

Title of Report: Local audit delays: proposals to clear the backlog and embed timely audit

Report of: Darren Collins, Strategic Director, Resources and Digital

Purpose of the Report

- 1 This report updates the Audit and Standards Committee on the Government's consultation around proposals to address the local audit backlog and embed timely audits.

Background

- 2 On 8 February 2024, Department for Levelling Up, Housing and Communities (DLUHC), issued a consultation and joint statement on proposals to clear the audit backlog for English councils. The joint statement included recommendations from DLUHC, the Financial Reporting Council (FRC), the National Audit Office (NAO), the Chartered Institute of Public Finance and Accountancy (CIPFA), the Institute of Chartered Accountants in England and Wales (ICAEW), and the Public Sector Audit Appointments (PSAA).
3. The Committee will be aware that Gateshead Council is in a more favourable position compared to many other authorities as all financial accounts up to and including 2022/23 have been completed by external audit and we will receive the audit certificate once we have received a joint value for money statement for 2021/22 and 2022/23. We anticipate to receive a positive value for money opinion from Mazars the external auditor shortly and as such we would not be affected by any of the proposals as part of phase 1.
- 4 The joint statement set out three phases of measures to address the audit backlog:
 - **Phase 1: Reset** – this involves clearing the backlog of historical audit opinions up to and including the financial year 2022/23 by 30 September 2024. This phase is not applicable to Gateshead Council as all audits up to and including 2022/23 have now been completed.
 - **Phase 2: Recovery** – introducing audit backstop dates to prevent the recurrence of the backlog and allowing audit assurance to be built up over multiple audit cycles.
- 5 **Phase 3: Reform** – addressing the systematic challenges in the local audit systems to embed timely financial reporting and audit. The consultation is to seek views on phases 1 and 2 of the project plan and the Council's response to this consultation is shown in Appendix 1.

Phase 1: Reset

- 6 The Government would use changes to legislation and the Code of Audit practice to implement a backstop date of 30 September 2024 for all outstanding audits up to and including the financial year 2022/23.
- 7 Auditors will be required to publish an opinion based on completed work as at the backstop date and this opinion can be either unmodified, modified (qualified or adverse) or disclaimed.
- 8 Auditors will be able to produce a single commentary on Value for Money arrangements covering all outstanding periods up to 2022/23.
- 9 The Government is proposing to publish a list of local bodies and their auditors which do not meet the backstop date.

Phase 2: Recovery

- 10 With the introduction of modified or disclaimed audit opinions auditors will require time to obtain assurances over the opening balances in the financial statements and the aim of the recovery phase is to give auditors multiple financial years in which to achieve assurances.
- 11 New statutory backstop dates for all financial years up to and including 2027/28 will be introduced. These backstop dates will replace the existing statutory deadline of 30 September for the publication of audited accounts.
- 12 Councils would not be required to publish a delay notice during these periods.
- 13 The introduction of these new backstop dates may result in more modified or disclaimer audit opinions.
- 14 The proposed new backstop dates have been designed to limit the impact on other public sector audits and are as follows:

Year end 31 March 2024: 31 May 2025
Year ended 31 March 2025: 31 March 2026
Year ended 31 March 2026: 31 January 2027
Year ended 31 March 2027: 30 November 2027
Year ended 31 March 2028: 30 November 2028
- 15 The Government is proposing to publish a list of local bodies and audit firms which meet and do not meet the deadlines.
- 16 It is proposed that the Code of Audit Practice will require the Auditors' Annual Report to be issued in draft by 30 November each year irrespective of the position of the audit and this will be published on the Council's website.

Q1. Notwithstanding the possibility of exemptions in exceptional circumstances (covered by questions 3 and 4 below), do you agree that Category 1 authorities should be required to have published audited accounts for all financial years up to and including financial year 2022/2023 by 30 September 2024? (agree, disagree, unsure)

Do you have any comments on this issue?

Agree

Q2. Do you agree that the requirement at Regulation 10(2) for Category 1 authorities to publish a delay notice should be disapplied in relation to any outstanding audits covering financial years 2015/2016 to 2022/2023? (agree, disagree, unsure)

Do you have any comments on this issue?

Agree

Q3. Do you think it would be appropriate for Category 1 authorities to be exempt from the statutory backstop date of 30 September in circumstances where the auditor is unable to issue their opinion due to outstanding objections to the accounts that could be material to that opinion? (agree, disagree, unsure)

Please explain your response.

Disagree. If the purpose is to close off all accounts which means that the accounts will receive a modified or disclaimed opinion, then all accounts should be closed regardless otherwise some authorities will still be in a position of unaudited accounts which could cause delays within those audit firms for other authorities.

Q4. Do you think there would be any other exceptional circumstances which might create conditions in which it would be appropriate for Category 1 authorities to be exempt from the 30 September backstop date? (agree, disagree, unsure)

Please explain your response, including, where relevant, details of exceptional circumstances you consider would justify an exemption.

