



NORWICH City Council

Committee name: Audit

Committee date: 19/03/2024

Report title: **DLUHC Consultation Response – Addressing the Local Audit Backlog in England**

Portfolio: Councillor Kendrick, Cabinet member for resources

Report from: Interim Chief Finance Officer (S151 officer)

Wards: All wards

OPEN PUBLIC ITEM

Purpose

To provide members with details of the response submitted to the recent DLUHC Consultation entitled Addressing the Local Audit Backlog in England.

Recommendation:

It is recommended that the Audit Committee notes:

- (1) the details of the proposed approach to addressing the local audit backlog in England;
- (2) the response submitted by Norwich City Council.

Policy framework

The council has five corporate priorities, which are:

- People live independently and well in a diverse and safe city.
- Norwich is a sustainable and healthy city.
- Norwich has the infrastructure and housing it needs to be a successful city.
- The city has an inclusive economy in which residents have equal opportunity to flourish.
- Norwich City Council is in good shape to serve the city.

This report meets the Norwich City Council is in good shape to serve the city priority.

Report Details

1. Over a number of years, a backlog of incomplete statements of accounts and audit opinion has been emerging across the whole of local government in England. The reasons behind this backlog are complex and reflective of circumstances both nationally and locally, but in summary they fall within two broad categories:
 - a) Local authorities being unable to publish their Statements of Account.
 - b) External auditors having insufficient resources to complete the required audit work.
2. This backlog has impacted local authorities of all sizes and types, including Norwich City Council, where two years Statements of Account have yet to receive an audit opinion, as a consequence of external auditors having insufficient resources to complete the audits.
3. The Council has responded to all audit queries relating to 2021/22 and 2022/23 with which it has been provided by Ernst & Young (EY). The items primarily relate to the Value for Money elements of the audit process, as the Government is keen that the financial resilience of authorities remains a priority.
4. The majority of external auditors in local government are now appointed by the Public Sector Audit Appointments (PSAA) on behalf of local authorities that sign-up to their service. The PSAA was appointed by the Government as “an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the [Local Audit and Accountability Act 2014](#) and the [Local Audit \(Appointing Person\) Regulations 2015](#).”¹ in 2016 and as such the PSAA “...is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme.”²
5. The PSAA website sets out its role in the following manner³,

PSAA has a responsibility to deliver the following objectives:

 - appointing auditors to all relevant authorities;
 - setting scales of fees, and charging fees, for the audit of accounts of relevant authorities and consulting with relevant parties in relation to those scales of fees;
 - ensuring effective management of contracts with audit firms for the delivery of consistent, quality and effective audit services to relevant authorities;
 - ensuring that public money continues to be properly accounted for and protected;
 - being financially responsible having regard to the efficiency of operating costs and transparently safeguarding fees charged to audited bodies; and
 - leading its people as a good employer, ensuring that it continues to be fit-for-purpose; motivating and supporting its staff; and communicating with them in an open, honest and timely way.

6. Norwich City Council, along with the majority of other local authorities in England, signed up to the PSAA service in the expectation of achieving value for money and effective control over the delivery and cost of external audit services. To that end, Norwich City Council have continued to publish draft Statements of Accounts in line with the statutory deadlines set by the Government and prepared working papers to support the audit process. Unfortunately, the audits of financial years 2021/22 and 2022/23 remain outstanding through no fault of Norwich City Council.
7. It has been well reported that local authorities are experiencing financial challenges and difficulties, as reflected by the number of Section 114 notices served and the range of contributory factors that have contributed to these circumstances, ranging from increasing demand for services, through the impact of changes in local government funding, through to poor investment decisions.
8. Norwich City Council has documented the financial management challenges it has faced as part of the development of its Medium-Term Financial Strategy, but regardless of these challenges it has prepared draft statements in a timely manner, recognising the importance of public accountability and the demonstration of effective financial control and the achievement of value for money.
9. Over time it has become apparent that audit firms have been struggling to resource audits, reflective of a range of factors including funding, skills, capacity and the increasing complexity of the statements and the underlying accounting standards that need to be adhered to.
10. The volume of outstanding audits combined with the increasing incidence of local authorities seeking additional financial support from Government resulted in a [Cross-system Statement](#) being published in July 2023 (Appendix A), reflecting plans to address the situation, which has now been followed by a [Joint Statement](#) (Appendix B) about the proposed resolution of the issues and the publication of an associated [consultation](#) (Appendix C).

Key Elements of the Proposed Way Forward

11. The proposed way to address the backlog comprises three phases, as follows,
 - a) Phase 1: Reset involving clearing the backlog of historical audit opinions up to and including financial year 2022/23 by 30 September 2024;
 - b) 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;
 - c) Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

Phase 1

12. Phase 1 requires local authorities to ensure that by 30 September 2024 they have published audited accounts for financial years 2015/16 through to 2022/23, however since the 30 September is also the deadline for auditors to issue their opinions, it is clear that there is a critical dependency and need

for joint working to achieve a productive outcome. This in turn presumes that the resources and capacity required to meet this deadline are made available, whether by the local authority or the auditors.

13. If it proves impossible to complete these tasks by 30 September, it is proposed that a “disclaimer” opinion will be the default outcome. A disclaimer opinion means that there is insufficient assurance and/or evidence for a definitive opinion to be determined. In such an event, it is proposed that the disclaimer opinion would set out the reasons why a definitive opinion cannot be made.
14. The Joint Statement document (Appendix B) makes clear that communication of a disclaimer opinion should explain the meaning and clarify that local authorities should not be unfairly judged if the opinion is a result of factors outside of their control.
15. In this context, Norwich City Council have completed their responsibilities by preparing Statements of Account for both 2021/22 and 2022/23 but to date EY, the council’s external auditors, have not been able to devote the necessary resources to undertake or complete the audits to date. Currently there is no indication that EY will have these resources available to complete the audits by 30 September. There is therefore a significant risk that Norwich City Council will receive a disclaimer opinion for both of these financial years due to circumstances outside of their control.

