

LONDON BOROUGH OF CAMDEN	WARDS: All
REPORT TITLE: Update on the Audit Backlog	
REPORT OF: Executive Director Corporate Services	
FOR SUBMISSION TO: Audit and Corporate Governance Committee	DATE: 26 September 2024
<p>SUMMARY OF REPORT: This report provides an update on the current status of local government financial reporting and audit following the recent announcement of revised backstop deadlines, and the impact on Camden’s financial reporting timeframes.</p> <p>LOCAL GOVERNMENT ACT 1972 – ACCESS TO INFORMATION No documents that require listing have been used in the preparation of this report.</p> <p>CONTACT OFFICER: Raj Shah Chief Accountant 5 Pancras Square London N1C 4AG Telephone: 020 7974 6378 raj.shah@camden.gov.uk</p>	
<p>RECOMMENDATIONS</p> <p>The Committee is asked to note the contents of the report.</p>	
<p>SIGNED: Agreed by Director of Finance</p> <p>DATE: 16 September 2024</p>	

1. Purpose of Report

- 1.1. This report updates to Committee on the latest information provided to Local Authorities on the arrangements for dealing with delays in the audit process and the backlog of unaudited local authority accounts.

2. Background

- 2.1. Local Authorities across England and Wales have experienced a significant backlog in completion of audits for several years which has been reported as a 'Crisis in Local Audit', with only 21% of local authority audits have been finalised for 2022/23 as confirmed by reports from LG Improve – a consultancy firm specialising in Local Government Finance – as of 3rd June 2024.
- 2.2. The local audit backlog has been well documented in previous reports to the Committee and has been a subject discussed in previous Committee meetings.
- 2.3. In February 2024 the Department for Levelling up Housing and Communities, (DLUHC), now known as Ministry of Housing, Communities and Local Government (MHCLG) issued a joint statement with Chartered Institute of Public Finance and Accountancy (CIPFA) and the Financial Reporting Council (FRC) on proposals to address the backlog, setting out as a three-stage process

- 1) Reset Using legislation and changes to the Code of Audit Practice to implement a backstop date for the publication of audited financial statements which are outstanding for all financial years up to and including 2022/23.
- 2) Recovery Establishing new statutory backstop dates for all financial years up to and including 2027/28. These backstop dates would replace the existing deadlines in the Accounts and Audit Regulations 2015. Will enable auditors to rebuild assurance over local bodies' financial information which has been subject to modified opinion over a longer period of several years. The default position without backstop dates would be that auditors need to rebuild all assurance in the first year following a modified or disclaimed opinion, creating an exceptional workload in this first year, which would risk a recurrence of the backlog.
- 3) Reform 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 and will build on the recommendations of the Redmond Review.

The immediate focus has been on incorporating backstop dates in regulation, by which point councils must report accounts, with disclaimed or modified audit opinions where audits are incomplete. A summary of the proposals was reported to Committee in April 2024.

- 2.4. Consultations were issued by DLUHC, the National Audit Office (NAO) and CIPFA on changes to regulations. To date there has been no communication on the outcome of these consultations and at Camden we have liaised with the Financial Reporting Council for a summary of the outcomes of these consultations.
- 2.5. To enact this reform, it must be passed into legislation by Parliament.

3. Update to the Backstop Arrangements

- 3.1. The anticipated reforms were scheduled to be passed in Parliament by the previous administration, but the call for a General Election before the reforms could be presented to Parliament resulted in the backstop proposal not being passed into legislation.
- 3.2. After the formation of a new government following the election, Jim McMahon - Minister of State for Housing, Communities and Local Government - issued a letter (Appendix A) outlining the newly proposed backstop dates, summarised in the table below. This reform and the new backstop dates have now been presented to Parliament and passed into legislation.

Table 1

Financial Years	Original Backstop Deadline	Revised Backstop Deadline
Up to 2022/23	30 September 2024	13 December 2024
2023/24	31 May 2025	28 February 2025
2024/25	31 March 2026	27 February 2026
2025/26	31 January 2027	31 January 2027
2026/27	30 November 2027	30 November 2027
2027/28	30 November 2028	30 November 2028

Potential Backstop implications for Camden

- 3.3. As highlighted in table 1 above, there has been a significant change to dates. Camden has liaised with the FRC and they indicated that these dates would be discussed in parliament and potentially passed through legislation after summer recess.
- 3.4. The revised backstop dates extend the deadline for accounts up to 2022/23 to December 2024 whilst shortening the deadline for years 2023/24 and 2024/25. Whilst the council welcomes the government's proposed backstop dates to

address the outstanding audits, it is worth noting the deeper structural issues that need to be addressed including limited audit capacity, complex financial statements, and inadequate recourse if audit firms fail to deliver. Addressing these issues is crucial for ensuring reliable financial data and accountability and eliminating this backlog once permanently. Particularly the shortening of the backstop period for 2023/24 and 2024/25 is likely to place further pressure on already stretched audit firms increasing the risk of audit disclaimers. This is necessarily not down to any particular financial reporting error or wider financial issue but as a consequence of the dearth of audit capacity to complete the required work by the revised backstop dates.

