Meeting	**AUDIT COMMITTEE**
Portfolio Area:	Resources and Transformation
Date:	**26 March 2024**

LOCAL AUDIT DELAYS – UPDATE MARCH 2024

NON-KEY DECISION

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1 PURPOSE

1.1 To update Members with current 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. This backlog impacts decision making, transparency and accountability to local tax payers.

3.1.2 The number of outstanding opinions (all years – National) peaked on 30 September 2023 at 918. As at 31 December 2023, the backlog of outstanding audit opinions stood at 771. 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 July 2023, the Minister for Local Government published a Cross-System Statement (Appendix B) to Parliament setting out proposals to tackle this backlog. Since then, organisations involved in the regulation and oversight of local body financial reporting and audit ("system partners") have been working collectively to agree a proposed solution to clear the outstanding historical audit opinions and ensure that delays do not return.

3.1.4 On 8 February 2024 the Department for Levelling Up, Housing & Communities (DLUHC) and the National Audit Office (NAO) published the Local audit delays: Joint statement on update to proposals to clear the backlog and embed timely audit (Appendix C). Three consultations on these updated proposals closed on 7 March 2024.

- DLUHC - on changes to the Accounts and Audit Regulations 2015 to introduce backstop dates for the publication of audited accounts and
- NAO - seeking views on changes to the Code of Audit Practice to support auditors to meet backstop dates and promote more timely reporting of their work on value for money arrangements.
- CIPFA LASAAC - on temporary changes to the Code of Practice on Local Authority Accounting for 2023/24 and 2024/25 to reduce burdens on finance teams and auditors.

3.1.5 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. The 2020/21 audit is expected to be completed by the end of April 2024 and have been to the Statement of Accounts committee on the 28 February 2024 where the draft accounts were noted and delegated to the Strategic Director of Resources and Chair of the Statement of Accounts committee to sign off, following the closure of outstanding auditors queries.

4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 DLUHC and NAO Proposals (summary)

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 The proposals consisted of 3 stages:

- **Phase 1: Reset** involving clearing the backlog of historical audit opinions up to and including financial year 2022/23 by 30 September 2024.
- **Phase 2: Recovery** from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.

- **Phase 3: Reform** involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

4.1.3 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.

4.1.4 Auditing standards allow auditors to issue modified or disclaimed opinions in the event of a statutory backstop date, even in cases where little to no substantive testing has been carried out. This will apply to the 2021/22 and 2022/23 audits.

4.1.5 Following modified or disclaimed audit opinions, auditors will need to audit some of the opening balances in order to obtain assurance over the current year closing balances. Where the audit opinion is modified or disclaimed, the auditor does not have assurance over all historical figures that carry forward into the subsequent year. Opening balances can impact closing balances and movements in the current year. In some cases, where the auditor does not have assurance over opening balances, they would be unable to obtain assurance over the closing balances.

4.1.6 To prevent this recovery work causing delays to future audits, the proposals involve establishing new statutory backstop dates for all financial years up to and including 2027/28. These backstop dates would replace the existing deadlines in the Accounts and Audit Regulations 2015. These additional backstop dates are:

- Year ended 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

4.1.7 To reduce burdens on preparers and support auditors spreading the work to rebuild assurance over multiple periods CIPFA LASAAC consulted on 3 temporary changes to the Code of Practice on Local Authority Accounting for 2023/24 and 2024/25:

- Extending the override relating to the valuation and disclosure requirements for infrastructure assets
- Simplifying the revaluation of operational property and instead permitting the use of indexation until new requirements for revaluation of operational property are introduced in 2025/26 following HM Treasury's

thematic review of the valuation of non-investments assets in the public sector

- Reducing the requirements for disclosures around net defined benefit pension liabilities / assets for 2 years to align with those in FRS 102 (UK Generally Accepted Accounting Practice) rather than International Financial Reporting Standards (IFRS)

4.1.8 The potential introduction of backstop dates does not preclude the legal responsibilities for councils to publish unaudited accounts (by 31 May each year) and hold the 30-working day inspection period for local electors.

4.1.9 Further, longer term work, based on recommendations of the Redmond Review, is required to address the systemic challenges that have led to the current local audit backlog.

