Society of District Council Treasurers

Response to MHCLG consultation on the "Addressing the local audit backlog in England"

Introduction

The Society of District Council Treasurers (SDCT) was formed in 1974 and represents the 164 district council finance functions in England. The Society provides a forum for members to share expertise on financial issues affecting district authorities. It also enables districts to speak with a united voice; as a Treasurers' Society it is recognised as a key local government stakeholder by central government and the Local Government Association.

General Comments

We welcome proposals which will support the sector to address backlog of local government audit and thank those who have contributed to shaping the proposals brough forward. We recognise this is not the only area being considered in addressing these issues, but it is a very important piece of the puzzle.

We have been reporting the fundamental concerns from local authorities around audit arrangements, such as audit requirements, the regulatory framework in which audits are undertaken and accounting requirements for many years and are glad there has finally been some positive seps forward in attempting to address these.

The timing and resourcing of audits is key, but without a fundamental review of the focus, there will continue to be pressures both on audit firms and councils alike, in delivering accounts and quality audits which truly represent the needs of the stakeholders.

A move to international accounting standards was the right approach, although due to the statutory overrides in place for the impact of items like valuations, it brings into question why this, along with pensions, tends to be the main focus of the audit, taking significant and annually increasing officer and auditor time, in addition to increasing audit fees and the demands on the appointed professional valuers of councils, in turn also increasing costs.

The most important factors for stakeholders are financial sustainability, lawful expenditure, adequacy of reserves and value for money (we welcome the proposal that in future there is proposed to be an annual cut for VFM opinions to ensure timely reporting). It is true there for some authorities which through commercial strategy, have heightened the need for attention on valuations and risks, but these should be considered as part of the sustainability of a council, along with specific disclosure requirements in relation to commercial activities.

We acknowledge that workstreams are underway and some proposals (such as around valuation methodology) are already in train. We would urge the government to ensure that this work on simplifying the accounts and the audit requirements continues at pace. If improvements are made in these areas, the government may be able to revisit the proposals around future years to enable further improvements to be made in timeliness of audits.

Consultation Response Questions

Q1. Notwithstanding the possibility of exemptions in exceptional circumstances (covered by questions 3 and 4 below), do you agree that Category 1 authorities should be required to have published audited accounts for all financial years up to and including financial year 2022/2023 by 30 September 2024? (agree, disagree, unsure). Do you have any comments on this issue?

Agree

We support this proposal, it will be a fundamental aspect to ensuring that the audit backlog is cleared in a reasonable timeframe once the regulations are in place.

It will be really important to have a coordinated approach nationally to explaining the backlog context and what disclaimers and modified opinions mean. It would be really helpful if clear guidance is issued to auditors on the narrative they issue when disclaimers are issued due to the 30th September backlog cut off date rather than to any underlying audit issues. For a Council such as Spelthorne which has had a high profile this is particularly important as there is a risk others may read into disclaimers interpretations which are not justified.

Under normal circumstances Statements of Accounts would be signed off by Audit Committees after hearing from the auditors that they had completed their work and were ready to issue their opinions. the Audit Committees will need to consider to what extent the proposals will mean that the Councillors and officers will need to make and sign off on statements in relation to the accounts which will not have been subject to the same scrutiny as previous accounts. So we need to ensure that the statements are adapted if necessary and any supporting procedures are in place to support such statements (in the absence of a full audit).

Will there be any national text templates issued to guide auditors as to how to explain disclaimers arising from the backlog cut off?

We would very much welcome additional guidance, being given to councils, chief finance officers, Audit Committee chairs and Audit Committee members to explain what disclaimers mean.

What will be the form and wording of any sign off required by officers and councillors of accounts which effectively have not had any audit work on them and for which disclaimers are being issued?

What influence can PSAA/FRC and councils exert on current auditors to undertake work ahead of 30th September to at least provide some assurance on accounts? We welcome FRC and NAO comments that auditors should continue to make reasonable steps to complete outstanding audits.

