either authorities or auditors.
- (e) The Government will publish a list of local bodies and their auditors which do not meet the backstop date.

18 There do not appear to be any minimum expectations for the work that auditors would need to carry out at individual authorities, so that there would be a minimum level of assurance provided by the auditor. The Joint Statement promises an expectation that auditors will complete as much audit work as possible by the backstop date. The promise is also made that the NAO, working with the FRC, will produce statutory

guidance and any additional advice needed to ensure the reset works as intended.

Phase 2: Recovery

- 19 The acknowledged problem of the Reset phase is that for, authorities impacted by the backstop, auditors will not have the assurance from closing balances that would normally support opening balances for 2023/24. Auditors will therefore need to perform sufficient testing on opening balances to rebuild assurance.
- 20 To prevent this recovery work causing delays to future audits, the proposals involve further backstop dates for all years up to and including 2027/28, in consideration that recovery work may take a number of years as modified opinions/disclaimers are rolled forward. The backstop dates within the Recovery phase are proposed as follows:
- 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
- 21 For Value for Money (VFM) it is proposed that the Audit Code identifies that auditor's Annual Report is issued in draft to those charged with governance by 30 November each year (from 2023/24 onwards), irrespective of the position on the audit. This will enable auditors to report the majority of the VFM arrangements work on a timely basis.

Phase 3: Reform

- 22 There are no firm proposals put forward at this stage for Phase 3, but commitments are made in the following areas:
- The government remains committed to establishing the Audit, Reporting and Governance Authority as system leader for local audit when Parliamentary time allows;
 - CIPFA LASAAC's has a workstream looking at long-term reforms to financial reporting based on the needs of accounts users;
 - HM Treasury will shortly be setting out the outcome of the thematic review into the valuation of non-investment assets;

- the FRC intends to publish its Local Audit Workforce Strategy during 2024, including plans to increase the supply of suitably skilled auditors, including changes to Key Audit Partner requirements;
- the government has successfully procured the development of a Local Audit Qualification which will shortly be launched by CIPFA;
- CIPFA and the Local Government Association are working on a workforce strategy for local government finance teams.

Consultation and Accounts and Audit Regulations Amendments

- 23 Consultation on the amendments to the Accounts and Audit Regulations is open until 7 March 2024.
- 24 The proposals identify that the Regulations will be amended to ensure that statutory dates for the publication of the audited accounts are set at the backstop dates for the financial years 2023/24 to 2027/28 (as per paragraph 23). The duty of the Responsible Finance Officer (S151) to re-confirm the statement of accounts as presenting a true and fair view, and the requirement for member approval will remain in place.

Consultation on the Audit Code Amendments

- 25 Consultation on the amendments to the Audit Code is open until 7 March 2024. The proposals focus on:
- establishing the duty to issue an annual audit report by 30 November each year;
 - arrangements for VFM work for Phases 1 and 2.

Consultation on the Accounting Code Amendments

- 26 To reduce burdens on preparers, CIPFA LASAAC is consulting on three temporary changes to the Accounting Codes for 2023/24 and 2024/25. They consider:
- extending the override relating to the measurement and disclosure requirements for infrastructure assets;
 - simplifying the revaluation of operational property to permit the use of indexation (until new requirements for revaluation of operational property are introduced in 2025/26 following HM Treasury's thematic review);

- reducing the requirements for disclosures around net defined benefit pension liabilities/assets for 2 years to align with the simplified requirements in FRS 102 *The Financial Reporting Standard Applicable in the UK and Republic of Ireland*.

Durham County Council's Position

- 27 Durham County Council are within a minority of Local Authorities nationally who have received external audit opinion for all previous years Statement of Accounts and are therefore not directly subject to the backstop proposals. However, whilst not directly affected by the proposals, the Council will consider its response to the consultation.
- 28 The 2023/24 audit opinion deadline for backstop affected authorities however has been extended to 31 May 2025. Discussions have been undertaken with the External Auditor to gain assurance that resources will not be redirected from the Council's audit to fulfil backstop duties elsewhere within the system.
- 29 The External Auditor has advised that Durham County Council is scheduled as a phase one audit within their plan and therefore the backstop proposals should not impact on opinion timeframes for the Council.
- 30 The Council and External Auditor are therefore working to achieve the statutory deadline (for non-backstop authorities) of 30 September 2024.

Other useful documents:

- The DLUHC consultation and Joint Statement is available at: www.gov.uk/government/consultations/addressing-the-local-audit-backlog-in-england-consultation.
- The NAO consultation information is available at: www.nao.org.uk/code-of-audit-practice-consultation;
- The FRC consultation information is available at: www.frc.org.uk/library/supervision/local-audit/consultations-on-measures-to-address-local-audit-delays.

Appendix 1: Implications

Legal Implications

The addressing the local audit backlog in England: consultation proposals seek to amend the Accounts and Audit (England) Regulations 2015, via a series of dates (the “backstop date”) by which point local bodies would publish audited accounts for all outstanding years.

Finance

There are no direct financial implications arising for the council as a result of this report, although by considering the proposal and any impact on the Council, we are demonstrating efficient arrangements for the proper administration of the council’s financial affairs.

Consultation

None directly by the Council.

Equality and Diversity / Public Sector Equality Duty

None.

Climate Change

None.

Human Rights

None.

Crime and Disorder

None.

Staffing

None.

Accommodation

None.

Risk

This report requires no decision, a risk assessment has not been carried out.

Procurement

None