

Report to: Council



Date of Meeting 16th October 2024

Document classification: Part A Public Document

Exemption applied: None

Review date for release N/A

Paper to support recommendation for Audit and Governance on the Application of the local authority backstop

Report summary:

The audit regime for local authority accounts has broken with only 1% of local authority bodies having published audited accounts on time last year, with a backlog of over 1,000 unaudited accounts.

In response Government have laid legislation to set a statutory backstop of 13 December 2024 for the publication of audited accounts for all financial years up to and including 2022/23; on the understanding this will not be possible for most cases, and these being then deemed “disclaimed” and not audited. Future backstop dates have then been set for 2023/24 accounts and further years where a similar process will apply in attempt to clear the backlog situation and bring audits up to date.

EDDC have published accounts for 2021/22 and 2022/23 that have been advertised and through the public inspection period but have not been audited. The attached letter from Grant Thornton states they consider there is insufficient time to conclude their work for these years before 13 December 2024 deadline. In context each audit takes several months of intense, complex work requiring significant resource from the auditors and from the local authorities’ own finance team. The expectation by Grant Thornton is that they will apply a backstop for 2021/22 and 2022/23 giving a disclaimer on these accounts in that they have been unable to gain assurance necessary to issue an audit opinion by the backstop date.

We have published accounts for 2023/24, again that have been through the public inspection period, it currently envisaged that these will be audited by the required backstop date of 28th February 2025 with the audit already in full progress. This will then bring us up to date without the need to rely on any future backstops.

The Audit and Governance Committee whilst accepting the position on the backstop and agreeing to Grant Thornton’s letter felt that Council should be aware of the position and understand this national issue.

Is the proposed decision in accordance with:

Budget Yes No

Policy Framework Yes No

Recommendation:

The Audit & Governance Committee required Council to understand the position of backstops being applied to the Council’s accounts for 2021/22 and 2022/23.

Reason for recommendation:

The Audit & Governance Committee whilst accepting and agreeing to the position of a backstop being applied to the two years accounts it considered that Council should be aware.

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Portfolio(s) (check which apply):

- Climate Action and Emergency Response
- Coast, Country and Environment
- Council and Corporate Co-ordination
- Communications and Democracy
- Economy
- Finance and Assets
- Strategic Planning
- Sustainable Homes and Communities
- Culture, Leisure, Sport and Tourism

Equalities impact Low Impact

Climate change Low Impact

Risk: Medium Risk; Whilst this is a national issue the implications for members and the public is that the Council will have assurance of audited accounts for 2 years and the implications going forward until the annual audit can cover all years presented.

Links to background information

Link to [Council Plan](#)

Priorities (check which apply)

- A supported and engaged community
- Carbon neutrality and ecological recovery
- Resilient economy that supports local business
- Financially secure and improving quality of services

1. Background and Context

- 1.1 Consultation to deal with local authority audit backlogs began under the previous Government, taken forward by the current Government with the legislation which is now to be introduced.
- 1.2 The growing backlog in the publication of audited accounts of local bodies in England has been stated by Government as unacceptable. Timely, high-quality financial reporting and audit of local bodies is a vital part of the democratic system and ensures transparency and accountability to local taxpayers.

- 1.3 The audit regime for local authority accounts has broken with only 1% of local authority bodies having published audited accounts on time last year, with a backlog of over 1,000 unaudited accounts.
- 1.4 Several issues have contributed to this position; local authority accounts have become more complex and technical, a contortion of statutory overrides turning a set of accounts into a large and difficult read, a shortage of experienced and qualified individuals to prepare and then audit the statements with other work pressures for those individuals, commercial investments and initiatives by local authorities has increased risk with additional audit requirements, a general greater expectation of the regulator and new and revised auditing standards and the new National Audit Office Value for Money Code. The overriding factor being there has not been sufficient people resource on both the local authority side and the audit side where there are only a few audit companies in the market.

2. Governments action to clear the backlog.

- 2.1 On 30th July a written ministerial statement was issued setting out proposals to tackle the local audit backlog. Key extracts from that statement are given below:

This government's manifesto committed to overhaul the local audit system to enable taxpayers to get better value for money. A growing backlog will severely hamper necessary fundamental reforms to repair the system, and will continue to undermine local accountability and governance. We must act now to get the house in order and to rebuild the system so that it is fit, legal, and decent, and the public have an effective early warning system.

This statement outlines immediate actions the Government – together with the Financial Reporting Council (FRC), the National Audit Office (NAO), and organisations in the wider system – is taking, which are designed to address the backlog and put local audit on a sustainable footing. The previous Government launched a welcome consultation on this issue in February. Despite a lack of action, there was clear support for the core elements of the approach to clearing the backlog. All key local audit organisations support these bold measures, recognise their exceptional nature, and continue to share the conviction that this urgent and decisive action is needed to reset the system and repair the foundations of local government.

Local authorities and other local bodies, alongside their auditors, are our partners in this plan to restore a system of high-quality and timely financial reporting and audit, while managing the impact of this in a sustainable way. I commend the commitment of local finance teams and auditors in their work to date.

Proposed secondary legislation.

I intend to lay secondary legislation when parliamentary time allows, and, at the point at which the Comptroller and Auditor General requests, I would also lay a new Code of Audit Practice (again, subject to parliamentary time). Taken together, these measures aim to facilitate a return to timely, purposeful audits of local body accounts. The secondary legislation would amend the Accounts and Audit Regulations (2015) to set a series of backstop dates.