Phase 2

16. Further provision of backstop dates has been proposed for the publication of future years audited accounts, as a means of preventing a reoccurrence of the backlog. The Joint Statement makes it clear that this is to enable auditors to rebuild assurance over several audit cycles, meaning that there will continue to be a risk of modified or disclaimed audit opinions for several years.
17. There is a good working relationship between Norwich City Council and EY, but it remains unclear whether EY will be able identify the appropriate resources to meet these revised timelines. Officers remain committed to meeting the deadlines set for the production of draft statements ready for the audit process, as has been achieved in the past, but have indicated that by extending the timescale for production of the draft statements there could be a benefit to the whole process, i.e. if the timescale was extended from the current two months to three months, the quality of the statements and associated working papers could also be enhanced, which in turn would make the audit process more straightforward.

Phase 3

18. Phase 3 recognises that further work is required to update the system to ensure that it is sustainable going forwards. However, that work has yet to be completed and consequently the consultation did not cover this aspect of the recovery process.

Consultation

19. The consultation was open for a period of 4 weeks, closing on 7th March

2024. A draft response was compiled reflecting the professional views of officers and subsequently shared with the Director of Finance/S151 Officer and the Chair of the Audit Committee, prior to being submitted on behalf of the council. The responses submitted are attached at Appendix D.

Implications

Financial and Resources

20. There are no specific financial implications from this report.

Legal

21. There are no specific legal implications arising from this report.

Statutory Considerations

Consideration:	Details of any implications and proposed measures to address:
Equality and Diversity	Not applicable for this report.
Health, Social and Economic Impact	Not applicable for this report.
Crime and Disorder	Not applicable for this report.
Children and Adults Safeguarding	Not applicable for this report.
Environmental Impact	Not applicable for this report.

Risk Management

Risk	Consequence	Controls Required
Possible reputational damage should the council receive a modified or disclaimed opinion due to circumstances outside of its control.	Public confidence in the accountability, transparency and good governance of the council could be reduced.	The council will need to ensure that the published audit opinion is clear about where responsibility for a modified or disclaimed opinion rests.

Other Options Considered

Not applicable for this report.

Reasons for the decision/recommendation

The committee is duty bound to discharge its duties.

Background papers:

None

References:

- ¹ [About us - PSAA](#)
- ² [About us - PSAA](#)
- ³ [What we do - PSAA](#)

Appendices:

Appendix A – Cross System Statement

Appendix B – Joint Statement

Appendix C – Consultation

Appendix D – Consultation Response

Contact officer: Alistair Rush, Interim Deputy Director of Finance

Email address: alistairrush@norwich.gov.uk



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Appendix A – Cross System Statement



Department for Levelling Up,
Housing & Communities

Clive Betts MP

Chair, Levelling Up, Housing and Communities
Committee

Lee Rowley MP

*Parliamentary Under-Secretary of State for Local
Government and Building Safety*

***Department for Levelling Up, Housing and
Communities***

Fry Building
2 Marsham Street
London
SW1P 4DF

14 July 2023

Dear Clive,

Thank you for inviting me to give evidence on 17 July to the Levelling Up, Housing and Communities Committee inquiry into Financial Reporting and Audit in Local Authorities. A strong, well-functioning local audit system is essential to maintain public confidence in transparent and accountable local democracy. Local bodies must be able to plan, manage their services and base their decision-making on accurate, reliable, up-to-date and timely financial information.

In advance of the evidence session, I would like to update you on work since Spring this year that my department, along with Financial Reporting Council colleagues, has undertaken on proposals to address the significant backlog of local government audits in England and develop a sustainable solution to the timeliness challenges which the local audit sector has faced in recent years. The attached paper derives from this work and outlines clear proposals to resolving these issues, which have been agreed in principle with key partners in the local audit system.

While the proposals will be subject to further work and engagement across the system over the Summer, this constitutes significant further progress. The intention is that, subject to the conclusion of the appropriate details, agreed changes will be implemented by the end of this year.

This letter supplements the written evidence submitted to the Committee in April on our broader programme of reform across the local audit system.

I look forward to discussing these issues further with you and the Committee next week. This letter and the accompanying statement will also be deposited in the House library.

Yours sincerely,

LEE ROWLEY MP

**Parliamentary Under-Secretary of State for
Local Government and Building Safety**

LOCAL AUDIT DELAYS – CROSS-SYSTEM STATEMENT ON PROPOSALS TO CLEAR THE BACKLOG AND EMBED TIMELY AUDITS

Introduction

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. Since November 2020, the Department for Levelling Up, Housing and Communities (DLUHC) has implemented a wide range of measures to improve timeliness and the wider local audit system as part of its response to Sir Tony Redmond's *Independent Review of local financial reporting and audit*.¹ In addition, in December 2021 DLUHC published a further package of measures to improve local audit delays, which went beyond Sir Tony Redmond's original recommendations.
2. We recognise that fuller action is required. This note sets out a range of broad proposals and actions, agreed in principle with key partners across the local audit system, to address the backlog of local audits in England. Local audit is both a vital and independent source of assurance and a key element of the checks and balances within the local accountability framework, and we must collectively ensure that the local audit system is on a strong and sustainable footing for the future. There exists a shared resolve and commitment amongst the organisations referenced in this document to take action now to tackle the exceptional circumstances of the current backlog and ensure a return to timely delivery of high-quality financial reporting and external audit in local bodies,² in order to provide the vital accountability and assurance needed for local people and their elected representatives.
3. Further engagement and cross-system work will be needed this Summer to finalise the proposals outlined in this statement. Following this, we anticipate changes to the relevant codes and standards will be made in time for implementation to begin by the end of December 2023.

Context

4. 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. This is clearly unacceptable. There is consensus across the system that there is now no alternative but to take collective action to resolve the backlog. Restoring timely audit and financial reporting will 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.
5. DLUHC, working with the Financial Reporting Council (FRC) as it prepares to commence the shadow system leadership role, 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.

