

## Audit Committee

30 September 2024



### Addressing the Local Audit Backlog in England - Update

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**Paul Darby, Corporate Director of Resources**

#### **Electoral division(s) affected:**

None

#### **Purpose of the Report**

- 1 To provide the Audit Committee with an update on addressing the Local Audit Backlog in England following the statement by the Minister of State for Housing, Communities and Local Government in July 2024 and subsequent change to legislation on 9 September 2024.

#### **Executive summary**

- 2 Effective local audit ensures transparency and accountability for public money and builds public confidence.
- 3 The Minister of State for Housing, Communities and Local Government wrote to all councils and published a written ministerial statement on 30 July 2024 in which he acknowledged that the current Local Audit System is broken resulting in significant and unacceptable backlog in the publication of the audited accounts of local bodies in England.
- 4 These delays have and continue to result in local bodies and their auditors being unable to focus on up-to-date accounts, where assurance is most valuable. The current situation undermines trust and transparency in the way taxpayers' money is being spent.
- 5 To tackle the backlog, the previous government introduced backstop dates for the periods to 2027/28. The Minister of State has now laid secondary legislation as well as a new code of audit practice. This secondary legislation amends Accounts and Audit Regulations (2015) to implement an updated series of backstop dates.
- 6 In addition, for the financial years 2024/25 to 2027/28, the date by which Category 1 bodies should publish 'draft' (unaudited) accounts **will change from 31 May to 30 June following the financial year to**

**which they relate.** This will give those preparing accounts more time to ensure they are high-quality accounts. This in turn will benefit auditors while still ensuring publication shortly after financial year end.

- 7 The public inspection period for the Statement of Accounts for 2024/25 through to 2027/28 must be commenced on the first working day of July.
- 8 The regulations detail a series of conditions under which an authority will be exempt from the backstop requirements. Authorities within scope will be required to issue a notice advising of the reason for non-publication. Non-exempt authorities which fail to comply with the backstop dates will be required to publish an explanation and acknowledgement that the authority must publish the accounts as soon as practicably possible. This notice must be sent to the Secretary of State.
- 9 The External Auditor has advised that Durham County Council remains scheduled as a phase one audit within their plan and therefore the backstop proposals or change in the draft accounts publication date should not impact on the existing opinion timeframes for the Council.
- 10 The letter received from the Minister of State along with the link to the Ministerial Statement are attached at the end of the report for Members' information.

## **Recommendation**

- 11 Members are asked to note the Local Audit backlog update, and its considered impact on the Council.

## Background

- 12 The Minister of State for Housing, Communities and Local Government published a written ministerial statement on 30 July 2024 regarding the backlog in the publication of audited accounts of local bodies in England.
- 13 In his statement, he acknowledged that the broken Local Audit System in England has resulted in a significant and unacceptable backlog of audited accounts which is likely to increase to around 1000 and ‘without decisive action will continue to rise further’.
- 14 To tackle the backlog, the previous government introduced backstop dates for the periods to 2027/28. On the 9 September 2024, the Minister of State laid before parliament, secondary legislation to amend the Accounts and Audit Regulations (2015) with an updated series of backstop dates.

## Addressing the Local Audit backlog

- 15 The updated series of backstop dates are as follows:

2022/23 and earlier financial years	13 December 2024
2023/24	28 February 2025
2024/25	27 February 2026
2025/26	31 January 2027
2026/27	30 November 2027
2027/28	30 November 2028

- 16 It is expected that, there will be full assurance, with “clean” opinions for many bodies by the first backstop date of 13 December 2024, however the Government recognises that given the size of the audit backlog, it is unlikely that all outstanding audits up until 2022/23 will be completed in full ahead of the first backstop date and that auditors are likely to issue disclaimed or modified audit opinions on many accounts. It is further likely that disclaimed opinions (no audit assurance) for some bodies will continue for several years.

- 17 The Regulations detail the conditions/ scenarios under which an authority will be exempt from the backstop requirements. These are as follows:

On the day before the backstop date:

- the auditor is considering an objection to the accounts,
- an elector who has made an objection still has rights of appeal against the auditor's decision not to act,
- the auditor is considering whether to apply to the courts for a declaration that an item of account is unlawful (or an application has been made for which due process is incomplete)
- The auditor is not yet satisfied that the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

- 18 If an authority does have an exemption, it will need to issue a notice stating that it has not been possible to publish the statement of accounts and the reasons for this. Publication of the accounts must then follow as soon as reasonably practicable.

