

Title of Report	STATEMENT OF ACCOUNTS UPDATE	
Presented by	Cllr N Rushton Corporate Portfolio Holder	
Background Papers	NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL	Public Report: Yes
Financial Implications	There are no direct financial implications arising from this report.	
	Signed off by the Section 151 Officer: Yes	
Legal Implications	There are no direct legal implications arising from this report.	
	Signed off by the Monitoring Officer: Yes	
Staffing and Corporate Implications	There are no staffing and corporate implications arising from this report.	
	Signed off by the Head of Paid Service: Yes	
Purpose of Report	To provide Council with an update position regarding the completion and audits of the Council's Statement of Accounts.	
Recommendations	THAT COUNCIL NOTES THE GOVERNMENT'S REVISED TIMETABLES FOR ADDRESSING THE AUDIT BACKLOG IN THE SECTOR.	

1.0 BACKGROUND

- 1.1 A report was considered by Council on 22 February 2024 which provided details of the Government's proposals for addressing the audit backlog, as well as outlining the Council's position in respect of its Statement of Accounts.
- 1.2 Since that time, the Government has made further announcements regarding the proposals, details of which are set out in Section 2 below.

2.0 GOVERNMENT ANNOUNCEMENTS

- 2.1 On 30 July 2024, Jim McMahon, Minister for Local Government and English Devolution, announced details of measures to tackle the backlog in local audit, aimed to restore timely and high-quality financial reporting and audit processes for local authorities and other public bodies.
- 2.2 The announcement set out details of how the Government plans to introduce secondary legislation to set a series of backstop dates for clearing the audit backlog. The initial

backstop date is set for 13 December 2024 covering financial years up to and including 2022/23. Subsequent backstop dates are proposed, which are set out below:

- Financial year 2023/24 – 28 February 2025
 - Financial year 2024/25 – 27 February 2026
 - Financial year 2025/26 – 31 January 2027
 - Financial year 2026/27 – 30 November 2027
 - Financial year 2027/28 – 30 November 2028
- 2.3 The National Audit Office and Financial Reporting Council will issue guidance to support local bodies and auditors in meeting these deadlines. The Government will also conduct question and answer webinars to ensure all stakeholders understand the new requirements and can implement them effectively.
- 2.4 Due to the tight timelines, many audits may initially receive ‘disclaimed’ opinions, indicating no assurance. This measure is intended to expedite the clearing of the backlog while maintaining focus on quality. Auditors will be required to clearly explain the reasons for any modified opinions to mitigate potential concerns. A modified audit opinion can arise where there is an error, a disagreement over a particular matter or a lack of sufficient audit evidence in a particular area of the financial statements, including disclosures.
- 2.5 On 20 September 2024, Catherine Frances, the Director General for Local Government and Public Services, addressed a letter to Chief Executives, Chief Financial Officers, Local Authority Leaders, and Local Audit Firm Partners. The letter provides an update on the Government’s actions to address the significant backlog in local audits in England, a copy of which is shown at Appendix One.
- 2.6 It confirmed that the first backstop date is set for 13 December 2024, by which time all unaudited accounts up to and including the financial year 2022/23 must be cleared. This measure aims to refocus the audit system on more recent accounts, where assurance is most valuable.
- 2.7 To implement the proposals, the Government has laid two pieces of legislation in Parliament: the Accounts and Audit (Amendment) Regulations 2024 and a draft Code of Audit Practice 2024, on behalf of the Comptroller & Auditor General of the National Audit Office (NAO). The Accounts and Audit (Amendment) Regulations 2024 came into force on 30 September 2024. These regulations remove the current requirement to publish audited accounts for the financial year 2023/24 by that date. Instead, the deadline for the publication of audited accounts for FY 2023/24 will be extended to 28 February 2025, coinciding with the second backstop date. Furthermore, the regulations amend the date by which bodies must publish draft (unaudited) accounts to 30 June for the financial years 2024/25 to 2027/28.
- 2.8 The Government is aware that local bodies should not be unfairly judged based on disclaimed or modified opinions caused by the introduction of backstop dates. Auditors are expected to provide clear reasons for issuing such opinions to mitigate potential reputational risks for local bodies.
- 2.9 The Government is committed to a proportionate approach to rebuilding assurance once the backlog is cleared. All system partners, including the Financial Reporting Council (FRC), NAO, and auditors, are aware of this objective. Work is ongoing to further understand the financial impact of these measures and to take appropriate action.