ADDRESSING THE LOCAL AUDIT BACKLOG: PROPOSITION

6. Working together, the National Audit Office (NAO) and DLUHC intend to set a series of statutory deadlines for accounts preparers and auditors to clear the backlog of delayed

¹ [Local authority financial reporting and external audit: independent review - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/local-authority-financial-reporting-and-external-audit-independent-review)

² Local bodies include councils but also other relevant authorities as defined under the Local Audit and Accountability Act (2014)

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, financial reporting as well as financial resilience, governance and risk. Where necessary, it is intended that auditors would need to limit their opinion and make clear to the users of the accounts those aspects or sections of a set of accounts which are not supported by sufficient, appropriate evidence, and which the auditor is 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) are an important mechanism for assurance and for identifying areas of concern at an early stage, allowing councils to address them. Under these proposals this will remain a high priority.

7. These deadlines may result in qualifications and disclaimers of opinion in the short term for a number of local bodies. We believe that these steps are necessary to reset the system and to restore the assurance which is provided by timely annual audits. Whilst further detailed work is needed across the Summer, including to mitigate any unintended consequences of these measures, there is broad consensus from organisations referenced in this document that without any action being taken, the delays will continue for a number of years, and in that scenario, when the delayed audits are reported, they will offer little if any assurance about the current position. In the meantime, there is a heightened risk of auditors not identifying and reporting on important, more current issues. We must ensure the capacity of the sector is focused on the most recent position as soon as possible.
8. Where an 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. The Department is seeking to ensure that work to clear the backlog of accounts takes place within a limited window of time. It will therefore 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. An important consideration will be ensuring there is appropriate assurance in place for opening balances for the start of the new contract period for the 99% of local bodies which have opted in to Public Sector Audit Appointments Limited's (PSAA) scheme.

Commitments by system partners

9. The **National Audit Office** is considering the development of a replacement Code of Audit Practice to give effect to the changes outlined above. This would include a requirement on auditors to issue the audit opinion for specific financial years in line with new statutory deadlines set out in legislation for the relevant authority. Auditors' statutory requirement to report on value for money arrangements would remain unchanged. Auditors would also be expected to facilitate a smooth transition during the contract handover period for the 2023/24 contracts. As part of this work the NAO will be establishing a specific Programme Board to provide the necessary governance to deliver a replacement Code of Audit Practice by the end of the year including the necessary consultation and Parliamentary process.
10. Alongside this **DLUHC** is considering whether legislative change is needed to:
 - a. set new statutory deadlines for local bodies to publish accounts to mirror the proposed changes to the Code of Audit Practice.

- b. address any knock-on effects of the proposals which may impact the audit of opening balances within the accounts for future years.
11. Under these proposals the **Chartered Institute of Public Finance and Accountancy (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.
 12. To support these changes, the **Financial Reporting Council (FRC)** will publish guidance on its regulatory approach to Major Local Audits³ (MLAs), articulating the importance of timeliness and compliance with statutory deadlines as an additional measure of audit quality. It will work with the NAO on the development of guidance where necessary to assist with the application of standards for these audits, including the need to meet the statutory dates. Local auditors will be required to have regard to and follow the NAO's guidance. The FRC's inspection activity would review auditors' compliance with auditing standards, the Code and relevant NAO guidance.
 13. The FRC will use its broader supervisory role to ensure commitment from audit firm leaders to implement the policy measures and the steps that are being taken to meet the timetables for concluding historical audits. This route will be used to escalate any pervasive concerns the FRC has gathered on an audit firm's resilience, risk management and ability to deliver timely local audits and address their part of the backlog.
 14. Under these proposals the FRC intends not to undertake routine audit quality reviews and inspections of MLAs for the historic audits up to the end of the 2021/22 financial year (though FRC will continue to inspect audit firms which deliver NHS audits). FRC will only conduct quality review inspections for historical audits where there is a clear case in the public interest to do so. The FRC will suspend the decision on the timing, scope, and coverage of inspections for the 2022/23 audits until there is confirmation of any revision to the NAO's Code of Audit Practice.
 15. The FRC will need to ensure that its enforcement function is still able to appropriately gather information and evidence to determine whether, in the public interest, there should be an investigation into accounting or auditing issues where there are significant financial and governance failures.
 16. The **Institute of Chartered Accountants in England and Wales (ICAEW)** is responsible for the inspection and regulation of non-Major Local Audits.⁴ The ICAEW proposes that its regulatory response to these measures will be consistent with the planned action of the FRC, as set out above.
 17. **PSAA** is responsible for appointing an auditor and setting scales of fees for local bodies that have chosen to opt-in to its national scheme. A small number of authorities are not opted-in to PSAA's scheme and appoint their own auditors independently. Under these proposals, PSAA anticipates that it will need to determine final fees for opted-in authorities for the historic periods on a case-by-case basis. Its guiding principle in this will remain that if auditors have worked in good faith to meet the requirements of the Code of Audit Practice in place at the time the work was conducted, then they are due the appropriate fee for the

³ An audit of a local government body or NHS body with income or expenditure of at least £500m or a local authority pension scheme with at least 20,000 members or gross assets in excess of £1bn.

⁴ ICAEW's Quality Assurance Department (QAD) is responsible for reviewing local audits conducted under the Local Audit and Accountability Act that are not major local audits.

work done, and the body is due to pay the applicable fee, including where there is a disclaimer or qualified opinion. Conversely, if an auditor has collected audit fees in part or in full, and a change in requirements means that the total work done represents less than the fee already collected, then the auditor must return the balance and refund the body the appropriate amount – this ensures that the bodies pay only for work that has been done.

