

Meeting: Audit Committee

Date: 27th March 2024

Wards affected: All Wards in Torbay

Report Title: Addressing the Audit Backlog in England: Consultation

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1. Purpose of Report

- 1.1 To provide an update on the recent Department for Levelling Up, Housing & Communities (DLUHC) consultation which closed on 7 March 2024. The consultation sought views on amending the Accounts and Audit Regulations 2015 as part of a package of cross-system measures to clear the backlog of audits and to put the system on a sustainable footing.
- 1.2 The council responded to the consultation and the consultation document published by DLUHC is included in appendix 1 for information.

2. Reason for Proposal and its benefits

- 2.1 This an update report which informs the committee of the proposals to address the ongoing challenges in respect of the audit backlog which is a national problem.
- 2.2 The report also gives the committee an indication of the impact on the delivery of the outstanding audit of accounts for the council, the potential outcomes and timescales for completion of the audits.

3. Recommendation(s) / Proposed Decision

- 3.1 That Audit Committee note the consultation response included in appendix 2.

Appendices

Appendix 1: Addressing the local audit backlog in England: Consultation

Appendix 2: Torbay Council response to consultation

Supporting Information

1. Introduction

- 1.1 The backlog in the publication of audited accounts of local bodies in England has grown to an unacceptable level.
- 1.2 In July 2023, the Minister for Local Government published a cross system statement setting out proposals to tackle the local audit 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.
- 1.3 A significant number of local audits remain outstanding. The number of outstanding opinions peaked at 918 on 30 September 2023. As at 31 December 2023, the backlog of outstanding audit opinions stood at 771.

2. Addressing the Audit Backlog

- 2.1 To clear the backlog of historical accounts and ‘reset’ the system, the Department for Levelling Up, Housing and Communities proposes putting a series of dates in law (the “backstop date”) by which point local bodies would publish audited accounts for all outstanding years.
- 2.2 These proposals have now been published for consultation with the Council’s response set out in Appendix 1. The deadline for submission was the 7 March 2024, the councils’ submission was made within the deadline.
- 2.3 The consultation comprises of the following:
 - DLUHC’s intentions for amending the Accounts and Audit Regulations including a joint statement providing context and explanation of the proposals and how their various elements are intended to interact;
 - NAO intentions for amending the Code of Audit Practice;
 - CIPFA LASAAC proposals for temporary changes to the Accounting Code to reduce burdens on those who prepare and audit local body accounts (not yet issued).

2.4 The proposed measures consist of three phases:

Phase 1: Reset

Legislating for a statutory backstop date for the publication of audited financial statements up to and including financial year 2022/23.

Auditors should issue opinions based on the work they have completed by the backstop date – which may lead to a modified or qualified opinion – and are expected to prioritise to ensure that their audit work provides as much assurance as possible ahead of the date.

Phase 2: Recovery

A series of statutory backstop dates covering the financial years 2023/24 to 2027/28 to allow auditors to rebuild assurance over a five-year period of local bodies' financial information, which has been subject to a modified opinion as part of the reset.

To reduce burdens on preparers and auditors, CIPFA will make temporary changes to the Code of practice on Local Authority Reporting.

Phase 3: Reform

The FRC, alongside DLUHC and other system partners, will continue to work to address systemic challenges in the local audit system and embed timely financial reporting and audit.

2.5 Details of the proposals for each phase is provided below:

Phase 1: Reset

The key elements within the reset phase of the proposal are as follows:

- (a) The backstop dates will be deadlines by which authorities must publish audited accounts, and auditors would be required to issue an opinion based on the work they have been able to complete to enable authorities to meet the publication deadline. The proposed date for accounts up to 2022/23 is 30 September 2024.
- (b) Auditing standards already provide for the impact of backstop dates. System partners will provide clear explanations of what the different types of audit opinions mean, especially to clarify that modified / disclaimed opinions attributable to the backstop date do not necessarily indicate significant financial reporting or financial management issues in the audited body.
- (c) Reporting on VFM arrangements will remain a high priority, focussing on enabling auditors to produce a single commentary on VFM arrangements covering all outstanding periods for 2022/23 and earlier years.
- (d) There are expected to very limited exemptions (if any) for either authorities or auditors.

