

Agenda Item IMD7

TITLE	WBC Response to Consultation; Addressing the local audit backlog in England
DECISION TO BE MADE BY	Executive Member for Finance – Imogen Shepherd-DuBey
DATE	26 th March 2024
MEETING ROOM and TIME	LGF3 12:30pm
WARD	None specific
DIRECTOR/KEY OFFICER	Deputy Chief Executive - Graham Ebers

PURPOSE OF REPORT (INC STRATEGIC OUTCOMES)

To note the response to the consultation in respect of “Addressing the local audit backlog in England”, the impacts on the council and views of Audit Committee

RECOMMENDATION

That the Executive member for Finance notes the formal response to the consultation and in liaison with the Chair of the Audit Committee urges DLUHC and PSAA to consider further representations to External Audit companies to stop the current withdrawal of resources to progress previous year audit work.

EXECUTIVE SUMMARY

Timely, high-quality financial reporting and audit of local bodies accounts is vital to local councils to give confidence in it’s governance arrangements, accounting processes and overall financial standing. Good financial reporting and finance practices support good decision making and enables organisations to plan effectively. System issues around the auditing of accounts have led to the current backlog in the publication of audited accounts in England growing to an unacceptable level. DLUHC are therefore consulting on a number of measures for the short, medium and longer term to resolve these issues and to ensure in the future such a vital part of the independent assurance can be completed in a thorough and timely manner.

The proposed approach has led to External Audit companies reviewing which audits they continue to work on in the short-term which has led to a cessation of work on the Wokingham Borough Council 2021/22 accounts. The Audit Committee in February 2024 voiced its disappointment at this position and asked that further consideration be given to restarting work as a matter of priority.

Background

- 1.1 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. It supports good decision making by local authorities by enabling them to plan effectively, make informed decisions and manage their services. It ensures transparency and accountability to local taxpayers.
- 1.2 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. A number of factors have been cited that have contributed to this situation, including lack of resources in audit firms and in local authority finance teams.
- 1.3 The situation in Wokingham Borough Council – where accounts up to and including 2020/21 have been signed off – is further complicated by the Berkshire Pension Fund being administered by the Royal Borough of Windsor and Maidenhead (RBWM) on behalf of all Berkshire authorities. Until RBWM’s accounts for each year are fully signed off by its external auditor, the other authorities’ accounts are inevitably held up, due to the materiality of pensions transactions and the reliance placed on RBWM’s audit opinion by other audit firms.

Detail

- 2.1 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.
- 2.2 This has resulted in consultations being issued by the Department for Levelling Up, Housing and Communities (DLUHC) and the National Audit Office (NAO), with one to follow shortly from CIPFA LASAAC on temporary changes to the Code of Practice on Local Authority Accounting for 2023/24 and 2024/25 to reduce burdens on finance teams and auditors.
- 2.3 The Joint statement and consultation references 3 stages to the approach;
 - 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.

(the consultation does not ask or refer to the reform phase)

Reset

- 2.4 To clear the backlog of historical accounts and **'reset'** the system, 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.
- 2.5 The 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.
- 2.6 The backstop date is expected to require 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. Information to date is clear that the disclaimed opinion will not cite any organisation to be at fault for this position and that it does not indicate any financial concerns or weaknesses

Recovery

- 2.7 Recovering from modified and disclaimed audit opinions requires significant work for preparers and auditors. 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. Auditors will need to additionally validate some of the opening balances in order to obtain assurance over the current year closing balances. They will need to perform sufficient testing on opening balances to rebuild assurance that enables them to issue unmodified opinions in the future. The required approach to this work has not been detailed as yet
- 2.8 To achieve a balance between restoring timely audit and returning to unmodified audit opinions for most local bodies, the government is now consulting on the following additional backstop dates for the 5 years covered by the latest round of audit appointments:
- 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
- 2.9 These new backstop dates would enable auditors to rebuild assurance over local bodies' financial information which has been subject to modified opinion over several years. A key concern of the council would be that if current issues outside of our control, such as from delays in other organisations accounts or

lack of external audit resource mean we are unable to meet these dates and would then experience further qualification.

