

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

**AUDIT AND GOVERNANCE COMMITTEE – MONDAY, 9
DECEMBER 2024**



Title of Report	AUDIT DELAY BACKLOG UPDATE	
Presented by	Paul Stone Director of Resources	
Background Papers	Statement of Accounts Update - Council 22 February 2024 Statement of Accounts Update - Council 5 November 2024	Public Report: Yes
Financial Implications	There are no financial implications arising from this report.	
	Signed off by the Section 151 Officer: yes	
Legal Implications	The Accounts and Audit (Amendment) Regulations 2024 were laid in parliament on 9 September 2024 and came into force on 30 September 2024 to allow implementation of the backstop dates as set out in paragraph 1.6 below.	
	Signed off by the Monitoring Officer: yes	
Staffing and Corporate Implications	There are no staffing implications arising from this report.	
	Signed off by the Head of Paid Service: yes	
Purpose of Report	To provide an update on the Government's proposals to address the backlog of local audits.	
Recommendations	THAT AUDIT AND GOVERNANCE COMMITTEE NOTES THE POSITION IN RESPECT OF LOCAL AUDIT DELAYS.	

1.0 BACKGROUND

- 1.1 This report is further to the reports considered at the Council meetings on 22 February 2024 and 5 November 2024 and is to update the Committee with details of the Government's proposals to address the backlog of audits.
- 1.2 There are significant issues across the local authority financial reporting and local audit system. Public Sector Auditor Appointments (PSAA) has published its Contract Monitoring Data Pack: Quarter 2 for 2024/25. As of 30 September 2024, a total of 518 audit opinions were delayed for the financial years 2018/19 to 2022/23. The delays are in the context of a number of challenges facing the local authority financial reporting and local audit system.

- 1.3 The backlog of local audits in England has reached critical levels, prompting the Government to take decisive action. Recent consultations and webinars have highlighted the steps being taken to address this issue, aiming to restore timely auditing practices and enhance accountability.
- 1.4 The reasons for the delays can be summarised as below. Members received a detailed letter from the Director of Resources in a letter sent to Audit and Governance Committee in May 2024.
- An enhanced regulatory focus on balance sheet items where there is a degree of estimation.
 - A lack of capacity within the local audit firms to complete the work to deadlines, potentially driven by the low fee rates, capacity pinch points such as the audit of the NHS accounts and challenges in recruiting.
 - Similar capacity issues within local authorities which has impacted on the quality of the working papers and accounts prepared.
- 1.5 The former Government proposed legislative changes which would require local authorities to finalise all their outstanding audited financial statements by 30 September 2024, bringing audits up to date for financial years 2015/16 through 2022/23. This is known as the 'backstop date' and was a first step in clearing the backlog and restoring the timeliness of audit opinions.
- 1.6 On 30 July, the Minister of State for Housing, Communities and Local Government (MHCLG), Jim McMahon MP, laid a written ministerial statement in Parliament setting out proposals to tackle the local audit backlog in England.
- 1.7 The measures proposed setting a statutory 'backstop' date of 13 December 2024 to clear the backlog of unaudited accounts up to and including financial year 2022/23, and for five further backstop dates up to and including financial year 2027/28, to allow assurance to be rebuilt over several audit cycles. For subsequent financial years (2023/24 to 2027/28), the deadlines have been set as follows:
- 2023/24: 28 February 2025
 - 2024/25: 27 February 2026
 - 2025/26: 31 January 2027
 - 2026/27: 30 November 2027

2.0 LEGAL REQUIREMENTS

- 2.1 On 9 September, the Government laid in Parliament two pieces of legislation which would give effect to the backstop dates:
- the Accounts and Audit (Amendment) Regulations 2024 and,
 - on behalf of the Comptroller & Auditor General of the National Audit Office, a draft Code of Audit Practice 2024.
- 2.2 The regulations also amended the publication date of draft (unaudited) accounts for financial years 2024/5 to 2027/28. The period for the exercise of public rights for category 1 authorities, which includes larger local authorities such as district councils,

must commence on or before the first working day of July. This means that the date authorities should publish their draft accounts will be 30 June.

- 2.3 The draft Code of Audit Practice has been laid in Parliament, as required by Section 5(5) of Schedule 6 to the Local Audit and Accountability Act 2014. Subject to Parliament’s approval, the Code will come into force in late autumn 2024.

3.0 SYSTEM PARTNERS

- 3.1 Organisations involved in the regulation and oversight of local body financial reporting and audit include the Chartered Institute of Public Finance and Accountancy (CIPFA), the Financial Reporting Council (FRC), the Institute of Chartered Accountants in England and Wales (ICAEW), the Ministry of Housing, Communities and Local Government (MHCLG), the National Audit Office (NAO) and Public Sector Audit Appointments (PSAA). These ‘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.

4.0 AUDIT OPINIONS

- 4.1 The objective of the audit under auditing standards is to obtain sufficient evidence to conclude that there is reasonable assurance that the financial statements as a whole are free from material misstatement. Where an auditor is unable to gain enough evidence or is unable to reach this conclusion based on the evidence gathered, they are required to issue a modified opinion. Auditors will disclaim their opinion where they lack the evidence to support an opinion.
- 4.2 There are four opinions that an auditor may give on completion of their audit work. These are:

Audit Opinion	Description
Unmodified	This is the best possible outcome. It means the auditor obtains sufficient evidence to support a view that the financial statements are materially accurate and fairly represent the audited body’s financial situation.
Qualified	This is problematic. The auditor has material concerns either because of a lack of evidence or evidence which suggests material error. However, the effect on the financial statements is contained in specific areas and is not widespread.
Disclaimer of opinion	This is more problematic than being qualified, reflecting a lack of evidence which means that the auditor cannot provide an opinion. The possible effects on the financial statements of undetected misstatements could be both material and widespread.
Adverse opinion	Normally considered the worst-case scenario. The auditor does have sufficient evidence, but it suggests that material misstatements exist that undermine the reliability of the financial statements as a whole.

5.0 GUIDANCE ISSUED BY THE NAO AND FRC

- 5.1 The NAO has produced the ‘Local Audit Reset and Recovery Implementation Guidance’ (LARRIG) to assist auditors in meeting their responsibilities under the Code of Audit Practice. The FRC has issued an accessible guide to explain what the

recovery process may look like in practice. This is particularly aimed at finance teams in local authorities elected members and other interested parties who deal with modified or disclaimed audit opinions primarily resulting from statutorily imposed backstop dates.

6.0 REBUILDING ASSURANCE

6.1 The LARRIG contains guidance for auditors about the processes to follow to rebuild assurance over opening balances and when to communicate with those charged with governance. The process of rebuilding assurance will be a difficult process for both auditors and preparers.

7.0 SUMMARY

7.1 The system partners have recently held webinars to highlight the approach to be taken. The Government has an ambition to make significant process in addressing the backlog in the next two years.

7.2 The Government is clear that local authorities should not be unfairly judged based on disclaimed or modified opinions, caused by the introduction of the backstop dates that are largely beyond their control. Auditors are expected to provide clear reasons for the issuing of such opinions to mitigate the potential reputational risk that local authorities may face.

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/Tenant 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

	<p>Association and the Public Sector Audit Appointments.</p> <ul style="list-style-type: none">- 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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