Q2. Do you agree that the requirement at Regulation 10(2) for Category 1 authorities to publish a delay notice should be disapplied in relation to any outstanding audits covering financial years 2015/2016 to 2022/2023? (agree, disagree, unsure). Do you have any comments on this issue?

Partly Agree

Whilst we accept there are reduced burdens on Local Government and Auditors for removing the need to publish a delay notice, it should be noted that the deadline for publication of such a notice for the 2022/23 accounts has already passed (30 September 2023), and therefore this proposal is unlikely to have any significant impact as councils will already have published a notice. It has been commented by some councils that it would however be useful to have a standard form of words that all councils could put on their website to explain to readers of the accounts the situation, and why disclaimed opinions are being used to bring audits up to date, rather than meaning there is something substantially wrong within the accounts.

Q3. Do you think it would be appropriate for Category 1 authorities to be exempt from the statutory backstop date of 30 September in circumstances where the auditor is unable to issue their opinion due to outstanding objections to the accounts that could be material to that opinion? (agree, disagree, unsure). Please explain your response.

Unsure

It is clear, that if there is a valid objection that would materially impact the financial position of an authority, in particular their useable reserves, capital financing requirement or on the value for money conclusion, there may be benefit in concluding that objection before the opinion is issued. This must be carefully balanced against the essential task of clearing the audit backlog.

It is not uncommon for unfounded objections to be raised to accounts where a resident is feeling aggrieved about a decision made or action taken by a local authority, but auditors still have historically had to consider these and come to a conclusion on these before issuing an opinion.

The matters of materiality to the accounts and impact on the financial position of a council is an important consideration to this. For example, a small change to assumptions in a pension valuation can have a material impact on the accounts (both the pension liability and pension reserve), but in reality has little or no impact on the financial sustainability of a council. However, the misclassification of a large item of revenue into capital, could have a material impact both on the accounts, but also on the balances an authority has available to it and therefore the value for money conclusion of the auditors.

Should audit opinions be delayed for matters which, under audit standards could be considered material, but in reality do not impact the financial position of an authority (eg pensions and assets), it could undermine the principles and objectives of the proposals to clear the backlogs.

There is not enough information available to be able to adequately give full consideration to this within the consultation, for example how many authorities have had a material change to the accounts, which has stemmed from a valid objection to the accounts, and, which has also materially impacted on the financial sustainability of a council (ie not technical accounting matters, but matters affecting balances and reserves). It is anticipated that this would be very *few, if any at all, and if this is the case it brings into question whether exemptions from the statutory backstop date would be necessary at all.*

If exemptions are included, these would need to be considered very carefully, with robust guidance in place for auditors to allow reasonable judgement to be made on whether the matter is significant enough to warrant going beyond the backstop date and putting at risk the timeliness of accounts for that authority for future periods.

Q4. Do you think there would be any other exceptional circumstances which might create conditions in which it would be appropriate for Category 1 authorities to be exempt from the 30 September backstop date? (agree, disagree, unsure). Please explain your response, including, where relevant, details of exceptional circumstances you consider would justify an exemption.

Disagree

We cannot think of any other circumstances which would warrant exceptions to the backstop date, where the risks would outweigh the benefits of putting local authority accounts back onto a sound footing and timely audit.

Q5. We intend to publish a list of local bodies and audit firms which meet statutory deadlines for the publication of audited accounts and those which do not. Do you think there should be additional consequences for Category 1 authorities or audit firms (excluding an authority or firm covered by an exemption) if they do not comply with the statutory deadline of 30 September 2024? (agree, disagree, unsure). Please explain your response and, where relevant, include any suggested consequences.

