



ADDRESSING THE LOCAL AUDIT BACKLOG IN ENGLAND: CODE OF AUDIT PRACTICE

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ICAEW welcomes the opportunity to comment on the consultation by the National Audit Office (NAO) dated 8 February 2024 on the Code of Audit Practice for local audit in England, a copy of which is available from this [link](#).

ICAEW supports the proposed amendments to the Code of Audit Practice

- Restoring timely reporting is critical to restoring financial accountability to the local government sector in England.
- Resetting the audits of financial statements and value for money arrangements is an important step to restoring credibility and to prevent backlogs recurring in the future.
- We believe the amendments will assist preparers and auditors in finalising audited financial statements by the backstop dates proposed by the government.

Value for money work is more important than ever

- Many local authorities are subject to a perilous financial situation in the current climate, with seven different councils submitting s114 notices since 2020 and many others suffering from budgetary pressures.
- It is more important than ever, therefore, that authorities manage their finances prudently and secure value for money for taxpayers in the work that they do.
- Work on ensuring arrangements for value for money at local authorities must be performed on an annual basis and reported on in a timely manner. The worth of reporting on value for money is diminished the longer the period of time it takes for the work to be completed, for both local authorities and the public alike.
- The current delays in completing this work has led to unacceptably low levels of accountability of some local authorities. We are pleased that the amendments to the code recognise the importance of reporting on value for money arrangements and aim to return timely reporting in this area.

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This response has been prepared by ICAEW's Public Sector team in consultation with ICAEW's Public Sector Advisory Group. ICAEW's Public Sector team supports members working in and with the public sector to deliver public priorities and sustainable public finances, including over 13,000 in ICAEW's Public Sector Community. ICAEW engages with policy makers, public servants, and others to promote the need for effective financial management, audit and assurance, financial reporting and governance and ethics across the public sector to ensure public money is spent wisely.

For questions on this submission please contact our Public Sector team at representations@icaew.com quoting REP 26/24

INTRODUCTION

WE WELCOME NAO'S CONSULTATION ON THE DRAFT CODE OF AUDIT PRACTICE

1. ICAEW welcomes the opportunity to respond to this consultation on the draft Code of Audit Practice.
2. The local audit crisis is undermining public trust in local authority finances, with only 1% of English Councils publishing audited financial statements by the 30 September 2023 target date for 2022/23 financial statements and there being a backlog of 771 over audits as of 31 December 2023.
3. Delays are prevalent across local authorities who have issued s114 notices, with all seven English councils who have issued such a notice since 2020 having delays in publishing audited financial statements of at least three years. There is a key risk of financial issues going undetected at other local authorities because of the delays.
4. These delays also undermine the effectiveness of value for money (VFM) arrangements work. Reporting on VFM is at its most valuable when it is delivered on a timely basis. There is a risk that recommendations made may come too late to have the impact desired if there is a failure to report in a timely manner.
5. NAO's draft amendments to the Code are therefore welcomed as important measures designed to reset the system and restore essential accountability to local authority reporting.

KEY POINTS

ICAEW SUPPORTS THE AMENDMENTS TO THE CODE

6. We support the draft amendments to the Code of Audit Practice in line with the aim of restoring timely reporting back to the local government sector.
7. Accountability of English local authorities is at an all-time low and financial pressures at many local authorities are at an all-time high. It is essential that financial statements are a credible public record which enables stakeholders to review how local authorities are using taxpayers' money and to hold them to account.
8. A lack of accountability creates further financial risks for local authorities and is unacceptable in the current climate, with several authorities issuing s114 notices and many others citing financial concerns. Financial issues are more likely to go undetected without appropriate scrutiny and such issues could be prevented if identified early in the audit process.

9. The amendments to the Code are required to assist other cross-system partners with the goal of restoring timely accountability to local authorities, as well as supporting the prevention of a re-occurrence of a backlog in the future.