The first backstop date would clear the backlog of unaudited accounts up to and including 2022/23, but given the size of the audit backlog, it is unlikely that all outstanding audits will be completed in full ahead of this date. The Government recognises that this is likely to have unfortunate consequences for the system in the short term and has been forced to take this difficult decision due to the backlog we inherited. This Government is determined, however, to make the tough choices necessary to begin rebuilding the foundations of local

government. Where auditors have been unable to complete audits, they will issue a 'disclaimed' or 'modified' audit opinion. Auditors are likely to issue hundreds of 'disclaimed' audit opinions and disclaimed opinions will likely continue for some bodies for a number of years.

The proposed legislation will include five further backstop dates up to and including financial year 2027/28 to allow full assurance to be rebuilt over several audit cycles. It is the aspiration of the Government and key local audit system partners that, in the public interest, local audit recovers as early in this five-year period as possible. This means disclaimed opinions driven by backstop dates should, in most cases, be limited to the next two years (up to and including the 2024/25 backstop date of 27 February 2026), with only a small number of exceptional cases, due to specific individual circumstances, continuing thereafter. The proposed backstop dates are:

- Financial years up-to-and-including 2022/23: 13 December 2024
- Financial year 2023/24: 28 February 2025
- Financial year 2024/25: 27 February 2026
- Financial year 2025/26: 31 January 2027
- Financial year 2026/27: 30 November 2027
- Financial year 2027/28: 30 November 2028

While there will be modified and disclaimed opinions, auditors' other statutory duties – including to report on Value for Money (VfM) arrangements, to make statutory recommendations and issue Public Interest Reports – remain a high priority. Our government will make that crystal clear.

Bodies that are non-exempt but have failed to comply with a backstop date will be required to publish an explanation, to send a copy of this to the Secretary of State (to facilitate scrutiny) and publish audited accounts as soon as practicable. The Government also intends to publish a list of bodies and auditors that do not meet the proposed backstop dates, which will make clear where 'draft' (unaudited) accounts have also not been published. I intend to keep this under close review and may explore further mechanisms to take appropriate action, should reasons given be inadequate.

Communications to support local bodies and auditors.

There will be extensive communications and engagement on these measures, to make clear the necessity of these steps and emphasise the context for modified or disclaimed opinions. Local bodies should not be unfairly judged based on disclaimed or modified opinions, caused by the introduction of backstop dates that are largely beyond their control. Auditors will be expected to provide clear reasons for the issuing of such opinions to mitigate the potential reputational risk that local bodies may face. We will work with partners to provide communications support to the system.

Audit fees.

Issuing a disclaimed or modified audit opinion and a subsequent return to being able to fully complete audits will require differing levels of work by auditors. Public Sector Audit Appointments Ltd (PSAA) will set scale fees and determine fee variations where the auditor undertakes substantially more or less work than assumed by the scale fee and will consult with bodies where appropriate. In doing so PSAA will apply the following principles: 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.

Conclusion

I recognise that aspects of these proposals are uncomfortable. Given the scale of the failure in the local audit system that this Government inherited, however, we have had to take this difficult decision to proceed. Without this decisive action, the backlog would continue to grow, and the system will move even further away from timely assurance. The secondary legislation I will lay will give effect to these proposals and start to repair the foundations of local governance. Significant reform is needed to overhaul the local audit system to get the house in order and open the books. I will continue to review the evidence, including considering the recommendations of external reviews to date, and will update the House in the Autumn on the Government's longer-term plans to fix local audit.

3. This Council's position.

- 3.1 EDDC have published accounts for 2021/22 and 2022/23 that have been advertised and through the public inspection period but have not been audited. The attached letter from Grant Thornton, that was presented to the Audit and Governance Committee, states they consider there is insufficient time to conclude their work for these years before 13 December 2024 deadline. In context each audit takes several months of intense, complex work requiring significant resource from the auditors and from the local authorities' own finance team. The expectation by Grant Thornton is that they will apply a backstop for 2021/22 and 2022/23 giving a disclaimer on these accounts in that they have been unable to gain assurance necessary to issue an audit opinion by the backstop date. This is far from ideal for public accountability but places us in a similar position to many local authorities and the position will need to be effectively communicated.
- 3.2 We have published accounts for 2023/24, again that have been through the public inspection period, it currently envisaged that these will be audited by the required backstop date of 28th February 2025 with the audit already in full progress. This will then bring us up to date without the need to rely on any future backstops. However, it should be noted as the prior years to 2023/24 will not be audited we are unlikely to have an unqualified opinion for 2023/24 because of prior year balances and comparisons will not have been audited. Further guidance is expected on this for the auditors and local authorities.
- 3.3 The deadline for annual Accounts draft publication date going forward has been specified as June each year. This is the date that this Council will need to ensure it can meet going forward (some 6 week earlier than we finalised the current accounts), whilst the Finance Team has restructured to ensure resource is placed on this objective, including the resource required to support the audit, we currently carry three vacancies in this small team.
- 3.4 In the view of your Section 151 Officer although the backstop position is a necessity as a reset, without the necessary changes to simply local authority accounts in order to prepare, audit and most importantly for the public to understand then this will not have solved the route problem.

Financial implications:

There are no direct financial implications on the Council

Legal implications:

The legal issues are dealt with in the body of the report.