18. A number of **audit firms** with responsibility for local audits from 2015 have been a party to the development of these proposals, and under these plans would work with DLUHC, FRC and NAO on their professional commitment to the steps they would take to ensure successful implementation of the measures to clear the backlog. Such a commitment, underpinned by the auditors' professional duty to be independent and deliver consistent high-quality and timely work, would be welcomed by all parties within the system. Audit firms will of course need to operate in accordance with any changes to the Code of Audit Practice as well as continuing to fulfil their existing statutory duties.
19. **Chief Executive Officers, Section 151 Officers and Audit Committees** also play a critical role in delivering high-quality financial reporting. DLUHC will continue to engage Section 151 Officers and the wider sector as proposals are further developed over the Summer.
20. Under these proposals, Section 151 Officers will be expected to work with Audit Committee members (or equivalent) to approve the final accounts by the statutory deadline in order for the audit opinion to be issued at the same time. In addition, Chief Executives, Section 151 Officers, local authority Leaders and Chairs of Audit Committees should alert the auditor to significant organisational risks, critical decisions and changes in financial sustainability, and also where they have identified concerns on systems of financial control, financial reporting and capacity and capability to produce high-quality financial reporting on time. Where there are significant resilience risks, they should alert the auditor of the options, choices and alternatives that are being considered.
21. We will work with the **Local Government Association (LGA)** over the Summer, including to engage its members on these proposals. Under these proposals the LGA will support councils to understand their role in relation to external audit and that of auditors, and help councils communicate those messages to elected members and officers as necessary. The Department will also continue to engage with Section 151 Officers and treasurers' societies, in addition to representatives from the range of authorities impacted by these proposals.

LONGER TERM CHANGE

22. In order to prevent a recurrence of the backlog, it is essential that underlying issues which may have driven delays are addressed. Work will therefore progress with a number of organisations including the FRC, the NAO, CIPFA and the LGA to devise an escalated reporting framework for audit firms and local bodies to resolve issues ahead of statutory deadlines. We will also look to publish a list of local bodies and audit firms which meet statutory deadlines and those which do not.
23. Other underlying challenges will also continue to be addressed. The FRC is already leading work across the system to improve competition, capability and supply within the audit market. The FRC, supported by DLUHC, is committed to producing a workforce strategy by the end of the 2023 calendar year, which will identify gaps and barriers across the local audit system that are hindering the development of future capacity and agree actions and solutions to unblock these with stakeholders.

Local financial reporting, auditing and regulatory requirements

24. It is critical that a repeat of the backlog is avoided in the future. Work across the local audit system must therefore be sustainable and ensure proportionate financial reporting requirements, auditing requirements and regulatory requirements are in place.
25. Although reporting and disclosure requirements required by the Code of Practice on Local Authority Accounting have not changed for many years, there is a perception that both audit and regulatory expectations relating to the audit of non-investment assets have increased significantly in recent years. As a result, both account preparers and auditors frequently engage specialist valuers to provide the level of assurance which is thought to be necessary. In his review, Sir Tony Redmond noted a lack of consensus within the system over how to address this.
26. Local authority financial reporting must balance 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. Where reporting, auditing and regulatory standards combine to create pressures which delay timely reporting and audit, this should be addressed by responsible organisations across the local audit system. Doing so is vital in ensuring the delicate balance between high-quality financial reporting and user value is maintained.
27. There is also a question as to 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. All system participants therefore need to consider whether this work is proportionate to risk and a wise use of taxpayers' money, and will do so in the coming months.
28. Local authority accounts are consolidated within the statutory Whole of Government Accounts, which are prepared in accordance with International Financial Reporting Standards (as adapted and interpreted for the public sector). Since 2010 these standards have been reflected in the Code of Practice on Local Authority Accounting, which is independently set by CIPFA and passed by the CIPFA LASAAC⁵ board, under the advice of the Financial Reporting Advisory Board (FRAB) - an independent advisory board.
29. In light of these issues, the **Comptroller & Auditor General (C&AG)** is considering changes to the Code of Audit Practice relating to certain balances in the accounts to prevent continued local audit delays while a broader solution is sought. The C&AG is taking this action under the requirement of the 2014 Local Audit and Accountability Act that he should keep under review whether the existing Code continues to embody best professional practice with respect to the standards, procedures and techniques to be adopted by local auditors. As such, it reflects the seriousness with which he views the current delays in the local audit system. Potential changes would be time limited and would need to be supported by wider changes to standards and regulation.
30. The NAO has established a dedicated programme board, supported by at least three working groups, to develop the potential changes and related technical questions with stakeholders. A range of mechanisms will be considered to allow auditors to discharge their responsibilities to gather sufficient, appropriate and reliable audit evidence in accordance with International Standards on Auditing (ISAs).

⁵ Local Authority (Scotland) Accounts Advisory Committee

31. The C&AG, as he is required to do by the Local Audit and Accountability Act 2014, will keep the Code of Audit Practice under review and will consider the effectiveness and operation of any changes made to the Code. This would inform a wider review of the measures to clear the backlog outlined above.
32. **His Majesty's Treasury (HMT)** is conducting a thematic review of the valuation of non-investment assets such as roads and office buildings for financial reporting purposes across the public sector. The review is seeking to evaluate the advantages and disadvantages of the current valuation regime and consider the appropriate measurement options.
33. There are 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. As set out above, however, the level of work required by account preparers and auditors must not limit the value of the accounts to the user. **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. As outlined above, any consideration of changes to accounting requirements will be accompanied by a broader set of measures from actors across the system.
34. CIPFA's work will run in parallel to HMT's thematic review. As the body responsible for local government accounting requirements, CIPFA is part of the working group HMT has set up for the review. CIPFA has clearly set out its view on the review's proposals. CIPFA will continue to work with HMT to ensure that any consequential changes to the Government Financial Reporting Manual (FRoM) and the Code of Practice on Local Authority Accounting are considered fully to ensure that the users of local authority accounts are incorporated.
35. In addition, CIPFA has already made a temporary adjustment to the Code on the valuation and reporting requirements for 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.
36. **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 through alignment with the significant financial, accounting and governance risks facing local bodies. As part of this the FRC expects 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. FRC inspection activity will continue to review compliance with auditing and ethical standards, any revised Code of Audit Practice and associated guidance.
37. The FRC has also indicated, in principle, that if the audit and reporting requirements for operational asset and pensions valuations are revised, its intention will be to update the inspection approach to reflect the changes in these areas.
38. The FRC's Audit & Assurance Sandbox initiative is taking forward a specific policy discussion on the application of materiality by local authority auditors. The Sandbox brings together groups of auditors, practitioners, regulatory bodies and interested parties to explore, identify and develop solutions to specific technical and policy issues. The

materiality discussions are expected to conclude before the end of the year. Next steps could include, for instance, the FRC determining whether additional guidance is required to support how auditors set materiality levels for local bodies in line with auditing standards or working with those local audit suppliers who decide to set a different basis of materiality without such guidance.