IMPORTANCE OF WORK ON ARRANGEMENTS TO SECURE VALUE FOR MONEY

10. Financial pressures are prevalent across many local authorities. It is more important than ever that authorities manage their finances prudently and secure VFM for taxpayers in the work that they do.
11. It is therefore imperative that work on arrangements to secure VFM is performed on an annual basis and in a timely manner. Local authorities need to know where they have significant weaknesses in obtaining VFM so they can make improvements, while the public deserve to know how their money is being utilised.
12. Significant delays to VFM arrangements work reduces the value of VFM work and creates a risk of key issues not being identified or addressed too late. Delays in reporting on VFM arrangements have occurred at many local authorities and in the current environment we do not consider that this is acceptable.
13. We are pleased that the amendments to the Code have taken corrective action to address them. The measures should bring reporting in this area back to a timely, annual basis and should address the backlog of incomplete audits which has arisen.

ANSWERS TO SPECIFIC QUESTIONS

Question 1

Do you agree with the principles of effective co-operation during the handover period where there is a change in the appointed auditor? (The handover period is defined as the period from the date from which the new auditor's appointment takes effect to the date on which the outgoing auditor certifies completion of their audit).

14. We agree with the principles of effective co-operation during the handover period where there is a change in the appointed auditor of a local authority.
15. We are pleased that the handover period has been clearly defined and covers the period between when a new auditor's appointment takes effect and when the outgoing auditor certifies completion of their audit.
16. Having an extended handover period should ease the transition for new auditors, especially when the current backlog means that the period between a new auditor being appointed and the previous auditor completing their work is longer in the current situation than in usual circumstances.
17. Guidance would be welcome in terms of the expectations of outgoing auditors within the extended handover period and what 'effective co-operation' looks like.

Question 2

Do you think that the proposed Code requirements in respect of the 'backstop' dates are sufficient to require and enable auditors to report their opinion at the backstop date, apart from in the exceptional circumstances set out?

If not, what needs to be added or strengthened?

18. We agree that the proposed Code requirements in respect of the 'backstop' dates are sufficient.
19. The Code states that "auditors must issue their audit report in time for the relevant authority to publish its accounts by the specified date". We consider that this is inherently clear for auditors to understand that they are required to report and issue their audit opinion by the backstop date, apart from where the auditor is considering an objection that may have a material impact on their audit opinion.

Question 3

Do you agree that the Code should require auditors to perform a reduced scope of work on proper arrangements to secure VFM on a temporary basis for incomplete audits up to and including 2022-23?

20. We agree that the Code should require auditors to perform a reduced scope of work on proper arrangements to secure VFM on a temporary basis, for incomplete audits up to and including 2022-23.
21. VFM reporting is at its most valuable when it is delivered on a timely basis. As the consultation sets out, significant delays to this work is reducing the value of the work to the public in terms of how taxpayers' money is being utilised by local authorities.
22. It is therefore essential to return timely accountability on an annual basis to VFM reporting. Therefore, we consider that this is an essential short-term measure which will enable the system to catch-up and prevent a longer backlog from occurring.
23. Resetting the system so that there are no delays going forwards should also enable auditors to return to full compliance with paragraphs 3.6 to 3.15 of the Code from 2023-24, and return to a full scope of work on ensuring an entity has proper arrangements to secure VFM.

Question 4

Do you have any comments on the proposals for the reduced scope of proper arrangements set out under the reporting criteria that auditors are required to report for incomplete audits up to and including 2022-23?

24. We believe that the proposed reporting requirements strike an appropriate balance between ensuring timely publication of auditors' reports and ensuring that some consideration of a local authority's value for money arrangements has been made.
25. We are pleased that auditors will still be expected to report and make recommendations on any significant weaknesses which they identify, where appropriate to do so, and if they consider the weaknesses to not have already been addressed, as we consider that this level of reporting is in the public interest.

Question 5

Do you agree with the approach to enable the auditor to issue a combined commentary as part of a single auditor's annual report for incomplete audits up to and including 2022-23?