- CIPFA LASAAC's strategic plan includes a workstream looking at long-term reforms to financial reporting based on the needs of accounts users. CIPFA are in the process of relaunching the Better Reporting Group to inform this work.

- HM Treasury will be setting out in the first quarter of 2024 the outcome of the thematic review into the valuation of non-investment assets. CIPFA will continue to work with HM Treasury on how the changes apply to local bodies with the intention that they are introduced to the Code of Practice for Local Authority Accounting for 2025/26.

- The FRC intends to publish its Local Audit Workforce Strategy during 2024, following a presentation to the Local Audit Liaison Committee. The Strategy will include both short-term and longer-term recommendations to increase the supply of suitably skilled auditors, including for further changes to Key Audit Partner requirements.

4.2 The Council's Current Audit plan

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

- 30 April 2024 – 2020/21 Stevenage Statement of accounts (SOA)

The Draft SOA accounts for 2020/21 were approved by Statement of Accounts Committee on 28 February 2024. EY are in the process of completing the audit of that year by the deadline above.

4.2.2 EY responded to the DLUHC proposals in a letter to s151 officers dated 6 December 2023 (an update to an earlier letter dated 26 July 2023) in which EY outlined their approach to implementing the "draft" proposals (**Appendix A)**. For the council they are…

- To complete open audits – i.e. the completion of the 2020/21 audit

- To complete Value for Money reporting up to 2022/23 – this work has now been substantially completed for Stevenage BC and an item is on this agenda for Members to consider.

4.2.3 For the Statement of Accounts for the years 2021/22 and 2022/23 EY has indicated that their priority is to complete all outstanding audits that has already been started, and any not yet commenced audit work (for Stevenage 2021/22 and 2022/23), EY will look to issue disclaimer opinions based on limitation of scope and these will be brought to members in September 2024. This is despite the backstop date for 2021/22 and 2022/23 being set as September 2024 with the aim to conclude as many audits as possible nationally.

4.2.4 The Council's new auditor Azets have completed planning work on the 2023/24 accounts including interim audit in early March 2024. Their current audit plan is for the accounts to be audited and signed by 30 November 2024. This will be ahead of the deadlines currently proposed by DLUHC. The impact of unmodified opinions in the years up to 2023/24 are included in the audit plans of Azets.

4.3 **The Future**

4.3.1 CIPFA is consulting on and 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.

4.3.2 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.

4.3.3 The CIPFA consultation (closing date 28 March 2024) and further work planned by CIPFA to reduce accounts preparation and audit work for 2023/24 onwards will not have a positive impact for 2023/24 on the work of the finance team in closing the 2023/24 SOA as the consultation closes 28 March 2024 and then the findings will need to published, despite the 2023/24 unaudited publication date being 31 May 2024. .

4.3.4 The potential use of indexing as a proxy to external professional valuations of plant, property and equipment may have been beneficial but external valuers have already been engaged as part of the closedown 2023/24 planning process. Assets are valued as of 31 March 2024 which is 3 days after the consultation closes and before any results of the consultation are published. The guidance also says that Council's may want to index from their last published accounts which would be currently 2019/20, which maybe out of date.

The other proposed change is to simplify the pension entries in the SOA, the finance team would welcome this temporary change, however as above the timing of the outcome of the consultation is key.

4.3.5 There may be benefits in future years because of the work CIPFA are undertaking. At the time this report is written, the impact of any changes is unknown.

5 IMPLICATIONS

5.1 Financial Implications

5.1.1 The reduced audit work relating to the SOA for 2021/22 and 2022/23 should feed into reduced fees for those two years. How much that will equate to has yet to be agreed by the Public Sector Audit Appointments (PSAA). EY has done VFM work in relation to those years which adds complexity.

5.1.2 The impact on future audit fees should now be limited as issues arising from the backlog of audits is included in the audit planning of AZETS. The continuing demands on internal resources of managing multiple open years of accounts and more than one set of auditors will remain until at least September 2024.

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 for 2023/24 and for future years.

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 - EY Local Audit Market update Dec 2023
- Appendix B - Local Audit Delays Cross-System Statement
- Appendix C - Local Audit Delays – Joint Statement on update to proposal to clear the backlog (Feb 24)