Conclusion

39. The local audit system, which comprises all of the organisations listed above, recognises the need to restore the timeliness of financial reporting and audit in local government. That is why all system partners have made clear proposals to reduce the backlog of local audits in England which are detailed in this statement. The Government will continue to work with the FRC and all key partners across the system to continue this ambitious programme of work over the Summer. As noted above, this will include consideration of longer-term changes in order to create a more sustainable local audit system for the future.

14 July 2023

Appendix B - Joint Statement

Local audit delays: Joint statement on update to proposals to clear the backlog and embed timely audit

Published 8 February 2024

Executive summary

Timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. Not only does it support good decision making by local bodies, by enabling them to plan effectively, make informed decisions and manage their services, it ensures transparency and accountability to local taxpayers.

The backlog in the publication of audited accounts of local bodies in England has grown to an unacceptable level. The number of outstanding opinions peaked on 30 September 2023 at 918. As at 31 December 2023, the backlog of outstanding audit opinions stood at 771.

In July 2023, the Minister for Local Government published a [Cross-System Statement](#) 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. This new Joint Statement provides an update on the proposals. All system partners share the conviction that bold steps are necessary to reset the system and recognise the exceptional nature of the proposed measures.

To clear the backlog of historical accounts and ‘reset’ the system, the Department for Levelling Up, Housing and Communities (DLUHC) proposes putting a date in law (the “backstop date”) – 30 September 2024 – by which point local bodies would publish audited accounts for all outstanding years up to and including 2022/23.

The National Audit Office (NAO) is proposing changes to the Code of Audit Practice to require local auditors to comply with backstop dates by giving their opinions in time for audited accounts to be published, and to allow them to provide a single commentary on value for money (VFM) arrangements for local bodies for all outstanding years up to and including 2022/23.

The duty for local bodies to publish a delay notice where the audit has not been concluded by the deadline will be withdrawn. This is because, with a backstop in place for both local bodies and auditors, authorities would be required to publish audited accounts by 30 September 2024. The introduction of a backstop date is intended to allow those who prepare and audit local body accounts to focus on more current financial periods.

The backstop date is likely to be a factor in local auditors issuing a modified or disclaimed opinion on outstanding accounts if they do not have enough time to complete all audit work before that date. It is important that local bodies, residents and other accounts users can distinguish between modified and disclaimed audit opinions caused by the introduction of backstop dates and those that indicate significant financial reporting or financial management issues.

Auditors have a responsibility under auditing standards to clearly communicate the reasons for their opinion within their report, including where the backstop date causes a modified or disclaimed opinion. System partners will consider guidance for auditors to remind them of these responsibilities. System partners will also issue communications that explain what the different types of modified opinions mean and that clarify that local bodies should not be unfairly judged based on modified opinions caused by the introduction of a backstop date that are largely beyond their control.

As was set out in the July Cross-System Statement, auditors' statutory duty to report on value for money (VfM) arrangements and their statutory audit powers (including to make statutory recommendations or issue Public Interest Reports) are important for enabling identification of areas of concern at an early stage, allowing councils to address them. These remain a high priority in our proposals.

For these measures to achieve their intended objectives, auditors and local bodies need to work together to ensure that as many audits can be completed in full as possible. Auditors should make prioritisation decisions within their portfolio of the audits of local bodies to limit the impact on other public bodies' audits and ensure they complete the work required to conclude and report on whether there are any significant weaknesses in VfM arrangements. Preparers must ensure that any unaudited accounts from 2022/23 or earlier years, that have not been published, are published as soon as possible and respond to auditor requests in a timely manner.

The Financial Reporting Council's (FRC) Audit Quality Review (AQR) team will not carry out routine inspections of major local audits for financial years up to and including 2022/23, unless there is a clear case in the public interest to do so. Alongside this, the Institute of Chartered Accountants in England and Wales (ICAEW) has committed to mirroring this approach for its inspections of non-major local audits.

To ensure that delays do not re-emerge once the backlog of local body audit opinions has been cleared and 'recover' the system, DLUHC proposes to put further backstop dates into law for the publication of audited accounts by local bodies. These would cover the 5-year audit appointments awarded in 2022 by Public Sector Audit Appointments (PSAA) for financial years 2023/24 to 2027/28. As it is anticipated there would be modified and disclaimed opinions on outstanding accounts from the 30 September 2024 backstop date, this measure is designed to enable auditors to rebuild assurance over several audit cycles rather than in a single year, reducing the risk of the backlog re-emerging. This means there would also likely be modified or disclaimed audit opinions for several years.

To support the 'recovery' of the system, the CIPFA LASAAC Local Authority Code Board (CIPFA LASAAC) will consult on temporary changes to the Code of Practice on Local Authority Accounting to reduce burdens on those who prepare and audit local body accounts. These proposed changes include extending overrides on infrastructure assets, simplifying the professional revaluation of operational property, and reducing disclosure requirements around net pension assets and liabilities for at least 2 years.

PSAA will use its fee variation process to determine the final fees local public bodies will have to pay in relation to delayed audits and 2023/24 audits. PSAA will set the scale fees for 2024/25 in accordance with the Local Audit (Appointing Person) Regulations 2015. The FRC and the NAO will support PSAA as it determines the fee impact of changes in audit requirements. It will also review relevant aspects of the contracts for the audits from 2023/24 to identify changes required to align with the changes proposed in the consultations.

All system partners have a shared resolve that the current situation needs addressing and measures of this nature are needed to achieve the shared priority of restoring timely, high-quality financial reporting and audit. Further work is required to address the systemic issues that have led to the unprecedented backlog. The issues facing local audit are widely recognised as multi-faceted and complex with no single cause or solution.