- 2.10 As the above will impact the amount of time external audit companies spend on accounts, the Public Sector Audit Appointments (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.

Reform

- 2.11 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.
- 2.12 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.
- 2.13 Appendix A shows the consultation questions and the responses submitted by Wokingham Borough Council

Wokingham Borough Council Context

- 3.1 As at June 2022, Wokingham Borough Council had progressed with its external Auditor (Ernst Young/EY) to the position where its 2020/21 accounts were agreed apart from two outstanding issues;
- Infrastructure; an issue had been identified nationally in respect of the approach previously taken by most Councils and external auditors with regard to infrastructure. Once identified CIPFA undertook a number of consultations to consider and finalise an approach to the issue, which was not resolved until early 2023.
- Pensions assurance; EY were unable to receive appropriate assurance on the details for the pensions fund, included in WBC accounts, due to delays with the audit of the Royal Borough of Windsor & Maidenhead accounts 2020/21. This matter was not resolved until mid 2023.
- 3.2 These matters ultimately delayed the signing-off of accounts by over a year, and within that period saw further work required such as updated “going concern” statements and further checks due to changing audit practices within EY.
- 3.3 Work was then able to commence in earnest on 2021/22 but despite significant resources from both the council and EY we were unable to complete the work by the end of 2023 calendar year, by which time the above proposed approach had been outlined. It is important to note that at this point, again the auditor had been unable to receive appropriate assurance from the Pensions Body auditor due to

delays with the audit of RBWM's accounts and therefore, even if all work was complete with the councils own finances, sign-off would not have been possible.

- 3.4 At the end of 2023 EY took a decision to stop any further work on the 2021/22 accounts because of the proposed backstop date, focusing their resources on audits they felt had most opportunity to complete and other priority works. Despite requests from the council and its Audit Committee, and discussions with the PSAA, to date we have been unable to secure audit resources to complete the 2021/22 audit work. Both officers and members are unhappy with this approach and are continuing to understand opportunities to enable work to recommence.
- 3.5 EY have commenced work on the VFM assessment for 2022/23 and to date no issues have been found, but no further work beyond that is planned in respect of that years accounts.
- 3.6 It is therefore expected that both 2021/22 and 2022/23 accounts will be disclaimed under the proposed approach.
- 3.7 Wokingham BC external auditor for the 2023/24 accounts will be KPMG and we have already commenced engagement with them in respect of that audit.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces severe funding pressures, particularly in the face of the COVID-19 crisis. It is therefore imperative that Council resources are focused on the vulnerable and on its highest priorities.

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	Nil	N/A	
Next Financial Year (Year 2)	Nil	N/A	
Following Financial Year (Year 3)	Nil	N/A	

Other Financial Information
As explained in the body of the report, the matter of the audit of accounts is critical to give assurance to the robustness of the council's financial position and associated governance and controls.

Stakeholder Considerations and Consultation
N/A

Public Sector Equality Duty
N/A

Climate Emergency – This Council has declared a climate emergency and is committed to playing as full a role as possible – leading by example as well as by exhortation – in achieving a carbon neutral Wokingham Borough by 2030

N/A

List of Background Papers

Contact Graham Cadle

Service Finance

Telephone 07890 174297

Email graham.cadle@wokingham.gov.uk

Appendix A

CONSULTATION QUESTIONS AND SUBMITTED RESPONSES

Phase 1

Questions

Q1. Notwithstanding the possibility of exemptions in exceptional circumstances (covered by questions 3 and 4 below), do you agree that Category 1 authorities should be required to have published audited accounts for all financial years up to and including financial year 2022/2023 by 30 September 2024? (agree, disagree, unsure)

Agree

Do you have any comments on this issue?

