



Report for: INFORMATION
Item Number:

Contains Confidential or Exempt Information	NO
Title	Public Sector Audit Arrangements Update
Responsible Officer	Emily Hill – Strategic Director, Resources
Authors	Emma Horner – Assistant Director Technical Finance
Portfolio	Cllr Steve Donnelly – Inclusive Economy
For Consideration By	Audit Committee
Date to be considered	27 February 2024
Implementation Date if Not Called In	N/A
Affected Wards	All
Keywords/Index	External Audit, Public Sector Audit Appointments (PSAA), Department for Levelling Up, Housing and Communities (DLUHC).

Purpose of Report:

This report is to inform the Audit Committee of the joint statements and consultations on the audit backlog published by Department of Levelling Up Housing and Communities (DLUHC) and the National Audit Office (NAO) on Thursday 8 February 2024.

1. Recommendations

- 1.1 It is recommended that the Committee notes the update on the joint statement and consultation which will impact the audit of the Ealing Pension Fund and London Borough of Ealing accounts.

2. Reason for Decision and Options Considered

2.1 This report is for information only, no decision is required.

3. Background and Summary

3.1 In July 2023, the Minister for Local Government published a Cross-System Statement setting out proposals to set a series of backstop dates to clear the backlog in local audit opinions in England and embed timely audit.

3.2 The national backlog in publication of audited accounts of local bodies has grown since the 2020/21 financial year, the number of outstanding opinions peaked on 30 September 2023 at 918. At 31 December 2023, the backlog of outstanding audit opinions stood at 771.

3.3 On 8 February, DLUHC issued a consultation and cross system statement on proposal to clear the backlog of local audits in England.

3.4 The consultation covers proposed changes to the Accounts and Audit Regulations 2015 aimed at clearing the audit backlog and are to apply to all 'Category 1' authorities, of which Ealing is one.

3.5 The Joint Statement from DLUHC, Financial Reporting Council (FRC), PSAA, CIPFA, National Audit Office (NOA) and Institute of Chartered Accountants in England and Wales (ICAEW) sets out 3 stages of measures to address the issues, summarised below:

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.

3.6 The Joint Statement provides context, explaining the cross-system proposals and how the various elements are intended to interact. CIPFA will consult on temporary changes to the Code of Practice on Local Authority Accounting for 2023/24 and 2024/25, including extending the override on infrastructure assets, simplifying the revaluation of operational properties by allowing the use of indexation until new revaluation requirements are introduced in 2025/26, and reducing net pension assets and liabilities disclosures for at least 2 years, in an attempt to reduce the burden on finance teams and auditors.

3.7 Auditing standards allow auditors to issue modified or disclaimed opinions in the event of a statutory backstop date, even in cases where little to no substantive testing has been carried out. As set out in the Cross-System statement in July, the proposed backstop date is likely to result in modifications or disclaimers of the audit opinion. System partners will provide clear communications to the system explaining what the different types of opinions mean, including explaining

that modified or disclaimed opinions caused by the backstop date do not necessarily indicate significant financial reporting or financial management issues in a local body.

- 3.8 Further discussions will be held with the councils current auditors, Deloitte (for financial statements to 2022/23) and new auditors, Mazars (for financial statements for 2023/24 onwards) on the specific implications of the consultations and resourcing arrangements for the Ealing audits and will be reported to a future meeting.

4. Financial

- 4.1 PSAA, the body overseeing most local audits, 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. PSAA will set the scale fees for 2024/25 in accordance with the Local Audit (Appointing Person) Regulations 2015. The FRC and the NAO will support PSAA as it determines the fee impact of changes in audit requirements. It will also review relevant aspects of the contracts for the audits from 2023/24 to identify changes required to align with the changes proposed in the consultations.

5. Legal

- 5.1 The FRC and the NAO will support PSAA as it determines the fee impact of changes in audit requirements. It will also review relevant aspects of the contracts for the audits from 2023/24 to identify changes required to align with the changes proposed in the consultations.
- 5.2 The 2015 regulations would be amended to remove the duty to publish a delay notice for outstanding audits for financial years 2015/16 to 2022/23. The audited accounts must be approved (in accordance with existing regulation 9(2)) by the 'backstop date'.

6. Value for Money

Not applicable

7. Sustainability Impact Appraisal

Not applicable.

8. Risk Management

- 8.1 There is no immediate risk to the Council; however, early planning will be required to achieve a successful transition to the new arrangements in a timely and efficient manner.

9. Community Safety

Not Applicable

10. Links to Strategic Objectives

10.1 Effective financial reporting and audit arrangements support delivery of the Council's strategic priorities.

11. Equalities, Human Rights and Community Cohesion

11.1 The need for the completion of an Equality Analysis Assessment (EAA) was considered but is not required.

12. Staffing/Workforce and Accommodation implications

Not applicable

13. Property and Assets

Not applicable

14. Consultation

Not applicable

15. Timetable for implementation

15.1 DLUHC is seeking views on changes to the Accounts and Audit Regulations 2015 to introduce backstop dates for the publication of audited accounts, by 7 March 2024.

15.2 The NAO is seeking views on changes to the Code of Audit Practice to support auditors to meet backstop dates and promote more timely reporting of their work on value for money arrangements, by 7 March 2024.

15.3 CIPFA LASAAC will consult on temporary changes to the Code of Practice on Local Authority Accounting for 2023/24 and 2024/25 to reduce burdens on the finance teams and auditors.

16. Appendices

None

17. Background information

- Link to joint statement from DLUHC and NAO [Joint Statement](#)
- Link to live consultations:
 - [DLUHC Consultation](#)
 - [Code of Audit Practice Consultation - National Audit Office \(NAO\)](#)
- The Local Government (Accounts and Audit) Regulations 2015
- The Local Audit and Accountability Act 2014

Consultation

Name of consultee	Post held	Date sent to consultee	Date response received	Comments appear in paragraph:
Emily Hill	Strategic Director, Resources			Throughout

Report History

Decision type:	Urgency item?
For information	No
Report no.:	Report author and contact for queries: Emma Horner Assistant Director - Technical Finance hornere@ealing.gov.uk 020 8825 6265