The development of these proposals has involved widespread engagement since summer 2023, especially with auditors and finance teams. To support the further development and testing of the measures, 2 consultations have been launched today, in partnership with the FRC, to receive further feedback and inform the decision on how to proceed:

- DLUHC is seeking views on changes to the Accounts and Audit Regulations 2015 to introduce backstop dates for the publication of audited accounts
- The NAO is 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 will consult on temporary changes to the Code of Practice on Local Authority Accounting for 2023/24 and 2024/25 to reduce burdens on the finance teams and auditors.

The 'local bodies' these proposals relate to include councils, but also other relevant authorities as defined under the Local Audit and Accountability Act (2014). It does not include NHS bodies.

Introduction

1. Local bodies need to have accurate and independently audited accounts, delivered on time, to help them effectively plan, make informed decisions and manage their services. Local residents, councillors, central government and other accounts users need timely audited accounts to understand what money the local body has received and how it has used its resources so they can hold it to account. This is key to transparent, trusted and accountable local democracy.

2. In July 2023, the Minister for Local Government published a [Cross-System Statement](#) setting out proposals to set a series of backstop dates to clear the backlog in local audit opinions in England and embed timely audit. The Statement included commitments by the Department for Levelling Up, Housing and Communities (DLUHC), the Financial Reporting Council (FRC), the National Audit Office (NAO), the Chartered Institute of Public Finance and Accountancy (CIPFA), the Institute of Chartered Accountants in England and Wales (ICAEW) and Public Sector Audit Appointments (PSAA).

3. Since the publication of the Cross-System Statement, the Department has worked collaboratively with the FRC, as incoming shadow system leader, and the other system partners, to develop proposals to achieve the objectives. The proposals maintain auditor independence and enable compliance with International Standards on Auditing (UK) (ISAs (UK)). The proposals consist 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. Financial reporting and audit frameworks were not designed for the current backlog in local audit. Although these proposals have been designed to minimise risks and unintended consequences, the proposed measures are likely to result in a significant number of local authority accounts receiving modified or disclaimed opinions, during both Phase 1 and Phase 2. The work required to resolve the

local audit backlog will be challenging for both local body finance teams and auditors, as well as system partners.

Phase 1: Reset

5. In line with the Cross-System Statement in July 2023, Phase 1 involves using legislation and changes to the Code of Audit Practice to implement a backstop date for the publication of audited financial statements which are outstanding for all financial years up to and including 2022/23. The current duty, set out in legislation, for local bodies to publish a delay notice in instances where the audit has not been concluded ahead of the deadline, would be removed.
6. Local auditors would be required to issue an opinion based on the work they have been able to complete to enable local bodies to publish audited accounts ahead of the backstop dates. An audit opinion can be either unmodified, modified (qualified or adverse) or disclaimed.
7. 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. As set out in the Cross-System statement in July, the proposed backstop date is likely to result in modifications or disclaimers of the audit opinion. System partners will provide clear communications to the system explaining what the different types of opinions mean, including explaining that modified or disclaimed opinions caused by the backstop date do not necessarily indicate significant financial reporting or financial management issues in a local body.
8. The auditors' statutory duty to report on VFM arrangements and their statutory audit powers (such as the power to make statutory recommendations or produce Public Interest Reports where necessary) are an important for identifying areas of concern at an early stage, allowing local bodies to address them. Under these proposals this will remain a high priority including during Phase 1.
9. The NAO consultation asks for views on changes to the Code of Audit Practice to enable auditors to produce a single commentary on VFM arrangements covering all outstanding periods up to 2022/23 and remind auditors of their obligations to use their statutory reporting powers to draw significant matters to the attention of bodies and residents in a timely way.
10. The proposed backstop date for Phase 1, as set out in DLUHC's consultation on changes to the Accounts and Audit Regulations 2015, 30 September 2024. This has been designed to enable sufficient time for auditors to issue opinions, including modified or disclaimed opinions due to the backstop, and for bodies to publish accounts containing those audit opinions once the legislation has come into force.
11. The NAO's consultation on changes to the Code and any subsequent laying of a new Code of Audit Practice in Parliament would support the backstop date. The proposed backstop date also recognises the multiple priorities of preparers and auditors. For example, finance teams need to, amongst other things, prepare budgets and medium-term financial plans, and for auditors, there will be pre-existing commitments to carry out other public sector audit work, including NHS external audit work, most of which will take place between April and June 2024.
12. The government will publish a list of local bodies and their auditors which do not meet the backstop date, making it clear where unaudited accounts have also not been published.
13. There will be no exemptions for auditors or local bodies except in very limited circumstances. The NAO will consult on specific exemptions to auditors issuing their opinion ahead of the backstop date as part of its consultation on changes to the Code of Audit Practice. These include, for example,

if the auditor is unable to issue their opinion where there are outstanding elector objections to the accounts that could be material to the opinion. DLUHC's consultation also includes a question about creating an equivalent exemption for local bodies in this circumstance, as well as a question seeking views on any other exceptional circumstances in which exemptions may be justifiable.

14. If auditors have completed the required work then they are able to issue their audit opinion ahead of the backstop date. Auditors are expected to complete as much audit work as possible ahead of the backstop date. The NAO, working closely with the FRC, will produce statutory guidance and any additional advice needed to ensure the reset works as intended.

Phase 2: Recovery

15. The July Cross-System Statement set out that recovering from modified and disclaimed audit opinions requires significant work for preparers and auditors. 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.

16. System partners committed to consider the secondary effects of the proposals, which may impact the audit of opening balances within the accounts for future years. Under these proposals and to maintain compliance with the ISAs (UK), auditors need to perform sufficient testing on opening balances to rebuild assurance that enables them to issue unmodified opinions in the future.

17. 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. As at Phase 1, the current duty, set out in legislation, for local bodies to publish a delay notice in instances where the audit has not been concluded by the deadline, would be removed. The changes to the Code of Audit Practice in Phase 1 requiring auditors to discharge their statutory duties in relation to the financial statements audit in accordance with backstop dates would continue to apply in Phase 2.

