

Audit Committee 19th March 2024



Title	Spelthorne response to the consultation on external audit arrangements
Purpose of the report	To note
Report Author	Terry Collier, Deputy Chief Executive
Ward(s) Affected	All Wards
Exempt	No
Exemption Reason	N/A
Corporate Priority	All
Recommendations	To note the Government consultation on 1) reset 2) recovery of national arrangements for external audit of local government and 3) longer term reform of external audit recommendations
Reason for Recommendation	As a Council we have a legal responsibility to comply with the Audit Regulations, and we want to receive external audit assurance

1. Summary of the report

What is the situation	Why we want to do something
<ul style="list-style-type: none"> Nationally more than 900 local authority Statements of Accounts are overdue external audit sign off Government is proposing to “reset” by setting deadline of 30th September 2024 for Auditors to issue opinions or disclaimers on overdue audits Due to the length of time the previous external auditors took to sign off Spelthorne’s backlog Spelthorne has 5 sets of draft accounts awaiting audit review 	<p>Good effective financial management and ownership therefore of underpins everything the Council is seeking to deliver</p>

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This is what we want to do about it	These are the next steps
<ul style="list-style-type: none"> • Submit our own response to the Consultation • Encourage existing and incoming auditors to work with us 	<ul style="list-style-type: none"> • Note the response, which has been discussed with Chair and Vice Chair of Audit Committee, submitted to the consultation process • Prepare to receive in September Audit opinions/disclaimers on the audits for accounts for the period 2018-19 to 2022-23 • Prepare to receive in September a single aggregated Value for Money opinion from the external auditors covering the period 2018-19 to 2022-23

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. A significant number of local audits in England are outstanding. The government, working with the Financial Reporting Council (FRC) and other system partners, is taking steps to clear the backlog and put the system on a sustainable footing moving forward.

1.2 On 8th February, the Local Government Minister Simon Hoare MP issued a letter to local authorities and published with a Joint Statement (Appendix A) agreed with 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). The Joint Statement proposes that there will be 3 stages to tackling the national external audit issues. The 3 elements are:

- **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

2. Key issues

2.1 Phase 1: Reset

- 2.2 There was to be a consultation by the National Audit Office (NAO) on the clearing backlog proposals running from 8 February 2024 to 7 March 2024. Covers both clearing backlog upto 22-23 and recovery period for Financial Years 2023/2024 - 2027/2028. As part of the consultation a number of webinars and workshops were being run with the Chief Finance Officer and colleagues attending these sessions. These sessions then, along with comments from the Chair, Vice Chair and Independent member informed the response to the consultation- see Appendix B.
- 2.3 The Consultation confirms that the intention is that nationally across England that clearance deadline for all audited accounts upto and including 2022-23 will be 30th September 2024. Auditors will be required to issue their opinions by this date. Opinions will include modified opinions or disclaimers. See Appendix C – Explainer – Modified Opinions.
- 2.4 The NAO’s consultation proposes that the Code of Audit Practice would introduce exemptions from the proposed statutory deadline for auditors in certain circumstances. These would include, for example, if the auditor is unable to issue their opinion where there are outstanding objections to the accounts that could be material to that opinion.
- 2.5 Under these proposals, the published, audited accounts must also be approved in accordance with regulation 9(2) and therefore the approval must be given before the backstop date (Committee Services we will need to look to ensure that we have an Audit Committee in late September
- 2.6 Regulation 20 of the 2015 Regulations places a duty on Category 1 authorities to consider and then publish any audit letter received from the auditor “following completion of an audit.”The NAO’s Code of Audit Practice currently specifies that an auditor’s annual report meets the definition of an ‘audit letter’ in the 2015 Regulations. The 2020 Code of Audit Practice states that an auditor’s annual report brings together all of the auditor’s work over the year. This should be presented at an appropriate forum at the body (e.g. Audit Committee or Full Council) and be made available on the authority’s website.

Value for Money Opinion

- 2.7 A core element of the auditor’s annual report is a commentary on the organisation’s arrangements to secure value for money through the economic, efficient and effective use of its resources. The commentary should be clear, readily understandable and highlight any issues that the auditor wishes to draw to the attention of the body or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor’s view as to whether they have been implemented satisfactorily.

Phase 2: ‘Backstop’ proposals for the recovery period, financial years 2023/2024 to 2027/28

- 2.8 The proposed changes to the 2015 Regulations would require (subject to consideration of potential exceptions) authorities to publish audited accounts by the following dates for financial years 2023/2024 to 2027/2028:
- 2023/24: 31 May 2025 – this will therefore be the deadline for Grant Thornton’s first audit

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

2.9 Taking from above that once we reach the end of the recovery period the ongoing position will be for audited accounts to be published by end of November ie returning to the deadlines we used to have before they were brought forward. The recent backlog issues have, resulted in both delays (as Spelthorne experienced with KPMG) to this public reporting and much less predictability in terms of when the auditors' letters would be published.

2.10 Under the proposed changes to the NAO's Code of Audit Practice, aimed at helping with clearing the backlog of local audit opinions and restoring more timely reporting of auditors' work on arrangements to secure value for money, the NAO plans to consult on a fixed annual deadline of 30 November for production and subsequent publication of the auditor's annual report.

2.11 A fixed cycle may mean that, due to the proposed deadlines for publication of audited accounts for financial years 2023/2024 to 2027/2028, the auditor would issue their annual report before they have completed all of their work. However, it is hoped that these changes will enable the auditor to report the outcome of the majority of their work on financial sustainability and governance in a more timely and predictable way.

Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit

2.12 Further, longer term work is required to address the systemic challenges that have led to the current local audit backlog and ensure that backlogs do not in future start to build up again. All parties to the Cross-System Statement have stated that they are 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.

2.13 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.

2.14 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.

- 2.15 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.
- 2.16 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.
- 2.17 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

3. Options analysis and proposal

- 3.1 To note the report, the Council's response to the consultation which reflects comments from members of the Committee and agree an approach to working with the current external auditors. The deadline for responses to the consultation was 7th March so it was not possible to discuss responses at this Committee meeting.

4. Financial management comments

- 4.1 Addressing the national backlog issues are fundamental to providing assurance to stakeholders, including councillors and residents, as to the soundness of local authority financial management arrangements.

5. Risk management comments

- 5.1 As touched on in the consultation response, there is a risk of reputational damage if disclaimers are issued because external auditors have not had time to do audit work on opinions ahead of the backlog cut off. It is for this reason that it will be important that clear guidance is issued nationally to auditors to explain the reasons why disclaimers have been issued.

6. Procurement comments

- 7.1 None

7. Legal comments

- 8.1 As a council we have a statutory responsibility to comply with the Audit Regulations.

8. Other considerations

- 8.1 Need to be mindful of the resourcing impact over the next twelve months on finance team and other teams of interacting with BDO on multi-year Value for

Money Audit opinion and liaising during the same period with Grant Thornton as they audit the draft 2023-24 Statement of Accounts.

9. Equality and Diversity

9.1 There are no equality and diversity implications.

10. Sustainability/Climate Change Implications

10.1

11. Timetable for implementation

11.1 Ongoing

12. Contact

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Background papers: There are none.

Appendices:

Appendix A – Minister’s Letter

Appendix B – Response to the NAO Consultation

Appendix C – Local Audit Modified Opinions