

**TO: GOVERNANCE AND AUDIT COMMITTEE**  
**13 March 2024**

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**EXTERNAL AUDIT PLAN 2021/22 AND UPDATE ON LOCAL AUDIT DELAYS**  
**(Executive Director: Resources)**

**1 PURPOSE OF REPORT**

- 1.1 To update the Committee on the Government's consultation on proposals to address the current backlog in local audit completions across the local government sector and to enable the Council's External Auditor Ernst and Young to present to the Committee the Audit plan covering the 2021/22 financial year.

**2 RECOMMENDATION**

- 2.1 The Committee notes the Audit plan for the 2021/22 financial year and plans to address local audit delays.**

**3 REASONS FOR RECOMMENDATION(S)**

- 3.1 To ensure that the Committee is aware of the External Audit approach for the years 2021/22 and 2022/23 and proposals to address the delays in the local audit system.

**4 ALTERNATIVE OPTIONS CONSIDERED**

- 4.1 None available.

**5 SUPPORTING INFORMATION**

- 5.1 Timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. Not only does it support good decision making by local bodies, by enabling them to plan effectively, make informed decisions and manage their services, it ensures transparency and accountability to local taxpayers.
- 5.2 The backlog in the publication of audited accounts of local bodies in England has grown to an unacceptable level and as of 31 December 2023, the backlog of outstanding audit opinions stood at 771. A number of factors have been cited that have contributed to this situation, including lack of resources in audit firms and in local authority finance teams. The situation in Bracknell Forest – where accounts up to and including 2020/21 have been signed off – is further complicated by the Berkshire Pension Fund being administered by the Royal Borough of Windsor and Maidenhead (RBWM) on behalf of all Berkshire authorities. Until RBWM's accounts for each year are fully signed off by its external auditor, the other authorities' accounts are inevitably held up, due to the materiality of pensions transactions and the reliance placed on RBWM's audit opinion by other audit firms.
- 5.3 In July 2023, the Minister for Local Government published a Cross-System Statement to Parliament setting out proposals to tackle this backlog. Since then, organisations involved in the regulation and oversight of local body financial reporting and audit ("system partners") have been working collectively to agree a

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proposed solution to clear the outstanding historical audit opinions and ensure that delays do not return.

- 5.4 This has resulted in consultations being issued by the Department for Levelling Up, Housing and Communities (DLUHC) and the National Audit Office (NAO), with one to follow shortly from CIPFA LASAAC on temporary changes to the Code of Practice on Local Authority Accounting for 2023/24 and 2024/25 to reduce burdens on finance teams and auditors.
- 5.5 To clear the backlog of historical accounts and 'reset' the system, DLUHC proposes putting a date in law (the "backstop date") – 30 September 2024 – by which point local bodies would publish audited accounts for all outstanding years up to and including 2022/23.
- 5.6 The NAO is proposing changes to the Code of Audit Practice to require local auditors to comply with backstop dates by giving their opinions in time for audited accounts to be published, and to allow them to provide a single commentary on value for money (VFM) arrangements for local bodies for all outstanding years up to and including 2022/23.
- 5.7 The backstop date is likely to be a factor in local auditors issuing a modified or disclaimed opinion on outstanding accounts if they do not have enough time to complete all audit work before that date.
- 5.8 Andrew Brittain, Director, Ernst and Young will attend the meeting to give an update on the 2021/22 audit and an indication of the work achievable on the 2022/23 audit by the proposed backstop date. The audit plan for 2021/22 is attached.
- 5.9 The setting of the backstop date for audits up to and including 2022/23 is referred to as the Reset phase. Two other phases have been proposed:
- 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.

### Phase 2 Recovery

- 5.10 Recovering from modified and disclaimed audit opinions requires significant work for preparers and auditors. Where the audit opinion is modified or disclaimed, the auditor does not have assurance over all historical figures that carry forward into the subsequent year. Auditors will need to audit some of the opening balances in order to obtain assurance over the current year closing balances. They will need to perform sufficient testing on opening balances to rebuild assurance that enables them to issue unmodified opinions in the future.
- 5.11 To achieve a balance between restoring timely audit and returning to unmodified audit opinions for most local bodies, the government is now consulting on the following additional backstop dates for the 5 years covered by the latest round of audit appointments:

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- Year ended 31 March 2024: 31 May 2025
- Year ended 31 March 2025: 31 March 2026
- Year ended 31 March 2026: 31 January 2027
- Year ended 31 March 2027: 30 November 2027
- Year ended 31 March 2028: 30 November 2028

These new backstop dates would enable auditors to rebuild assurance over local bodies' financial information which has been subject to modified opinion over several years.

- 5.12 Public Sector Audit Appointments (PSAA) 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.

### Phase 3 Reform

- 5.13 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.
- 5.14 This work will build on the recommendations of the [Redmond Review](#), the recent Levelling Up, Housing and Communities Committee report into financial reporting and audit in local authorities and Public Accounts Committee reports on the timeliness of local audit.
- 5.15 Currently, CIPFA LASAAC's strategic plan includes a workstream looking at long-term reforms to financial reporting based on the needs of accounts users and HM Treasury will be setting out in the first quarter of 2024 the outcome of its thematic review into the valuation of non-investment assets.

## **6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS**

### Legal Comments

- 6.1 None arising from this report.

### Finance Comments

- 6.2 None arising from this report.

### Equalities Impact Assessment

- 6.3 Not applicable

### Strategic Risk Management Issues

- 6.4 While Bracknell Forest has always received positive opinions on its annual accounts and there is no reason to believe that the accounts the Council has prepared for

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2021/22 and 2022/23 by the end of May in the respective years are deficient in any way, there cannot be complete independent assurance on the reported end of year financial position until the accounts have been signed off. There is therefore a risk of adjustments needing to be made to closing / opening balances reported after 2021.

### Climate Change Implications

6.5 None arising from this report.

## **7 CONSULTATION**

### Principal Groups Consulted

7.1 Not applicable

### Background Papers

Ernst & Young Report - Bracknell Forest Council Audit Planning Report 2021-22

### Contacts for further information

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