Part I – Release to Press

STEVENAGE BOROUGH COUNCIL

Meeting	**AUDIT COMMITTEE**
Portfolio Area:	Resources and Transformation
Date:	**6 September 2023**

LOCAL AUDIT DELAYS – DLUHC UPDATE JULY 2023

NON-KEY DECISION

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1 PURPOSE

1.1 To update Members with proposals from Department for Levelling Up, Housing and Communities (DLUHC) to address the backlog of local government audits in England and how these proposals may impact the Council.

2 RECOMMENDATIONS

2.1 That Members note the contents of this report.

3 BACKGROUND

3.1 Local Audit Delays

3.1.1 There has been a deterioration in the timeliness of local audit since 2017/18, with delays compounding during the COVID-19 pandemic, leading to a persistent and significant backlog of audit opinions.

3.1.2 Local audit completion for the financial year 2021/22 remains at approximately 27 percent, with the combined total of outstanding local audits dating back to 2015/16 now totalling nearly 520. There is consensus across the system that there is now no alternative but to take collective action to resolve the backlog.

3.1.3 In order to restore timely audit and financial reporting, improve local accountability, strengthen the government's ability to identify warning signs of potential failure in local bodies and provide assurance to local residents about financial management and governance, DLUHC, has led urgent cross system work over the Spring - involving auditors, Section 151 Officers, regulators, government departments and other key stakeholders – to find a solution to reset the system.

Stevenage Borough Council currently has three years' worth of accounts 2020/21, 2021/22 and 2022/23 that have yet to be audited by the Council's external Auditor EY.

4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 DLUHC Proposals (summary – details in Appendices A and B)

4.1.1 That the National Audit Office (NAO) and DLUHC set a series of statutory deadlines for accounts preparers and auditors to clear the backlog of delayed audits for financial years 2015/16 to present. Auditors would then be required to provide as much assurance as possible for these outstanding years, reporting as normal any significant concerns they have on an organisation's financial controls and financial reporting, as well as financial resilience, governance and risk. This should allow auditors to maximise level of assurance and focus on the most recent financial information.

4.1.2 Where necessary, it is intended that auditors would need to limit their opinion, making clear to the user of the accounts where full evidence hasn't been confirmed, and which the auditor is therefore unable to provide assurance over. Auditors' statutory duty to report on value for money (VfM) arrangements and their statutory audit powers (such as the power to make statutory recommendations or produce Public Interest Reports where necessary) will remain a high priority.

4.1.3 Consideration is also being given to changes to the Code of Audit Practice on certain balances in the accounts to prevent continued local audit delays while a broader solution is sought. Potential changes would be time limited and would need to be supported by wider changes to standards and regulation.

4.1.4 The Chartered Institute of Public Finance and Accountancy (CIPFA) has already made a temporary adjustment to the Accounting Code on the reporting requirements for valuation of local authority infrastructure assets, to support amendments to regulation made by DLUHC in December 2022. However, clearly a long-term solution needs to be developed. This will take longer than the current temporary measures (both legislative and Code based) allow. As such, DLUHC will seek to extend the changes made to legislation last year and CIPFA will consider whether the current amendments to the Code can be extended in tandem.

4.1.5 In terms of ongoing regulatory requirements, the Financial Reporting Council (FRC) has committed to set out annually its planned regulatory programme, areas of focus and how its inspection activity serves the public interest. As part of this work, the FRC intends to clearly set out how its inspection activity will review auditors' work on operational assets and pensions valuation, the rationale for doing so and examples of good practice. The FRC is also working with auditors, practitioners and regulatory bodies to consider whether changes to the level of audit materiality may be beneficial. This work is expected to conclude before the end of the year.

4.1.6 The proposals will be subject to further work and engagement across the system over the Summer, including with Section 151 Officers, Chief Executive Officers, elected representatives, the Local Government Association and audit firms. Subject to the conclusion of the appropriate details, it is anticipated changes to the relevant codes and standards will be made in time for implementation to begin by the end of December 2023.

4.1.7 Under these proposals CIPFA would issue guidance to support accounts preparers to follow any amended regulations which set out new statutory deadlines, provided the authority is in receipt of the appropriate audit findings report from the auditor. CIPFA would also set out how Section 151 Officers should approach their responsibilities to certify the accounts in light of potential qualifications or disclaimers which may result from these proposals.