18. These new backstop dates would enable auditors to rebuild assurance over local bodies' financial information which has been subject to modified opinion over a longer period of several years. The default position without backstop dates would be that auditors need to rebuild all assurance in the first year following a modified or disclaimed opinion, creating an exceptional workload in this first year, which would risk a recurrence of the backlog. Instead, these proposals enable spreading the work to rebuild this assurance over multiple periods, and we welcome responses on local bodies' and auditors' capacity to manage this work. Backstop dates may result in additional modifications or disclaimers of the audit opinion for some bodies. Unmodified opinions cannot be issued until assurance has been sufficiently rebuilt for the auditor to conclude that the financial statements as a whole are free from material misstatement. This proposal draws on the findings of the recent Levelling Up, Housing and Communities Committee report on financial reporting and audit in local authorities.

19. The FRC has confirmed that rebuilding assurance over multiple periods is compliant with ISAs (UK).

20. Taken together with the proposal outlined in 'Phase 1' for a backstop date of 30 September 2024 for all years up to and including 2022/23, the government is now consulting on the following additional backstop dates:

- 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

21. These dates are intended to achieve a balance between restoring timely audit and returning to unmodified audit opinions for the majority of local bodies. They have also been designed, to the extent possible, to limit the impact on other public sector audits, including NHS audits.

22. As has been set out, returning to full and timely reporting on VFM arrangements is a priority. Whilst Phase 1 enables the auditor to incorporate outstanding VFM arrangements reporting for historical years into a single output under a reduced scope, proposals for Phase 2 involve the restoration of full scope VFM arrangements by 2023/24. In addition, it is proposed that the Code of Audit Practice will set a requirement that from 2023/24 the Auditors' Annual Report will be issued in draft to those charged with governance by 30 November each year, irrespective of the position on the audit, to enable auditors to report regularly on most of the VFM arrangements work in a more timely and predictable way.

23. To reduce burdens on preparers and support auditors spreading the work to rebuild assurance over multiple periods CIPFA LASAAC will consult 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)

24. The current deadline for local bodies (other than NHS bodies) for the publication of unaudited accounts is 31 May following the financial year end. This means the 2024/25 unaudited accounts deadline is set to be the same date as the backstop date for 2023/24 audited accounts. The government's consultation includes questions asking for views over whether this will create any significant issues and for views on the 31 May deadline for 2024/25 to 2027/28.

Consultations to deliver Phase 1 and Phase 2

25. There will be 3 consultations to implement the Phase 1 and Phase 2 measures set out:

- DLUHC is seeking views on changes to the Accounts and Audit Regulations 2015 to introduce backstop dates for the publication of audited accounts
- The NAO is 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 will consult on temporary changes to the Code of Practice on Local Authority Accounting for 2023/24 and 2024/25 to reduce burdens on the finance teams and auditors

Commitments by the FRC to support delivery of Phase 1 and Phase 2

26. All system partners recognise that the exceptional nature of the proposed measures means there will need to be an extensive programme of communications and engagement with local bodies, auditors and wider system stakeholders including elected members.

27. The FRC will support the NAO and CIPFA to issue guidance for preparers and auditors. The guidance for auditors will be designed to support audit firms with implementing the proposed approach to Phase 1 and Phase 2 in a way that is compliant with the ISAs (UK) and the Code of Audit Practice whilst supporting the overall objectives of the reset and recovery.

28. It is important that local bodies, residents and other accounts users can distinguish between modified and disclaimed audit opinions caused by the introduction of backstop dates and those that indicate significant financial reporting or financial management issues. Guidance for auditors will remind auditors of their responsibilities to communicate the reasons for a modified or disclaimed opinion in reports to audit committees and in the auditor's report. This includes indicating clearly where the modified or disclaimed opinion occurs because the auditor has not completed work ahead of the backstop date.

29. We expect audit committees and other stakeholders to take this into account and ensure that their decisions and judgements are cognisant of where modified or disclaimed opinions are a result of the introduction of backstop dates.

30. The FRC will also hold an exceptional local audit specific meeting of the Technical Advisory Group (TAG). TAG normally takes place every 2 months to consider the application of ISAs (UK), ethical and quality management standards. TAG provides a forum for firms to raise technical issues with the application of standards as well as a means for the FRC to informally consult on standards and guidance that it might issue. The purpose of the local audit specific TAG would be for the FRC to respond to queries from firms in applying the ISAs (UK) in light of the backstop dates as well as any technical guidance issued by the NAO or the FRC. It will also provide an opportunity for firms to discuss best practice and practical matters of implementation in a forum convened by the FRC. The FRC will invite all firms involved in local audit, and representatives from system partners, to this special TAG meeting.

31. In line with the July Cross-System Statement, the FRC's AQR team has recently set out changes to its regulatory approach as part of its [report on the quality of major local audits](#). This sets out that AQR will not carry out routine inspections of major local audits for financial years up to and including 2022/23, unless there is a clear case in the public interest to do so. AQR will provide further details on its planned approach to individual inspections for 2023/24 onwards, once the proposed measures are finalised. ICAEW has committed to mirroring the FRC's approach for its inspections of non-major local audits.

32. Working with DLUHC, the FRC is developing an escalated reporting framework. The intention is for the framework to be fully operational for 2023/24 audits so local authorities and auditors can use it to raise risks to individual audits meeting backstop dates and / or emerging systemic issues ahead of backstop dates to enable them and system partners to take appropriate action as early as possible. The framework is being designed to enable a coordinated response where there are more significant risks and complexities facing entities and ensure that system wide issues are identified as soon as possible so they can be addressed. We will provide further details on the proposed framework by the point the legislation on the backstop dates is in place.

33. The FRC intends to conclude its Audit and Assurance Sandbox on the approach to materiality on local audits in the first quarter of 2024 and will publish the findings. The Sandbox has brought together groups of auditors, practitioners, regulatory bodies and interested parties to explore potential pathways whereby auditors could set differential materiality levels for balance sheet items, such as operational property, from overall account materiality set based on expenditure.

