

# AUDIT AND GOVERNANCE COMMITTEE



Report subject	<b>Local Audit in England - Backlog Update</b>
Meeting date	17 October 2024
Status	Public Report
Executive summary	<p>This report provides Audit &amp; Governance Committee with an update on the action taken to tackle the local audit backlog in England by the Ministry of Housing, Communities &amp; Local Government via a letter on 30 July 2024 and then a further update letter on 20 September 2024.</p> <p>Action proposed includes laying secondary legislation to provide for an initial backstop date of 13 December 2024 for financial years (FYs) up to and including 2022/23 and five subsequent backstop dates for 2023/24 through to 2027/28 as detailed in the letter.</p> <p>Government has now laid in Parliament two pieces of legislation which would give effect to the proposals: the Accounts and Audit (Amendment) Regulations 2024 and, on behalf of the Comptroller &amp; Auditor General of the National Audit Office (NAO), a draft Code of Audit Practice 2024</p> <p>As reported by Grant Thornton in March, the backstop arrangement will apply to the BCP Council 2022/23 accounts. The outcome and the technical requirements of the backstop arrangement will be reported to the Audit &amp; Governance Committee 'extra' meeting on the 28 November 2024.</p> <p>The deadline for the publication of audited accounts for financial year 2023/24 will be 28 February 2025 to coincide with the second backstop. The Regulations also amend the date by which bodies should publish draft (unaudited) accounts to 30 June for financial years 2024/25 – 2027/28.</p>
Recommendations	<b>It is RECOMMENDED that the Audit &amp; Governance Committee notes the action taken to tackle the local audit backlog in England by the Ministry of Housing, Communities &amp; Local Government as detailed in Appendix A and further update in Appendix B.</b>
Reason for recommendations	To ensure that Audit & Governance Committee are fully informed of the latest Local Audit in England backlog position.
Portfolio Holder(s):	Cllr Mike Cox, Portfolio Holder for Finance
Corporate Director	Graham Farrant, Chief Executive

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Wards	Council-wide
Classification	For Information

## Background

1. The Audit & Governance Committee received a report at the 7 March 2024 meeting on a summary of the proposals for addressing the Local Audit Backlog in England and the Council's and the Council's external auditors intended response to the consultation.
2. The Department for Levelling Up, Housing and Communities (DLUHC) proposed putting a series of dates in law (the "backstop date") by which point local bodies would publish audited accounts for all outstanding years. The report included a letter from Grant Thornton on their proposal for the delivery of the 2022/23 audit which stated that the application of the backstop would be applied for BCP Council for the 2022/23 accounts.
3. By 13 December 2024, the aim is for all (financial years(FY)) outstanding audits up until and including the FY 2022/23 to be 'cleared'. We need to be precise what is meant by 'cleared', it does not unfortunately mean all audits will be completed in the normal sense of a completed audit.
4. All audits that are unfinished by 13 December 2024 will have a line drawn in the sand, the auditors will review the evidence that they have collected so far and issue a 'disclaimer' of opinion.
5. A disclaimer of opinion would normally mean that the financial statements as a whole are of very limited use due to serious issues found by the auditor. However in the context of the 'backstop' such a disclaimer will essentially mean the auditor has been unable to complete all the usual work they would do.
6. The UK General Election placed a delay on the adoption of the proposals.