Agree

Consideration should be given to the reimbursement of some audit fees if an audit firm fails to issue their opinion by the deadline in recognition of the ongoing impact to future audits, that delays will have for those authorities impacted. It is difficult to consider further penalties without giving consideration to and understanding the reasons behind the delays. A local authority may be delayed in issuing accounts, due to delays on concluding a previous audit, and should not be penalised for this.

Q6. Notwithstanding the possibility of exemptions in exceptional circumstances (covered by questions 7 and 8 below), do you agree that Category 1 local authorities should be required to publish audited accounts for financial years 2023/2024 to 2027/2028 by the following dates (agree, disagree, unsure)?

2023/24: 31 May 2025

2024/25: 31 March 2026

2025/26: 31 January 2027

2026/27: 30 November 2027

2027/28: 30 November 2028

Do you have any comments on these dates?

Partly Agree

We are pleased to see that the longer-term position is set out and that the impacts on local authority finance teams and the auditors has been given consideration.

However, we also feel it is important to bring audits up to date as quickly as possible, and that these dates should be brought forward. It is unreasonable to think that audits for 2023/24 can be undertaken well, with a period which overlaps with the closure of the 2024/25 accounts. As a minimum we would ask that the backstop date for the 2023/24 accounts be brought forward to 31 March 2025.

Q7. Do you think it would be appropriate for Category 1 authorities to be exempt from the statutory backstop dates for Phase 2 in circumstances where the auditor is unable to issue their opinion due to outstanding objections to the accounts that could be material to that opinion? (agree, disagree, unsure) Please explain your response.

Unsure

Please see response to question 3. Careful consideration would need to be given to this, including the area objected to and materiality, to ensure that the benefits of bringing the system up to date are not diminished by objections which in reality do not impact the financial sustainability of an authority.

Q8. Do you think there would be any other exceptional circumstances which might create conditions in which it would appropriate for Category 1 authorities to be exempt from the backstop dates for Phase 2? (agree, disagree, unsure). Please explain your response, including, where relevant, details of exceptional circumstances you consider would justify an exemption.

Disagree

We cannot think of any other circumstances which would warrant exceptions to the backstop date, where the risks would outweigh the benefits of putting local authority accounts back onto a sound footing and timely audit.

Q9. We intend to publish a list of local bodies and audit firms which meet statutory deadlines for the publication of audited accounts and those which do not. Do you think there should be additional consequences for Category 1 authorities or audit firms (excluding an authority or firm covered by an exemption) if they do not comply with the statutory deadlines for Phase 2? (agree, disagree, unsure). Please explain your response and, where relevant, include any suggested consequences.

Agree

Consideration should be given to the reimbursement of some audit fees if an audit firm fails to issue their opinion by the deadline in recognition of the ongoing impact to future audits, that delays will have for those authorities impacted. It is difficult to consider further penalties without giving consideration to and understanding the reasons behind the delays. A local authority may *be delayed in issuing accounts, due to delays on concluding a previous audit, and should not be penalised for this.*

Local authorities have already had to incur significant additional costs from 2023/24 on audit, and should not be penalised for any delays that have been caused by failures in the local audit market.

Q10. The Accounts and Audit Regulations 2015 (regulation 15(1)(a)) currently requires Category 1 local authorities to publish unaudited accounts by the 31 May following the end of the financial year. In light of the proposed deadlines for the publication of audited accounts, do you think the 31 May deadline remains appropriate for financial years 2024/2025 to 2027/2028? (agree, disagree, unsure). Please explain your response.

Disagree

Local authority finance teams have been under increasing pressure and high demands due to failures in the local audit market. Often, staff have been working on multiple years at the same time due to the delays caused, putting them under additional pressures. Despite this, authorities have continued to work towards deadlines set, in the knowledge that the accounts would not be looked at by the auditors for months (and in some cases years) to come. It is unreasonable to expect local authority staff to continue to work in this way and it would be unjust to afford the local audit market breathing space to bring audits up to date, without also relieving some of the pressure on local authorities. As a minimum the statutory deadline should be pushed back to 30 June each year.