Published and audited accounts are a key element of ensuring the appropriate financial controls and standing of organisations providing critical services for local communities. They also ensure and allow appropriate transparency and democratic challenge through mechanisms such as Audit Committees. However, the current system requires that Category 1 authorities are reliant on more than just their own resources, systems and governance to achieve this – for instance Local Authorities require their Pensions Body to be audited in order to achieve a fully audited position. The current system also means that the category 1 authority will be penalised in delays and/or additional costs and work if the external auditor is not appropriately skilled or resourced. Whilst much time is spent trying to build positive and effective relationships and working approaches, there is currently no mechanism for a category 1 authority to address where there are failings or short comings with the external auditor, the result of which will ultimately be a delay or no audited accounts.

Q2. Do you agree that the requirement at Regulation 10(2) for Category 1 authorities to publish a delay notice should be disapplied in relation to any outstanding audits covering financial years 2015/2016 to 2022/2023? (agree, disagree, unsure)

Disagree

Do you have any comments on this issue?

The notice is useful and transparent for residents in confirming the current position of accounts and giving an overview of reasons for delays. Once the Backstop date is reached we would assume the delay notice will not be required.

Q3. Do you think it would be appropriate for Category 1 authorities to be exempt from the statutory backstop date of 30 September in circumstances where the auditor is unable to issue their opinion due to outstanding objections to the accounts that could be material to that opinion? (agree, disagree, unsure)

Disagree

Please explain your response.

The statutory backstop date should be in place for all category 1 authorities. Objections may be for various reasons and various levels of significance and therefore in order to assist all organisations to move forward it is appropriate to utilise the backstop date. Should certain organisations not be able or made to move forward in this way and in this timeline, the impacts will likely knock on and cause others organisations to fall back in future audits (ie pensions bodies). It will also be inconsistent and potentially confusing for public and other organisations to understand where audits are and the reasons behind those differences. The proposals separately include arrangements for 23/24 account audits to reflect any additional works to check carried forward balances so could include something for outstanding objections?

Q4. Do you think there would be any other exceptional circumstances which might create conditions in which it would be appropriate for Category 1 authorities to be exempt from the 30 September backstop date? (agree, disagree, unsure)

Disagree

Please explain your response, including, where relevant, details of exceptional circumstances you consider would justify an exemption.

I think it is critical that all category 1 organisations can move forward at the same time, and clear any previous blockages. One organisation working to a different timeline, may well cause delays to other organisations and bring the same cross system issues into being.

Q5. We intend to publish a list of local bodies and audit firms which meet statutory deadlines for the publication of audited accounts and those which do not. Do you think there should be additional consequences for Category 1 authorities or audit firms (excluding an authority or firm covered by an exemption) if they do not comply with the statutory deadline of 30 September 2024? (agree, disagree, unsure)

Disagree

Please explain your response and, where relevant, include any suggested consequences.

The proposed approach makes a significant step in clearing the backlog position for all organisations. However, it does not look to understand where the fault or reasons for non-

completion of the audit lies. The reasons will often be complicated, a mixture of issues and often will be disputed between parties. Most recently external audit companies have stopped any further work on many audits because of the forthcoming backstop date. In Wokingham's particular circumstances this is a particular area of concern and frustration. Trying to get confirmation of issues and fault will add significant time and resources to the process and in many instances will not provide a definitive reason.

Phase 2

Questions

Q6. Notwithstanding the possibility of exemptions in exceptional circumstances (covered by questions 7 and 8 below), do you agree that Category 1 local authorities should be required to publish audited accounts for financial years 2023/2024 to 2027/2028 by the following dates (agree, disagree, unsure)?

- 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

Disagree

Do you have any comments on these dates?