4.1.8 Following a Live Webinar on 1 August 2023 with DLUHC the following statutory deadlines are being consulted on as follows for audits:

- 2020/21- 2021/22 deadline 31 March 2024
- 2022/23 deadline 30 September 2024
- 2023/24 deadline 31 March 2025

4.2 The Council's Current Audit plan

4.2.1 The current audit completion deadlines being worked towards by EY are:

- 31 October 2023 – 2020/21 Stevenage Statement of accounts
- 31 March 2024 – 2021/22 Stevenage Statement of accounts (may however, be subject to change for reasons outlined in this report)

4.2.2 If met, this would mean the Council would only have one set of accounts outstanding (2022/23), and depending on resources available at EY, there may be sufficient time in theory, for the 2022/23 audit to be completed without a qualified opinion intime for the 30 September 2024 deadline.

4.2.3 EY responded to the DLUHC proposals in a letter to s151 officers dated 26 July 2023 which can be found in **Appendix C**. EY are currently working through the impact of the proposals.

4.2.4 Delays in completing the audits means that working papers need to be revisited after a considerable period of time and can be subject to changes in personnel and also have a knock impact on future years accounts. In addition, the Council could well have two external audit firms with the new auditor Azets starting planning work on the 2023/24 accounts before the 2022/23 accounts are completed.

4.2.5 The Council's CFO raised the issue of account simplification for the delayed audits such as on asset valuations and pensions entries in the Statement of Accounts, however this has not been introduced (see also para. 4.4.2).

4.3 Scenario if deadlines are not met

4.3.1 If the internal deadlines are not met, the risk of outstanding accounts including qualifications and disclaimers increases.

4.3.2 Where the auditor has to issue a disclaimer of opinion, however, there will still be a need to audit the opening balances of the subsequent set of accounts, as the prior year figures will not be covered by an unqualified auditor's opinion. This is of particular concern to the Council, as part of the Public Sector Audit Appointments Limited's (PSAA) scheme, was the appointment of a new provider of audit services from 2023/24 who may well be auditing the 2023/24 Statement of accounts and with potentially qualified opening balances.

4.3.3 DLUHC will consider measures to address any knock-on effects of the proposals which may impact the audit of opening balances within the accounts for future years and ensure the burden of auditing opening balances does not risk creating further delays. What these measures are is unknown at this time.

4.4 The Future

4.4.1 As referred to above, further work is being undertaken by a number of public bodies and CIPFA to ensure that future backlogs do not recur. Considerations include:

- balancing the need for adherence to financial standards against the needs of the users of local authority financial information, including ensuring the accounts are still useful and valuable to the taxpayer.

- whether the level of work required for the current reporting and disclosures obligations on account preparers, which then require audit and oversight, is proportionate to their value to the user of the accounts, given the potential financial or governance risks are relatively low.

4.4.2 CIPFA is therefore exploring changes to the Code of Practice on Local Authority Accounting for the medium and long term, in order to enable a more proportionate approach to the accounting requirements for non-investment assets and pension valuations for a local authority context. As a standard setter, CIPFA's guiding principle in approaching any changes to the reporting requirements adopted by the public sector in 2010 will be ensuring that high-quality financial reporting and the utility of financial statements to account users is maintained.

4.4.3 There are also seen to be advantages to the alignment of central and local government accounting, including allowing local government accounts to be more easily consolidated into the statutory Whole of Government Accounts. The Council currently prepares information for this consolidation in conjunctions with the preparation of the statement of accounts.

5 IMPLICATIONS

5.1 Financial Implications

5.1.1 The impact on audit fees of these proposals, or demand on internal resources is unknown at this time.

5.2 Legal Implications

5.2.1 None at this proposal stage

5.3 Risk Implications

5.3.1 The imposition of statutory deadlines to curtail audit activity increases the risk of accounts being qualified only on the basis of this curtailment. This then has knock on impacts on following years opening balances when in fact in a "normal" year the accounts would not have been qualified.

5.3.2 Qualification as a result of these proposals may not be fully understood by users and have a negative impact on the reputation of the council and its financial management.

APPENDICES

- Appendix A - Minister Rowley Letter to the sector regarding Local Audit
- Appendix B - Local Audit Delays Criss-System Statement
- Appendix C - EY Local Audit Market update July 2023