

By: Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services, Peter Oakford – Peter Oakford
Interim Corporate Director Finance – John Betts

To: Governance and Audit Committee – 9 October 2024

Subject: AUDIT BACKSTOP and REVISED DATES

Classification: Unrestricted

Summary: This report asks Members to note the statement and date changes.

FOR INFORMATION

1. INTRODUCTION

1.1 On 30 July Jim McMahon, Minister of State (Housing, Communities and Local Government), published a Written Ministerial Statement regarding the Audit Backlog. Mr McMahon proposed secondary legislation that, alongside a new Code of Audit Practice, would aim to facilitate a return to timely, purposeful audits of local body accounts. The secondary legislation would amend the Accounts and Audit Regulations (2015) to set a series of backstop dates. Both measures are subject to parliamentary time.

2. KEY POINTS FROM MINISTERIAL STATEMENT

2.1 Last year, just one per cent of councils and other local bodies published audited accounts on time. The backlog is likely to increase again and without decisive action will continue to rise further. A growing backlog hampers necessary fundamental reforms to repair the audit system and undermines local accountability and governance.

2.2 The Minister commended the commitment of local finance teams and auditors in their work to date.

2.3 A “backstop” date is intended to clear the backlog of unaudited accounts. The first “backstop” date would clear the backlog of unaudited accounts up to and including 2022/23, but given the size of the audit backlog, it is unlikely that all outstanding audits will be completed in full ahead of this date.

2.4 Where auditors have been unable to complete audits, they will issue a ‘disclaimed’ or ‘modified’ audit opinion. Disclaimed opinions will likely continue for some bodies for several years.

2.5 The proposed legislation will include five further backstop dates up to and including financial year 2027/28 to allow full assurance to be rebuilt over several audit cycles.

2.6 The proposed backstop dates are:

- Financial years up-to-and-including 2022/23: 13 December 2024
- Financial year 2023/24: 28 February 2025
- Financial year 2024/25: 27 February 2026
- Financial year 2025/26: 31 January 2027
- Financial year 2026/27: 30 November 2027
- Financial year 2027/28: 30 November 2028

2.7 While there will be modified and disclaimed opinions, auditors' other statutory duties – including to report on Value for Money (VfM) arrangements, to make statutory recommendations and issue Public Interest Reports – remain a high priority.

2.8 For financial years 2024/25 to 2027/28, the date by which Category 1¹ bodies should publish 'draft' (unaudited) accounts will change from 31 May to 30 June following the financial year to which they relate. This will give those preparing accounts more time to ensure they are high-quality accounts. This in turn will benefit auditors while still ensuring publication shortly after financial year end.

2.9 Local bodies should not be unfairly judged based on disclaimed or modified opinions, caused by the introduction of backstop dates that are largely beyond their control. Auditors will be expected to provide clear reasons for the issuing of such opinions to mitigate the potential reputational risk that local bodies may face.

3. AUDIT FEES

3.1 Issuing a disclaimed or modified audit opinion and a subsequent return to being able to fully complete audits will require differing levels of work by auditors. Public Sector Audit Appointments Ltd (PSAA) will set scale fees and determine fee variations where the auditor undertakes substantially more or less work than assumed by the scale fee and will consult with bodies where appropriate.

4. KENT'S POSITION

4.1 We welcome these changes as it will provide extra time to ensure that the accounts are fully quality assured and to prepare audit working papers, which will hopefully result in a shorter audit and earlier sign off.

¹ "Category 1" councils have annual income and expenditure exceeding £6.5m, so Kent County Council is a Category 1 council. Smaller authorities have different accounting and audit requirements.

4.2 The previous two years' accounts have not been signed off until the following March. In both years they were available for sign off from November, but either national discussions on accounting treatment or delays in finalising the Annual Governance Statement delayed them from being signed.

4.3 Any delay prolongs the audit, which in turn means that changes cannot be implemented in time for the following year. This year, the draft accounts were published on 31 May which is a huge achievement for everyone involved but requires a significant amount of goodwill from staff. The audit started in early July.

4.4 The current audit is on track, and we do not anticipate being in a backstop position. These changes will assist us in getting back to a realistic timetable, freeing up valuable staff much earlier in the financial year, which will be particularly important during the transition to Oracle Cloud (which is the Council's new financial system).

5. RECOMMENDATION

Members are asked to:

5.1 Note the changes to the proposed backlog dates and general timetable

Cath Head
Head of Finance Operations
cath.head@kent.gov.uk
Tel: 03000416934