We would support all dates apart from 31 May 2025 for 2023/24 as this will clash with the date of the publishing 2024/25 accounts. We would propose that date is delayed until 31st July 2025. More widely, the continuation of backstop dates is helpful to ensure similar issues do not re-occur and build, however, if the fundamental issues such as external audit resources are not addressed then there will be a position where accounts are continually "disclaimed" and confidence and assurance in financial statements and positions are significantly impact. It would also be unfair for category 1 organisations to receive qualifications or other negative assessments, where issues are beyond their control (ie where dependent on another organisation or due to external audit resource issues). Therefore whilst we would support the dates suggested, we would implore that appropriate measures are in place to ensure that external audit companies have appropriate resource and skills to complete the works within required timescales and that where those dates are not met the "disclaimer" is clear this is not the fault of the authority or any reflection on their financial position or governance. We would also ask that dates for organisations such as Pension bodies, who local authorities rely for their audit, are given an earlier date to ensure their assurances are in time to allow all works to be completed.

We also understand that these audits may be "qualified" where the 22/23 audit has been "disclosed" because there will then be a lack of assurance of brought forward balances. It is critical that is not the case as a "qualification" suggests an issue with the authority's accounts and financial governance. As in previous responses the position is due to a number of factors including other organisations delays and external audit resourcing issues. It is therefore critical that the audit opinion for these future years is clear and does not impact or imply issues with the authorities accounting process or approach.

Q7. Do you think it would be appropriate for Category 1 authorities to be exempt from the statutory backstop dates for Phase 2 in circumstances where the auditor is unable to issue their opinion due to outstanding objections to the accounts that could be material to that opinion? (agree, disagree, unsure)

Disagree

Please explain your response.

As explained in questions above it is critical that all authorities (especially where other organisations are dependent on them) work no the same timelines and same arrangements. Appropriate arrangements can be in place for objections to be picked up in future years audits, whilst not delaying progress and potential impacts on other authorities

Q8. Do you think there would be any other exceptional circumstances which might create conditions in which it would appropriate for Category 1 authorities to be exempt from the backstop dates for Phase 2? (agree, disagree, unsure)

Disagree

Please explain your response, including, where relevant, details of exceptional circumstances you consider would justify an exemption.

It is critical all organisations progress their audits in similar timelines to ensure no impacts on those dependent on their position.

Q9. We intend to publish a list of local bodies and audit firms which meet statutory deadlines for the publication of audited accounts and those which do not. Do you think there should be additional consequences for Category 1 authorities or audit firms (excluding an authority or firm covered by an exemption) if they do not comply with the statutory deadlines for Phase 2? (agree, disagree, unsure)

Disagree

Please explain your response and, where relevant, include any suggested consequences.

It is critical that organisations are not cited as at fault where statutory deadlines are not met unless there is clear evidence that this was not due to issues or resources beyond their control. In fact is it critical that where deadlines are not met, it is clear that is not the organisations fault and is not an indicator of financial stress or a lack of control or governance.

Q10. The Accounts and Audit Regulations 2015 (regulation 15(1)(a)) currently requires Category 1 local authorities to publish unaudited accounts by the 31 May following the end of the financial year. In light of the proposed deadlines for the publication of audited accounts, do you think the 31 May deadline remains appropriate for financial years 2024/2025 to 2027/2028? (agree, disagree, unsure)

Agree

Please explain your response.

The initial publishing of unaudited accounts by the end of May is an important milestone in ensuring accounts are being progressed in a timely manner and that appropriate work has taken place to allow audit processes to be completed on time

Q11. The existing annual deadline for the publication of unaudited accounts is 31 May. As set out above, we are proposing a backstop date for the publication of audited accounts for the financial year 2023/2024 of 31 May 2025. This would mean that 31 May 2025 would be the statutory deadline for both the publication of audited accounts for financial year 2023/2024 and unaudited accounts for financial year 2024/2025. Do you expect this would create any significant issues? (agree, disagree, unsure)

Agree (this would create significant issues)

Please explain your response.

As noted above we would suggest the date for 2023/24 is moved back to the end of July so two areas of priority do not clash and cause resourcing issues.