Commitments by ICAEW

34. ICAEW has committed to mirroring the FRC AQR's approach for its inspections of non-major local audits.

Commitments by PSAA

35. PSAA will set scale fees and determine fee variations where the auditor undertakes more or less work than assumed by the scale fee in line with the Local Audit (Appointing Person) Regulations 2015. It will also consult with bodies where appropriate. Where possible (subject to sufficient satisfactory data and information from key parties), PSAA will develop indicative fee ranges and assumptions for areas where there is expected to be a change in the audit work carried out.

36. When PSAA subsequently determines the fees payable, the principles set out in the Cross System Statement will apply: if auditors have worked in good faith to meet the requirements of the Code of Audit Practice in place at the time the work was conducted (and have reported on work that is no longer required), then they are due the appropriate fee for the work done, and the body is due to pay the applicable fee, including where there is a modified or disclaimed opinion. Conversely, if an auditor has collected audit fees in part or in full, and the backstop date means that the total work done represents less than the fee already collected, then the auditor must return the balance and refund the body the appropriate amount – this ensures that the bodies pay only for work that has been done and reported.

Expectations of auditors and local bodies to deliver Phase 1 and Phase 2

37. If implemented, all system partners believe Phase 1 and Phase 2 taken together will result in an overall significant reduction in work compared to the option of not introducing backstop dates. Nevertheless, the success of these proposals depends on both auditors and audited bodies focusing on their obligations in the public interest for timely, high-quality financial reporting and audit.

38. During the consultation period, any local body with concerns about specific financial risk resulting from the proposals should discuss this with their auditors and engage with DLUHC or the relevant parent Department at the earliest opportunity. This may include, but is not limited to, bodies with covenants that require audited accounts with unmodified audit opinions. Any auditors with specific technical, practical, or ethical concerns should flag these with the FRC as soon as possible.

39. Any slowdown in activity would lead to further issues in the future. Ahead of the first proposed backstop date, auditors and local bodies should work together to ensure that as many audits can be completed in full as possible. Where work has already been completed to provide sufficient evidence to support the audit opinion, preparers and auditors should work together to publish the audited accounts as soon as possible.

40. The potential introduction of backstop dates does not preclude the legal responsibilities for local bodies to publish unaudited accounts and hold the 30-working day inspection period for local electors. Any local body that has not yet published unaudited accounts for all years up to and including the financial year 2022/2023, or held the inspection period, should do so as soon as possible.

41. Where a local body believes they will not be able to provide draft accounts, which have been subject to the 30-working day inspection period, to the auditor, with sufficient time ahead of the backstop date, they should, following engagement with their auditors, flag this with DLUHC or the relevant sponsor department as soon as possible. Auditors are only able to provide an opinion – whether unmodified, modified or disclaimed – on a set of accounts which have been certified by the Section 151 Officer as true and fair, subject to the 30-day inspection period and approved as final by those charged with governance.

42. It should not be necessary for the audit of the previous year's accounts for Section 151 Officers to comply with their responsibilities to certify that the unaudited accounts show a true and fair view as local bodies should have sufficient internal controls and processes for the Section 151 Officer to obtain this assurance.

43. In consultation with local bodies and those charged with governance, auditors will need to make prioritisation decisions about the work they complete on local bodies' audits. When making such prioritisation decisions, auditors should consider the impact on other local bodies' audits. For example, they may choose to prioritise conducting sufficient audit work on pension funds to provide IAS 19 assurances to auditors of other local bodies. Finance teams should ensure they provide high-quality evidence requested by auditors in a timely manner.

44. Where an auditor has not obtained sufficient audit evidence to conclude they have reasonable assurance that the financial statements as a whole are free from material misstatement, they will need to modify or disclaim their audit opinion, as required by the ISAs (UK). Auditors are reminded of their existing responsibilities to clearly communicate the reasons for modified or disclaimed opinions in the auditor's report. They should explain in reports to the audit committee if the modified opinion is caused by the introduction of statutory backstop dates and to communicate what work they have been able to carry out.

45. Auditors should also keep in mind that the July Cross-System Statement stated that the auditors' statutory duty to report on VFM arrangements and their wider reporting powers remain a high priority. Auditors will need to ensure that they are able to conclude and report significant weaknesses in VFM arrangements in the audit report ahead of the backstop date as this legal duty cannot be disclaimed. For audits undertaken under the 2015 Code of Audit Practice, covering years up to 2019/20, auditors will need to report their conclusion on VFM arrangements as part of the auditor's report. Where auditors have concerns about a local body's ability to prepare accounts of sufficient quality ahead of the backstop date, they should consider using their wider reporting powers.

46. The government recognises that all audit firms conduct a variety of public sector audit work in addition to local audit. Local auditors should plan and commit to deliver work ahead of the backstop dates that allows for their existing contractual commitments for other public sector audits. Apart from in exceptional circumstances, NHS England will not accept requests for extensions to audit deadlines for NHS bodies because of auditors needing to complete work ahead of backstop dates for non-NHS local audited accounts.

Phase 3: Reform

47. Further, longer term work is required to address the systemic challenges that have led to the current local audit backlog. All parties to the Cross-System Statement have committed to continue work to ensure that financial reporting, auditing and regulatory requirements are proportionate and based on a common understanding of the purposes of local audit and reporting.

48. This work will build on the recommendations of the [Redmond Review](#), the recent Levelling Up, Housing and Communities Committee report into financial reporting and audit in local authorities and Public Accounts Committee reports on the timeliness of local audit. The government remains committed to establishing the Audit, Reporting and Governance Authority as system leader for local audit when Parliamentary time allows.

49. 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.

50. 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.

51. 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.

52. Closely linked to the Local Audit Workforce Strategy, the government has successfully procured the development of a Local Audit Qualification which will shortly be launched by CIPFA, opening the training route for experienced Responsible Individuals to become Key Audit Partners. In addition, CIPFA and the Local Government Association (LGA) are working on a parallel Workforce Strategy for local government finance teams.

Conclusion

53. The measures proposed are an important step in restoring timely financial reporting and audit for local bodies. The government is grateful for the hard work and collaboration of system partners in developing these ambitious measures. All system partners are committed to continue to work closely together to, following the consultation, implement measures to clear the backlog of local audit opinions and develop the long-term reforms required to prevent a backlog arising in the future.