3.0 The Council's Accounts Position

- 3.1 The Council published its draft unaudited Statement of Accounts 2021/22 on 26 June 2024 which were subsequently approved by Audit and Governance Committee on 25 September 2024 (minute ref.83) At the time of writing, the publication of the draft unaudited Statement of Accounts 2022/23 is imminent.
- 3.2 At its meeting on 9 December 2024, the Audit and Governance Committee will be asked to sign-off the unaudited Statement of Accounts 2022/23. The Council's external auditors will provide an opinion on the accounts, as well as a value for money opinion.
- 3.3 The Council is working closely with its new auditors Azets, to determine timescales for the completion of the Statement of Accounts 2023/24.

4.0 Recognition of Potential Criticism

- 4.1 The Government understands that the introduction of statutory backstop dates, which may result in the issuance of modified or disclaimed audit opinions, could lead to reputational risks for local authorities. These opinions might be necessary when audits cannot be completed by the set deadlines. The Government has emphasised that local bodies should not be unfairly judged based on these opinions, as the delays are beyond their control. Auditors are expected to provide clear reasons for issuing such opinions to mitigate potential reputational damage.

5.0 Importance of Rebuilding Assurance

- 5.1 It is crucial to understand that the local government sector is now entering a period of rebuilding assurance. The backlog in local audits has created a significant challenge, and the Government's measures aim to reset and recover the local audit system. This period of rebuilding involves several key steps:
1. **Phased Approach:** The introduction of multiple backstop dates up to the financial year 2027/28 allows for a gradual rebuilding of assurance over several audit cycles. This phased approach helps manage the workload and ensures that the system can progressively return to timely audits.
 2. **Guidance and Support:** The NAO and the FRC have issued specific guidance to support auditors in meeting their responsibilities. This guidance emphasises the need for a proportionate approach to rebuilding assurance, ensuring that audits are completed in a timely manner while maintaining professional standards.
 3. **Collaboration and Communication:** Effective collaboration among local bodies, auditors, and key stakeholders is essential. The Government has planned a series of communication and engagement events, including webinars, to facilitate ongoing dialogue and support throughout this period.
 4. **Legislative Changes:** The Accounts and Audit (Amendment) Regulations 2024 and the draft Code of Audit Practice 2024 provide the legislative framework needed to implement these changes. These regulations and codes are designed to help local bodies comply with new deadlines and requirements, ensuring a smoother transition during this rebuilding phase.

Policies and other considerations, as appropriate	
Council Priorities:	A well-run council
Policy Considerations:	None.
Safeguarding:	None.
Equalities/Diversity:	None.
Customer Impact:	None.
Economic and Social Impact:	None.
Environment, Climate Change and zero carbon:	None.
Consultation/Community Engagement:	The Council has responded to Government consultations in respect of backstop dates.
Risks:	<ul style="list-style-type: none"> - Loss of public trust and confidence in the Council's financial management and governance. - Reduced transparency and accountability to the Council's stakeholders, including taxpayers, service users, creditors, grant providers and regulators. - Increased scrutiny and intervention from external bodies, such as the Department for Levelling Up, Housing and Communities and Local Government, the National Audit Office, the Local Government Association and the Public Sector Audit Appointments. - Potential legal challenges or claims from aggrieved parties who may rely on the accuracy and timeliness of the financial information in the Statement of Accounts. - Additional costs and resources required to resolve the audit issues and complete the audit process.
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