- 19 Local Bodies that are non-exempt but have failed to comply with a backstop date will be required to publish a notice of explanation along with an acknowledgement that the authority must publish the statement as soon as reasonably practicable.

- 20 The notice must also be sent to the Secretary of State. The Government also intends to publish a list of bodies and auditors that do not meet the proposed backstop dates, which will make clear where 'draft' (unaudited) accounts have also not been published.

- 21 Local bodies should **not be unfairly judged** based on disclaimed or modified opinions, caused by the introduction of backstop dates that are largely beyond their control. Auditors will be expected to provide clear reasons for the issuing of such opinions to mitigate the potential reputational risk that local bodies may face.

- 22 Issuing a disclaimed or modified audit opinion and a subsequent return to being able to fully complete audits will require differing levels of work by auditors. PSAA will set scale fees and determine fee variations where the auditor undertakes substantially more or less work than assumed by the scale fee and will consult with bodies where appropriate. In doing so PSAA will apply the following principles:

- Where auditors have worked in good faith to meet the requirements of the Code of Audit Practice in place at the time the work was conducted (and have reported on work that is no longer required), then they are due the appropriate fee for the work done, and the body is due to pay the applicable fee, including where there is a modified or disclaimed opinion.
- Conversely, where an auditor has collected audit fees in part or in full, and the backstop date means that the total work done represents less than the fee already collected, then the auditor must return the balance and refund the body the appropriate amount – this ensures that the bodies pay only for work that has been done and reported.

23 The government will work with the FRC and other key organisations across the local audit sector to support local bodies, auditors and the wider world to understand the different types of modified opinions and to provide communications support across the system.

24 In addition, for the financial years 2024/25 to 2027/28, the date by which Category 1 bodies should publish ‘draft’ (unaudited) accounts **will change from 31 May to 30 June following the financial year to which they relate**. This will give those preparing accounts more time to ensure they are high-quality accounts. This in turn will benefit auditors while still ensuring publication shortly after financial year.

25 The public inspection period for the Statement of Accounts for 2024/25 through to 2027/28 must be commenced on the first working day of July.

26 The action undertaken by Government to tackle the backlog, while vital, does not provide a long-term, sustainable solution to the wider, broken local audit system. The Government has acknowledged the need to undertake significant reform to overhaul the system, as committed to in their manifesto. In his 30 July statement, the Minister of State concluded:

*‘I recognise that aspects of these proposals are uncomfortable. Given the scale of the failure in the local audit system that this Government inherited, however, we have had to take this difficult decision to proceed. Without this decisive action, the backlog would continue to grow, and the system will move even further away from timely assurance. The secondary legislation I will lay, will give effect to these proposals and start to repair the foundations of local governance. Significant reform is needed to overhaul the local audit system to get the house in order and open the books. I will continue to review the evidence, including considering the recommendations of external reviews to date, and will update the House in the Autumn on the Government’s longer-term plans to fix local audit.’*

## 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 any backstop proposals.
- 28 The 2023/24 audit opinion deadline however has now been extended to 28 February 2025. The Council's 2023/24 external audit programme is under-way and assurance received, that resources will not be redirected from the Council's audit to fulfil backstop duties elsewhere within the system.
- 29 The Council and External Auditor are therefore continuing to work towards achieving a 2023/24 deadline of 30 November 2024.
- 30 The External Auditor has also advised that Durham County Council remains scheduled as a phase one audit within their plan and therefore the backstop proposals or change in draft accounts publication date should not impact on any existing opinion timeframes for the Council.
- 31 The Council and External Auditor will continue to work towards a July 2025 audit commencement date for the 2024/25 draft accounts.

### Other useful documents:

- [action to tackle the local audit backlog in England.](#)



240730 Local Audit -  
Letter to councils from

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## **Appendix 1: Implications**

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### **Legal Implications**

The ministerial statement informs of the intention to amend the Accounts and Audit (England) Regulations 2015, with an updated series of backstop dates via secondary legislation. In addition, the Government seeks to change, for the financial years 2024/25 to 2027/28, the draft accounts publication deadline from 31 May to 30 June following the financial year to which they relate.

### **Finance**

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

### **Consultation**

None

### **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**