26. We agree with the approach to enable auditors to issue a combined commentary as part of a single auditor's annual report, for incomplete audits up to and including 2022-23.
27. We also agree that this report should focus on any identified significant weaknesses that have not been addressed at the time of issuing the report, as well as any recommendations which the auditor has on this matter.
28. As noted previously, the value of reporting on VFM arrangements is diminished when not delivered on a timely basis. Therefore, issuing several individual annual reports where there are incomplete audits is not likely to be particularly useful to stakeholders.
29. Being able to issue a single auditor's report is also likely to save auditor's time, which may be important in the context of resourcing issues which exist in the local audit market and the pressures which may be placed on auditors through the 'backstop' proposals.
30. It is important to ensure timely accountability that a report is issued as soon as possible. We are supportive of the proposal within the Code that auditors should issue their annual report as soon as they have completed their work on VFM arrangements for incomplete audits.

Question 6

Do you agree that auditors should be required to return to the full scope of VFM arrangements work under the three reporting criteria set out under paragraph 3.11 of

Chapter Three of the Code from audit year 2023-24 (the year of which the new audit appointments contracts under PSAA's national scheme start)?

31. We agree that auditors should be required to return to the full scope of VFM arrangements work, as set out under paragraph 3.11 of the Code from 2023-24.
32. Ensuring accountability for how local authorities spend taxpayers' money has arguably never been more important. Seven separate councils since 2020 have issued Section 114 notices and many other local authorities are citing financial concerns as a key risk for them going forwards.
33. Scrutiny surrounding an authority's VFM arrangements is therefore a measure of holding authorities accountable on how they are spending taxpayers' money. It verifies how an entity plans and manages their resources in the context of financial sustainability and checks how an entity ensures it makes informed decisions and manages risk. This is essential scrutiny, especially in the current climate.
34. From 2023-24, the backlog of incomplete audits should start to be cleared and the system should therefore be reset. Auditors should have the capacity and resources to therefore return to reporting under the full scope of VFM arrangements.

Question 7

Do you agree that the Code should specify the 30 November as the date by which auditors should issue their auditor's annual report based on the work they have completed so far rather than wait for the audit to be fully completed?

35. We agree that the Code should specify a date by which auditors should issue their annual report based on the work they have completed so far, rather than wait for the audit to be fully completed.
36. We note that the 30 November date matches the proposed 'backstop' dates for an entity to publish audited financial statements for 2026/27 and 2027/28. We agree that the 30 November deadline to publish an auditor's annual report for these financial years and beyond is likely to make sense.
37. We have a reservation regarding the 30 November date for the 2023/24 – 2025/26 financial years, as this differs to the deadline for an entity to publish their audited financial statements. Considering the current state of the local audit market, we believe that a phased implementation of the 30 November date, similar to the dates proposed in the backstop proposals, may be more appropriate. For example, in 2023/24, a date closer to the 31 May 2025 'backstop' date may enable a more complete annual auditor's report for 2023/24, as more of the work surrounding VFM arrangements is likely to be complete.
38. Phasing implementation of the 30 November date is also likely to place fewer demands on auditors and ensure that the deadlines are more aligned to the deadlines placed on them through DLUHC's backstop date proposals.
39. We note here that there is a fine balance to be had between timely reporting on VFM arrangements and ensuring that an auditor has something to report. Because an auditor would not have to re-issue their report following completion of the audit, any other issues identified may not be reported to those charged with governance until the following 30 November deadline. Therefore, in the upcoming financial years, we do not consider that the current proposals strike the appropriate balance here.

Question 8

Are there any other comments you wish to make?

40. While the Code in Chapter Two explains the responsibilities of the auditor in terms of issuing their opinion on an entity's financial statements, we believe that some guidance on what an auditor should include in their audit opinion for a local authority subject to a modified or disclaimed opinion because of the backstop date, may be beneficial.

41. Guidance on this issue may make it easier for auditors to draft their reports, as well as providing greater clarity to local authorities and individuals alike as to why a modified or disclaimed audit opinion has been issued.
42. We recognise that the joint statement suggests that guidance for auditors reminding them of their responsibilities to communicate the reasons for a modified or disclaimed opinion within their auditor's report will be created. We feel it is worth re-iterating the importance of this guidance following feedback received.

Question 9

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

43. We have no comments in this regard.