Q12. The government anticipates that the Phase 1 backstop proposals will result in modified or disclaimed opinions. A modified or disclaimed opinion at the end of Phase 1 would require auditors to subsequently rebuild assurance. The Phase 2 backstop dates are intended to enable this work to be spread across multiple years. Given this additional work, and noting the further explanation at paragraphs 15 to 46 of the [Joint Statement](#), do you have any views on the feasibility of audited accounts being published by the proposed statutory backstop dates for Phase 2?

It is critical that the resources in external audit companies is sufficient to complete this work and guidance is clear and concise. It is also critical that the audit of other bodies for which a category 1 organisation is reliant (ie Pension bodies) work is completed in a timely fashion to not impact the overall timeline for all organisations. On that basis we believe the dates are reasonable. As mentioned in previous responses, the final external audit opinion must not be qualified purely on the lack of a final signed off audit for the previous year, as this will often be beyond their control or ability to have resolved.

Publication of an audit letter

Question

Q13. Do you agree that it would be beneficial for the 2015 Regulations be amended so that Category 1 bodies would be under a duty to consider and publish audit letters received from the local auditor whenever they are issued, rather than, as is currently the case, only following the completion of the audit? (agree, disagree, unsure)

Disagree

Do you have any comments on this issue?

The requirement to publish audit letters at the time of issue could and likely would create significant enquiries and questioning that will add workload and resources pressures – taking away from the prioritisation of completing outstanding issues and resolving all matters to be able to complete the audit. Having the flexibility to publish letters at the end of the audit, or at another time as most suitable allows both the organisation and Auditor to work together on the main objective of providing appropriate assurance on the financial position and final accounts.

Equality impacts

Question

Q14. Do you have any comments on whether any of the proposals outlined in this consultation could have a disproportionate impact, either positively or negatively, on people with protected characteristics or wish to highlight any other potential equality impacts?

We do not believe these proposals will have any disproportionate impact on people with protected characteristics.

Further feedback

Question

Q15. Finally, do you have any further comments on the proposed changes to the 2015 Regulations not covered by the questions so far, including relating to any unintended consequences?

(Where possible, please limit your response to 500 words)

Whilst we appreciate the need to resolve the current issues and delays nationally and believe the proposed approach will assist in that, we are extremely disappointed with the current arrangements and the unintended consequences of the proposals. Wokingham Borough Councils accounts have now been delayed significantly for several years in the main because of delays in the audit of the Pensions Body. These delays have then led to additional works as further issues have arisen (infrastructure) whilst those accounts have been waiting finalisation. More recently the proposal of the backstop has resulted in our

external auditor withdrawing resources from the 2021/22 audit, when in fact, aside from the pensions body work it was very close to completion. For the above proposals to work both in the short-term and longer-term, fundamental issues such as the issues from dependencies on other audits and external audit resourcing have to be resolved. The auditing of accounts provides our residents and Political Leadership with assurance on the financial position and governance of the organisation. Because of a lack of Audit Resources and Pension body delays we will now not have the opportunity to provide that assurance for 2021/22 despite considerable council resource being expended. Whilst the backstop dates and disclaimer allow a way forward and clearance of the backlog of work – fundamentally we require a properly resourced and managed audit resource to ensure accounts have due checks and balances. There is currently little/nothing our organisation has been able to do to have any influence on the Pension Body delays and the lack of external audit resources which will ultimately result in a lack of assurance for members and residents, and a reputational impact on the councils financial standing. This has to change in the future arrangements and even to support the short-term solution.

As mentioned above, we have also now heard that 2022/23 disclaimed accounts may result in future years accounts being qualified because of the lack of assurance on brought forward balances. We would strongly disagree with this approach as this would incorrectly reflect on the organisations accounts and assurance, where issues have been caused by a number of factors, including other organisations delays and external audit resource pressures. It is key in providing the disclaimed 2022/23 position that this does not then negatively impact on opinions for 2023/24 accounts and beyond

This page is intentionally left blank