(e) The Government indicate an intention to publish a list of local bodies and their auditors which do not meet the backstop date.

2.6 There does not appear to be any minimum expectations for the work that auditors would need to carry out at individual authorities, so that there would be a minimum level of assurance provided by the auditor.

The Joint Statement promises an expectation that auditors will complete as much audit work as possible by the backstop date. The promise is also made that the NAO, working with the FRC, will produce statutory guidance and any additional advice needed to ensure the reset works as intended.

Phase 2: Recovery

The acknowledged problem of the Reset phase is that for, authorities impacted by the backstop, auditors will not have the assurance from closing balances that would normally support opening balances for 2023/24. Auditors will therefore need to perform sufficient testing on opening balances to rebuild assurance.

To prevent this recovery work causing delays to future audits, the proposals involve further backstop dates for all years up to and including 2027/28, in consideration that recovery work may take a number of years as modified opinions/disclaimers are rolled forward. The backstop dates within the Recovery phase are proposed as follows:

- **2023/24:** 31 May 2025
- **2024/25:** 31 March 2026
- **2025/26:** 31 January 2027
- **2026/27:** 30 November 2027
- **2027/28:** 30 November 2028

For Value for Money (VFM) it is proposed that the Audit Code identifies that auditor's Annual Report is issued in draft to those charged with governance by 30 November each year (from 2023/24 onwards), irrespective of the position on the audit. This will enable auditors to report the majority of the VFM arrangements work on a timely basis.

Phase 3: Reform

There are no firm proposals put forward at this stage for Phase 3, but the government has made the following commitment:

‘A commitment to establishing the Audit, Reporting and Governance Authority as system leader for local audit when Parliamentary time allows;

- CIPFA LASAAC’s has a workstream looking at long-term reforms to financial reporting based on the needs of accounts users;
- HM Treasury will shortly be setting out the outcome of the thematic review into the valuation of non-investment assets;
- the FRC intends to publish its Local Audit Workforce Strategy during 2024, including plans to increase the supply of suitably skilled auditors, including changes to Key Audit Partner requirements;
- the government has successfully procured the development of a Local Audit Qualification which will shortly be launched by CIPFA;
- CIPFA and the Local Government Association are working on a workforce strategy for local government finance teams.

3. Options under consideration

3.1 Not applicable

4. Financial Opportunities and Implications

4.1 There are no direct financial implications arising for the council as a result of this report.

5. Legal Implications

5.1 The addressing the local audit backlog in England: consultation 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

6. Engagement and Consultation

6.1 Not applicable

7. Purchasing or Hiring of Goods and/or Services

6.1 Not applicable

8. Tackling Climate Change

8.1 Not applicable

9. Associated Risks

9.1 Treasury Management associated risks are managed by compliance with the CIPFA code.

10. Identify the potential positive and negative impacts on specific groups

10.1

| | Positive Impact | Negative Impact & Mitigating Actions | Neutral Impact |
|--|-----------------|--------------------------------------|----------------|
| Older or younger people | | | X |
| People with caring Responsibilities | | | X |
| People with a disability | | | X |
| Women or men | | | X |
| People who are black or from a minority ethnic background (BME) (Please note Gypsies / Roma are within this community) | | | X |
| Religion or belief (including lack of belief) | | | X |
| People who are lesbian, gay or bisexual | | | X |
| People who are transgendered | | | X |
| People who are in a marriage or civil partnership | | | X |
| Women who are pregnant / on maternity leave | | | X |
| Socio-economic impacts (Including impact on | | | X |

| | | | |
|---|--|--|---|
| child poverty issues and deprivation) | | | |
| Public Health impacts (How will your proposal impact on the general health of the population of Torbay) | | | X |

11. Cumulative Council Impact

11.1 Not applicable

12. Cumulative Community Impacts

12.1 Not applicable