

SUBJECT: ADDRESSING THE LOCAL AUDIT BACKLOG IN ENGLAND

REPORT BY: CHIEF EXECUTIVE & TOWN CLERK

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1. Purpose of Report

- 1.1 To provide the Audit Committee with an update on the Government's response to the Addressing the Local Audit Backlog in England: Consultation.

2. Background

- 2.1 Audit Committee, at its meeting on 15 July 2024, were presented with a report which set out details of a government consultation (issued during the previous Parliament) on proposals to clear the audit backlog for English councils.
- 2.2 The proposed measures consisted 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.
- 2.3 While the original proposed audit backstop dates (as part of Phase 1 and 2) included in the consultation were abandoned following the calling of the recent General Election, the new Government has now published its response to the consultation and has laid in Parliament regulations to give effect to its proposals.
- ## **3. Government Response to Addressing the Local Audit Backlog Consultation**
- 3.1 On the 30 July 2024 the new Government set out a in written statement a new backstop date of Friday 13 December 2024 for all outstanding external audits up to and including 2022/23. For 2023/24 the audit deadline will be 28 February 2025. If

these deadlines are not met, accounts will be published with a disclaimer or modified opinion. The Government is expecting that disclaimed opinions should be limited to the next two years (2023/24 and 2024/25 accounts) in the majority of cases.

- 3.2 Secondary legislation would be laid in Parliament to amend The Accounts and Audit Regulations 2015 to incorporate the above and the following proposed deadlines for future years:
 - 2024/25 – 27 February 2026
 - 2025/26 – 31 January 2027
 - 2026/27 – 30 November 2027
 - 2027/28 – 30 November 2028
- 3.3 The regulations will also be amended to extend the deadline for local authorities to prepare draft accounts from 31 May to 30 June for the financial years 2024/25 to 2027/28.
- 3.4 There were proposed exemptions to having to meet the backstop date, which would require the audit opinion to be published as soon as is practicable, these were:
 - where auditors are considering a material objection;
 - where recourse to the court could be required; or
 - from 2023/24, where the auditor is not yet satisfied with the body's Value for Money arrangements.
- 3.5 Authorities that are not exempt but don't meet the backstop date will be named, along with their auditors, and required to "publish an explanation, to send a copy of this to the Secretary of State (to facilitate scrutiny) and publish audited accounts as soon as practicable". As well as naming such authorities, government will also state where draft (unaudited) accounts have also not been published.
- 3.6 On the 9 September the Government updated the Consultation document with its response. In parallel to publishing the response to the consultation feedback, the Government also laid in Parliament the regulations (amending The Accounts and Audit Regulations 2015) as well as, on behalf of the Comptroller and Auditor General and the National Audit Office (NAO), a new Code of Audit Practice. These will give effect to the proposals.
- 3.7 The government's response to the consultation confirms the same key dates as in the written statement.
- 3.8 The scenarios in which exceptional circumstances create an exemption for bodies where the auditor has not entered their opinion by the relevant backstop date have been increased to include where an objector has appealed or could still appeal the auditor's decision in relation to the objection. The full list being:
 - where auditors are considering a material objection
 - where an objector has appealed or could still appeal the auditor's decision in relation to the objection

- the auditor thinks that an item of account may be contrary to law and has made, or is considering making, an application to the Court on that basis
- or from 2023/24, where the auditor is not yet satisfied with the body's Value for Money (VFM) arrangements

3.9 The Government's response addresses concerns around private borrowing which were raised in the consultation. The response highlighted that private borrowing may already be impacted and acknowledged that there may be an impact on authorities' ability to borrow money where disclaimed or modified opinions are issued as a result of the backstop dates. In cases of qualified or disclaimed audits due to the backstop dates, the government's expectation is that private lenders would factor in the exceptional context and consider their approach on a case-by-case basis.

4. Implications for the Council

4.1 At this stage the 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 it has received a positive value for money statement up to 2022/23. As such the Council is not affected by the backstop date of Friday 13 December 2024 for all outstanding external audits up to and including 2022/23.

4.2 In relation to the audit of the 2023/24 statement of accounts, at this stage the audit is progressing sufficiently well enough to not identify a risk of not achieving the backstop date of 28 February 2025. An update on the progress of the 2023/24 audit, provided by the Council's External Auditors KPMG, is included elsewhere on this agenda.

4.3 From 2024/25 onwards, the deadline for the Council to prepare its statement of accounts will be extended from 31 May to 30 June. This will provide the Council with additional time to focus on quality checking and preparation of audit files, thereby benefitting the audit process.

5. Strategic Priorities

5.1 There are no direct implications for the Council's strategic priorities. The external audit of the Council's financial statements and VFM conclusion is a statutory requirement and as such contributes towards the fitness for purpose of the Council's governance arrangements.

6. Organisational Impacts

6.1 Finance – There are no direct financial implications arising as a result of this report. The external audit process provides an independent source of assurance and forms a key element of the checks and balances within the local accountability framework. Part of the role of the external auditor is to provide an assessment of the arrangements that a local authority has put in place to secure economy, efficiency and effectiveness in its use.

6.2 Legal including Procurement Rules – Amendments to the Accounts and Audit (England) Regulations 2025 have been laid in Parliament to give effect to the proposals contained within the Government's consultation response.

6.3 Equality, Diversity and Human Rights

The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities

Due to the nature of this report there are no direct equality, diversity or human rights implications,

7. Risk Implications

7.1 There are no direct risk implications arising as a result of this report.

8. Recommendation

8.1 Audit Committee are asked to note the Government's response to Addressing the Local Audit Backlog in England: Consultation and implications for the Council.

Is this a key decision? No

Do the exempt information categories apply? No

Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply? No

How many appendices does the report contain? None

List of Background Papers: None

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