- 3.5. At Camden this could have implications for the audit of 2022/23 and possible knock on effects for the next two years. Given the wider pressures in the audit market, and the updated backstop dates in the table that have been approved, there is a risk that draft accounts for 2022/23 and 2023/24 will receive a modified or disclaimed opinion. These opinions mean that auditors have not been able to complete their testing and auditing of these accounts by the deadlines set by legislation. A council can only get an unqualified audit opinion once prior year balances have been verified in future audits.
- 3.6. Despite this uncertainty the Council continues to do all it can do to clear its own backlog and prepare a full set of draft accounts. The council has made positive steps to now conclude the accounts for 2019/20 and 2020/21. The council has published draft accounts for 2021/22 which are being audited by Mazars. The council is working with Mazars to finalise the audit and publish final accounts for 2021/22 by September 2024.
- 3.7. Following recommendations from the 2020/21 audits, Camden have significantly increased capacity in the Financial Reporting team. Both to manage the simultaneous requirements of the 2021/22 audit and the 2022/23 accounts preparation and to ensure the team is well positioned to respond to the revised backstop dates in relation to outstanding local audits, which have now been laid before Parliament.
- 3.8. This includes the creation of a new Chief Accountant post along with several other technical financial reporting roles, plus ongoing specialist interim resource to help with the preparation of accounts and in responding to queries as part of the audit process. On top of this, significant emphasis has been placed on future proofing the function with specific tailored training and support and investment to further streamline our systems and processes.
- 3.9. Much of this change has also been influenced by some of the key audit and control recommendations that have arisen in prior years. This extra focus and emphasis on procedures and quality of working papers has already begun to realise benefits as evidenced by the 2021/22 Draft Audit Completion Report (elsewhere on the agenda). For e.g. the committee will note the reduction in the number of audit adjustments required to the draft accounts compared to previous years.

- 3.10. These initial steps will be crucial in successfully navigating the immediate issue of the backlogs but also ensure the Council is well placed to respond positively to necessary longer-term solutions to the wider, broken local audit system which will need major overhaul and reform and will only be successful with equal and matching contributions from the key system players. This includes Audit Firms, CIPFA, PSAA (Public Sector Auditor Appointments), NAO (National Audit Office). FRC (Financial Reporting Council) and MHCLG (Ministry of Housing, Communities and Local Government), who all have important roles to play.
- 3.11. It should be noted the council is targeting publication of its draft 2022/23 statement of accounts in September 2024, whilst ensuring they are audit ready. Following this, the council will begin immediate preparation of the draft 2023/24 accounts for publication by the end of January 2025.
- 3.12. Currently there are ongoing discussions with Mazars and other councils regarding the audit timelines given the backstop dates announced seeking to optimising the use of limited external auditor resources. Table 2 below sets out the council's work plan for publication of draft accounts for the next 6 years, shown alongside the revised backstop dates.

Table 2

Financial Years	Revised Backstop Deadline	Publication of draft Accounts
Up to 2022/23	13 December 2024	30 September 2024
2023/24	28 February 2025	31 January 2025
2024/25	27 February 2026	30 June 2025
2025/26	31 January 2027	30 June 2026
2026/27	30 November 2027	30 June 2027
2027/28	30 November 2028	30 June 2028

- 3.13. The table above provides an indication of the timings for production of the draft accounts up until 2027/28. The timings of actual audits will be subject to discussions with our auditors and capacity in the audit market. Nonetheless the Council will ensure that a complete set of quality reviewed working papers will be accompany the draft accounts and the council will be "audit ready" should the audit landscape improve/change in the coming months.
- 3.14. Camden has liaised with the FRC to seek the outcome of the formal consultation of the backstop dates proposed at its first inception. The FRC has advised to liaise directly with MHCLG, and the council seeks to liaise with MHCLG on the outcome of the formal consultation. There could be an opportunity for Camden to lobby MHCLG for a slight revision of the new backstop dates proposed to mitigate the risk of disclaimed or modified opinion on 2022/23 and 2023/24 statement of accounts.

- 3.15. The benefit of pushing dates back slightly is that it will reduce the number of councils that receive modified or disclaimed opinions, and this will reduce pressure and free up resources within local authorities and auditors to finalise accounts and move towards unqualified audit opinions.
- 3.16. It should be noted that while there have been significant delays in the conclusion of our two most recent audits, there has been nothing to suggest that we are in a precarious financial position or that there is anything of fundamental concern with our financial position.

4. Finance Comments of the Executive Director Corporate Services

- 4.1. This is a report of the Executive Director Corporate Services and his views are incorporated into this report.

5. Legal Comments of the Borough Solicitor

- 5.1. The Borough Solicitor has been consulted and has no comments to add.

6. Environmental Implications

- 6.1. There are no environmental implications.

7. Appendices

Appendix A: MHCLG Letter to all Councils

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