Disagree. If the purpose is to close off all accounts which means that the accounts will receive a modified or a disclaimed opinion, then all accounts should be closed regardless otherwise some authorities will still be in a position of unaudited accounts which could cause delays within those audit firms for other authorities.

Q5. We intend to publish a list of local bodies and audit firms which meet statutory deadlines for the publication of audited accounts and those which do not. Do you think there should be additional consequences for Category 1 authorities or audit firms (excluding an authority or firm covered by an exemption) if they do not comply with the statutory deadline of 30 September 2024? (agree, disagree, unsure)

Please explain your response and, where relevant, include any suggested consequences.

Disagree –We do not believe that anything would be gained by doing this. The system desperately needs to be reset.

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?

Disagree with the first two backstop dates. Any backstop date after February becomes problematic for local authority staff as balances cannot be rolled forward and opens the accounts to post balance sheet events.

We believe the backstop date for the first three years should be 31 January.

Q7. Do you think it would be appropriate for Category 1 authorities to be exempt from the statutory backstop dates for Phase 2 in circumstances where the auditor is unable to issue their opinion due to outstanding objections to the accounts that could be material to that opinion? (agree, disagree, unsure)

Please explain your response.

Disagree – if introducing a backstop date then all accounts should close with the appropriate opinion given. Not closing all accounts impacts on the audit firms and capacity which can then potentially impact on other authorities unintentionally.

Q8. Do you think there would be any other exceptional circumstances which might create conditions in which it would appropriate for Category 1 authorities to be exempt from the backstop dates for Phase 2? (agree, disagree, unsure)

Please explain your response, including, where relevant, details of exceptional circumstances you consider would justify an exemption.

Disagree – if introducing a backstop date then all accounts should close with the appropriate opinion attached. Not closing all accounts impacts on the audit firms and capacity which can then potentially impact on other authorities unintentionally.

Q9. We intend to publish a list of local bodies and audit firms which meet statutory deadlines for the publication of audited accounts and those which do not. Do you think there should be additional consequences for Category 1 authorities or audit firms (excluding an authority or firm covered by an exemption) if they do not comply with the statutory deadlines for Phase 2? (agree, disagree, unsure)

Please explain your response and, where relevant, include any suggested consequences.

Strongly Disagree – audit firms are already concerned about fines and the great levels of scrutiny from regulators in relation to the audit of the accounts. Introducing consequences could lead to a potentially divisive environment between auditors and authorities. It may be

difficult to establish fault between the auditor and the authority and Councils do not have the funding available to cover any monetary consequences.

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.

We believe that the deadlines for the unaudited accounts should be as follows:

2024/25 31 July 2025
2025/26 30 June 2026
2026/27 31 May 2027
2027/28 31 May 2028

Q11. The existing annual deadline for the publication of unaudited accounts is 31 May. As set out above, we are proposing a backstop date for the publication of audited accounts for the financial year 2023/2024 of 31 May 2025. This would mean that 31 May 2025 would be the statutory deadline for both the publication of audited accounts for financial year 2023/2024 and unaudited accounts for financial year 2024/2025. Do you expect this would create any significant issues? (agree, disagree, unsure)

Please explain your response.

Any backstop date after January/February is problematic for local authorities as accounts are created with unrolled forward balances and accounts potentially still open to audit. With a date of the 31 May local authorities could be still answering audit queries whilst completing the current years accounts. We believe the deadline for 2024/25 should be 31st July if the 31st May for audited 2023/24 accounts remains.

Q12. The government anticipates that the Phase 1 backstop proposals will result in modified or disclaimed opinions. A modified or disclaimed opinion at the end of Phase 1 would require auditors to subsequently rebuild assurance. The Phase 2 backstop dates are intended to enable this work to be spread across multiple years. Given this additional work, and noting the further explanation at paragraphs 15 to 46 of the [Joint Statement](#), do you have any views on the feasibility of audited accounts being published by the proposed statutory backstop dates for Phase 2?

It is technically feasible that audited accounts are published by the proposed back stop dates, but we believe it is unlikely that the opinions would be unmodified.

Q13. Do you agree that it would be beneficial for the 2015 Regulations be amended so that Category 1 bodies would be under a duty to consider and publish audit letters received from the local auditor whenever they are issued, rather than, as is currently the case, only following the completion of the audit? (agree, disagree, unsure)

Do you have any comments on this issue?

Disagree – it is unhelpful to publish draft positions that can change during the remainder of the audit and could potentially be misleading to stakeholders of the accounts and residents.

Q14. Do you have any comments on whether any of the proposals outlined in this consultation could have a disproportionate impact, either positively or negatively, on people with protected characteristics or wish to highlight any other potential equality impacts?

No

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?

(Where possible, please limit your response to 500 words)

It is appreciated that audit firms require time to gain assurances over opening balances however providing a deadline of 31 May 2026 in the first instance may actually result in more Councils that are unable to complete their audits. Any deadline after February is problematic for local authorities. The backstop dates do not incentivize audit firms to get accounts completed early and also open the accounts up to post balance sheet events.

Local government audits appear to be considered secondary to other public sector audits and this means there is always going to be an issue in terms of meeting audit deadlines.