

Restoring timely, high-quality financial reporting and audit of local bodies

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What is being proposed in the Joint Statement?

To clear the backlog of historic accounts, the Department for Levelling Up, Housing and Communities is consulting on proposals to legislate for a statutory backstop date of 30 September 2024 for local bodies to publish outstanding audited accounts. There will also be a series of dates covering the financial years 2023/24 to 2027/28 as part of a process of rebuilding assurance over time, reducing the risk of a new backlog being created.

The duty for local bodies to publish a delay notice where the audit has not been concluded by the existing deadline will also be withdrawn.

The National Audit Office is also consulting on changes to the Code of Audit Practice which will require auditors of local bodies to comply with these statutory backstop dates by giving their opinions in time for audited accounts to be published.

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How will this impact local bodies' financial reports?

Introducing statutory backstop dates may lead to auditors providing a modified or disclaimed opinion on a local body's financial reports if they do not have enough time to complete all audit work before that date.

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What is a modified or disclaimed audit opinion?

Under International Standards on Auditing (UK), auditors have the objectives of obtaining reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and issuing a report that includes their opinion.

Where auditors are able to obtain this assurance, through obtaining sufficient, appropriate audit evidence during the audit, they would issue an unmodified 'clean' audit opinion.

Where auditors are unable to obtain this assurance, under International Standards on Auditing (UK) they must 'modify' or 'disclaim' their audit opinion.

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Why is this important to local bodies?

Timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. The backlog in the publication of audited accounts – alongside the issuing of Section 114 notices by a small number of local authorities in recent years – has increased interest in the financial reporting of these bodies.

The FRC and other system partners recognises the risk that a local body being issued with a modified or disclaimed audit opinion could be interpreted as a sign of significant financial or management issues without taking into account the extraordinary circumstances facing the sector and the nature of the measures being proposed.

The Joint Statement underlined the importance of local bodies, residents and other stakeholders such as commentators being able to 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.

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Will it be clear where the backstop dates affect an audit opinion?

The FRC will be working with system partners to issue guidance reminding auditors of their responsibility under International Standards on Auditing (UK) to clearly communicate the reason for the opinion they provide. This includes indicating in their report where they had insufficient time to gain appropriate audit evidence owing to the requirement to meet the statutory backstop date introduced by the Government, rather than any other pervasive concerns about the local body's financial statements.

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