

Local Audit - update

Purpose of Report

For information.

Is this report confidential? No

Summary

This report contains an update on progress on the proposals for the reset of local audit, following discussion of the LGA's responses to the consultations on those proposals at the last Board.

LGA Plan Theme: A sustainable financial future

Recommendation(s)

That the Board note the progress being made since the last board on the proposals for the reset of local audit. That officers continue to seek advice from lead members and from the Board on how to respond as the proposals develop. That members comment on the proposal for at least one backstop date to take place in a pre-election period and on whether in this case mitigating actions such as clear protocols to be followed and strong communication on the meaning of audit opinions would help. That officers continue to work with officials on the implications for the sector of the implementation of the proposals

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Local Audit Update

Background

1. At the last meeting of the Board members discussed the LGA's responses to consultations on proposals, to resolve the local audit crisis, from DLUHC and the Financial Reporting Council (FRC), and from the National Audit Office (NAO). This paper updates the Board on what has happened since the last meeting, including a further consultation from the Chartered Institute of Public Finance and Accountancy (CIPFA) on changes to the accounting code.
2. As has been previously discussed, the number of outstanding audits (covering several years) peaked at 918 at 30 September 2023, and at that point about 99% of all English local authorities had an audit opinion outstanding. By 31 December 2023, this had decreased to 770 outstanding audit opinions. At 31 March 2024, latest monitoring by PSAA shows that there are still 642 outstanding opinions going back to 2015/16 and that these are spread across 348 local authorities, whilst 119 local authorities now have no outstanding audit opinion.

Proposals for Local Audit

3. Formal proposals were published on 8 February. These included: a [consultation from DLUHC](#) on the arrangements to be put in place and changes to the Accounts and Audit Regulations; and [a consultation from the NAO](#) on changes to the Audit Code of Practice to support and enable the changes by directing auditors to follow them. The FRC also published [supporting and explanatory material](#). On 1 March CIPFA published a consultation on [amendments to the accounting code](#).
4. In outline, the proposals are that a backstop date of 30 September 2024 will be implemented to clear the backlog of historical audit opinions up to and including the financial year 2022/23, and then back stop dates will be implemented for audit opinions for each financial year up to and including 2027/28. Audits not concluded at each backstop date will be subject to a "modified" audit opinion.
5. Following the discussion at the last meeting, responses to the consultations from [DLUHC](#) and the [NAO](#) were finalised with the agreement of Lead Members and submitted. As discussed at the Board, the proposals in the two consultations represent the best opportunity for resolving the situation. The responses therefore supported the proposals overall, subject to some caveats. These caveats included the following (amongst other detailed points):
 - 5.1. concerns over the reputation of, and other practical problems for, individual local authorities and the sector as a whole given the expected large number of modified audit opinions;
 - 5.2. lack of information on long term proposals;
 - 5.3. lack of clarity on fees for both past years and future years; and

- 5.4. need for further clarity on dates for the delivery of audit opinions to enable publication by backstop dates.
6. Lead Members also agreed a [response to the consultation from CIPFA](#), which was submitted by the end of March. In the response to this consultation, we raised concerns that the changes proposed to the accounting code would not have had a significant impact on simplification or on the workload of auditors or accounts preparers. This is also a concern for what is likely to be proposed to support the long-term reform of the audit system.
 7. The DLUHC and NAO consultations closed on 7 March and the CIPFA consultation closed on 28 March. At the time of writing, the formal outcomes to the consultations have not been published.
 8. One of the proposed backstop dates in the consultation proposals was 31 March 2026. This will be during a pre-election period for local elections and a query has been raised as to whether this will cause problems and, if so, how serious they will be. It is likely to mean that some local authorities will publish accounts with a modified opinion during the election period. Members views are sought on this issue, and also on whether mitigating actions such as clear protocols to be followed when this happens and strong communication on the meaning of the opinions would help.
 9. Officers are continuing to discuss the proposals with officials from DLUHC and the FRC and a further verbal update will be given at the meeting.
 10. Given the number of opinions currently outstanding (quoted above) and the likely progress in signing these off over the next six months, it is likely that the number of modified opinions (covering several financial years up to 2022/23) to be issued in September will run into several hundred. The maximum number of local authorities that can be affected is 348, though the actual number is likely to be less.

Public Accounts Committee

11. The Public Accounts Committee are carrying out an [inquiry](#) into the [Whole of Government Accounts \(WGA\) for 2021/22](#) (they carry out an inquiry into each year's accounts and 2021/22 have recently been published).
12. The [call for evidence for the inquiry](#) highlights that one of the (many) reasons for the qualification of the WGA 2021/22 is the high number of local authorities that were unable to submit their accounts in time due to the delays in local audit. Lead members of the Board have approved a written submission of evidence to the inquiry that outlines our views on this point (based on the recent consultation responses), and also outlines our views on the valuation of infrastructure assets (from several consultations over the past two years). Differences in the method used by local authorities to value infrastructure assets from that used by central government is another reason for the qualification of the WGA. We have suggested that if qualification due to local authority accounts is seen as a major problem then consideration should be given to exclude local authorities (or some of their figures) from WGA, either temporarily or permanently.

Implications for Wales

13. The proposals affect England only.

Financial Implications

14. The work covered in this paper is included in the LGA's core budget.

Equalities implications

15. The audit of a council's accounts can relate to all aspects of local authority services. The audit of the accounts affects local authorities and their residents as a whole and it is difficult to assess what individual impacts there are on people with protected characteristics. Ensuring the accessibility of the accounts to all is an important part of achieving transparency and good governance. Improving the position on completion of audits of the accounts should help local authorities in deploying resources to deliver services and aid them in being able to improve equalities generally.

Next steps

16. That members note the progress being made since the last board on the proposals for the reset of local audit,

17. That officers continue to seek advice from lead members and from the Board on how to respond as the proposals develop.

18. That members comment on the proposal for at least one backstop date to take place in a pre-election period and on whether in this case mitigating actions such as clear protocols to be followed and strong communication on the meaning of audit opinions would help..

19. That officers continue to work with officials on the implications for the sector of the implementation of the proposals.