## Letter from Minister of State for Housing, Communities and Local Government

7. The attached letter at Appendix A, sent on 30 July 2024 provided an update on the action proposed to tackle the local audit backlog in England.
8. The letter included the following key points:
  - there is an unacceptable backlog of unaudited accounts, which will likely rise again to around 1,000 later this year.
  - to tackle the backlog, the government intend to lay secondary legislation when parliamentary time allows to provide for an initial backstop date of 13 December 2024 for financial years (FYs) up to and including 2022/23 and five subsequent backstop dates for 2023/24 through to 2027/28 as detailed in the letter.
  - due to the time constraints, auditors are likely to issue 'disclaimed' audit opinions (no assurance) on many accounts

- 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 and auditors will be expected to clearly set out the reasons for the issuing of such opinions to mitigate the potential reputational risk that local bodies may face
- disclaimed opinions driven by backstop dates should in most cases be limited to the next two years (up to and including the 2024/25 backstop date of 27 February 2026), with only a small number of exceptional cases, due to specific individual circumstances, continuing thereafter.
- subject to parliamentary approval, for financial years 2024/25 to 2027/28, the date by which local bodies should publish 'draft' (unaudited) accounts will change from 31 May to 30 June following the financial year to which they relate to give more time to ensure high-quality accounts are produced.
- the Government will need to undertake significant reform to overhaul the system to provide a long-term, sustainable solution to the wider, broken local audit system

**Update on action to tackle the Local Audit Backlog in England, including Grant Thornton letter applying to BCP Council.**

9. The attached letter at Appendix B, sent on 20 September 2024, from the Director General for Local Government and Public Services provided a further update on the action the Government is taking to tackle the local audit backlog in England.
10. The letter included the following key points:
  - The Government has now laid in Parliament two pieces of legislation which would give effect to the proposals: the Accounts and Audit (Amendment) Regulations 2024 and, on behalf of the Comptroller & Auditor General of the National Audit Office (NAO), a draft Code of Audit Practice 2024.
  - The Accounts and Audit (Amendment) Regulations 2024 are due to come into force on 30 September 2024. The deadline for the publication of audited accounts for FY 2023/24 will be 28 February 2025 to coincide with the second backstop. The Regulations also amend the date by which bodies should publish draft (unaudited) accounts to 30 June for financial years 2024/25 – 2027/28.
  - To support auditors in meeting their responsibilities under the Code of Audit Practice, the NAO has issued specific guidance, endorsed by the Financial Reporting Council (FRC) on implementing the reset and recovery of local audit in England.
  - It should not be necessary for the audit of the previous year's accounts to be completed for Section 151 Officers to comply with their responsibilities to certify that the unaudited accounts show a true and fair view, as local bodies should have sufficient internal controls and processes for the Section 151 Officer to obtain this assurance.
  - A series of cross system communication and engagement events which will take place between now and the first backstop date of 13 December.
11. Attached at Appendix C is Grant Thornton's formal letter to BCP Council advising on the application of the backstop for BCP Council, as previously communicated by the External Auditor in previous meetings of this committee.

## **Conclusion**

12. These updates do not materially change any of the original report to this Committee; for the avoidance of any doubt it does not change the intention of Grant Thornton to apply the 'backstop' for the BCP Council 2022/23. This is planned to be reported to the Audit & Governance Committee 'extra/non-core' meeting on the 28 November 2024 and all technical requirements, such as signed letters of representation, to be completed before the statutory 13 December 2024 deadline.
13. The update also outlines that Grant Thornton will complete their 2023/24 audit findings report, to be presented to this committee, before the statutory backstop deadline of 28 February 2025.

## **Options Appraisal**

14. An options appraisal is not applicable for this report.

## **Summary of financial implications**

15. There are no direct financial implications from this report.

## **Summary of legal implications**

16. Addressing the local audit backlog in England: 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.

## **Summary of human resources implications**

17. There are no direct human resource implications from this report.

## **Summary of sustainability impact**

18. There are no direct sustainability impact implications from this report.

## **Summary of public health implications**

19. There are no public health implications from this report.

## **Summary of equality implications**

20. There are no direct equality implications from this report.

## **Summary of risk assessment**

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

## **Background papers**

None

## **Appendices**

Appendix A – Local Audit – Letter to councils from Minister Jim McMahon

Appendix B - Update on action to tackle the local audit backlog in England

Appendix C – BCP Council: An update on the application of the local authority backstop