Q11. The existing annual deadline for the publication of unaudited accounts is 31 May. As set out above, we are proposing a backstop date for the publication of audited accounts for the financial year 2023/2024 of 31 May 2025. This would mean that 31 May 2025 would be the statutory deadline for both the publication of audited accounts for financial year 2023/2024 and unaudited accounts for financial year 2024/2025. Do you expect this would create any significant issues? (agree, disagree, unsure) Please explain your response.

Agree – It would create additional issues, Potentially would mean that finance teams b trying to focus on producing draft 2024-25 Accounts by 31sst May 2025 might also be dealing with auditors outstanding queries on 2023-2 opinions. This has potentially to create a double burden for finance teams. Additionally audit firms tend in April and May to focus on NHS audits so as suggested in response to 6 would be better to bring fored .. ackstop for audited accounts for 2023-24 to 31 March 2025.

Please see responses to question 6 and question 10.

Q12. The government anticipates that the Phase 1 backstop proposals will result in modified or disclaimed opinions. A modified or disclaimed opinion at the end of Phase 1 would require auditors to subsequently rebuild assurance. The Phase 2 backstop dates are intended to enable this work to be spread across multiple years. Given this additional work, and noting the further explanation at paragraphs 15 to 46 of the Joint Statement,

do you have any views on the feasibility of audited accounts being published by the proposed statutory backstop dates for Phase 2?

It is clearly crucial that where a modified or disclaimed opinion has been issued, that the auditors work closely with new auditors to support the handover of areas where assurance has been obtained.

Whilst there are areas which may require additional work on opening balance, clear audit guidance should be issued around this, as things such as materiality and the importance to the readers of the accounts should be considered.

As an example, if an asset has been valued at the 31 March so the closing balance can be justified, and any in year transactions have been audited, the opening balance must be the combination of the two. This is an over simplified example, as of course there are aspects that make up the opening balance such as accumulated depreciation, revaluations etc, but in the majority of cases, each of those can be tested in a similar approach. The outcome of an error identified in an opening balance from further testing of the opening balance, would not impact on the closing balance, at most it would convert some of the in-year transactions to a prior period adjustment, which would have little to no impact for the readers of the accounts.

The need for such additional testing of opening balances should be carefully considered, weighing up the risks, impacts and benefits of additional testing in certain areas. A blanket approach of auditing all opening balances fully would not add value to the process and would only serve to add pressures to local authority teams and audit firms.

Q13. Do you agree that it would be beneficial for the 2015 Regulations be amended so that Category 1 bodies would be under a duty to consider and publish audit letters received from the local auditor whenever they are issued, rather than, as is currently the case, only following the completion of the audit? (agree, disagree, unsure). Do you have any comments on this issue?

Agree

The consideration of any letters from auditors should be considered in a timely manner. The more important question here is not whether they should be considered and published, but whether issuing the audit opinion, before the work on the accounts, would have any negative impacts. If robust guidance is issued, to ensure that all material areas of the accounts are complete, in particular on financial sustainability and governance as identified in the consultation, this is unlikely to have material impacts. It would be useful if the audit opinion could include a form of words to explain to readers why this approach has been taken and provide assurance that the significant/material areas are not outstanding. It would also be appropriate for an updated opinion to be issued once all work has been finalised, although it is recognised that additional work will be created for audit firms and audit committees with this approach. It may be more appropriate to have an audit update report at set dates to cover off these substantial items, with the audit opinion being issued after the completion of all work.

Q14. Do you have any comments on whether any of the proposals outlined in this consultation could have a disproportionate impact, either positively or negatively, on people with protected characteristics or wish to highlight any other potential equality impacts?

No comments

Q15. Finally, do you have any further comments on the proposed changes to the 2015 Regulations not covered by the questions so far, including relating to any unintended consequences?

No comments

Submission date of response: 7 March 2023