

Report title	Local Audit Reset and Recovery Guidance and Progress Update
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Department	Corporate Leadership Team
Exempt?	No
Exemption type	Not applicable
Reasons for exemption	Not applicable

Purpose of report:

- **For information**

Synopsis of report:

This report aims to provide an update on the measures introduced to assist the reset and recovery of local audit within the Local Government sector, and how these measures will apply to Runnymede Borough Council, including a position statement against all outstanding audit work for the years 2019/20 to 2022/23 and progress with the production of the 2023/24 unaudited Statement of Accounts.

1. Context and background of report

1.1 In March 2024, the Standards and Audit Committee received a report recommending changes to the Committee's future work programme to encompass:

- issues for future focus which had been raised by Members of the Committee, such as Procurement activity;
- the realignment of some responsibilities between the Corporate Management Committee and the Standards and Audit Committee;
- measures to assess the effectiveness of the Committee;
- changes to internal audit arrangements; and
- Government proposals to tackle the backlog of external audit opinions in the Local Government sector.

1.2 This report sets out the current position on the final item in the list set out in paragraph 1.1 i.e., tackling the audit backlog, both from a wider perspective with an update on the implementation of the backlog measures and more specifically, providing an update on the current position for Runnymede Borough Council.

1.3 As previously reported, the backlog in the publication of audited accounts of local bodies in England has grown to an unacceptable level. The number of outstanding opinions peaked on 30 September 2023 at 918. As at 31 December 2023, the backlog of outstanding audit opinions stood at 771. In July 2023, the Minister for

Local Government published a [Cross-system statement](#) to Parliament setting out proposals to tackle this backlog and in February 2024, consultation was issued on taking these proposals forward.

1.4 The proposals included three stages:

- **Phase 1: Reset** involving clearing the backlog of historical audit opinions up to and including financial year 2022/23 by 30 September 2024
- **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

1.5 **Phase 1** was to include 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. Changes to the Code of Audit Practice would require local auditors to comply with the backstop dates by giving their opinions in time for audited accounts to be published and would 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.

1.6 **Phase 2** set out how auditors would need to audit some of the opening balances in order to obtain assurance over the current year closing balances, following modified or disclaimed audit opinions. It described how full assurance might need to be built over multiple periods, with further modified or disclaimed opinions possible, in order to minimise additional delay. The proposals involved establishing new statutory backstop dates for all financial years up to and including 2027/28, replacing the existing deadlines in the Accounts and Audit Regulations 2015.

The proposed backstop dates for subsequent years were as follows:

- 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

1.7 **Phase 3** of the process would build on the recommendations of the [Redmond Review](#) and other recent commentary, to address the systemic challenges that led to the current backlog, establishing the Audit, Reporting and Governance Authority as system leader for local audit and looking at long term reform of financial reporting based on the needs of users of the accounts.

1.8 In July 2024, following [a written statement](#), the Minister for State for Housing, Communities and Local Government published [a letter to councils](#) on action to be taken to tackle the local audit backlog in England. The statement and letter included an intention to lay secondary legislation to provide for a revised initial backstop date of **13 December 2024** for financial years up to and including 2022/23 and five subsequent backstop dates:

- Year ended 31 March 2024: 28 February 2025
- Year ended 31 March 2025: 27 February 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

Subject to parliamentary approval, for financial years 2024/25 to 2027/28, the date by which local bodies should publish 'draft' (unaudited) accounts would change from 31 May to 30 June following the financial year to which they relate, giving those preparing accounts more time to ensure the production of high-quality account, accompanied by a new suite of guidance for auditors from the National Audit Office (NAO) and Financial Reporting Council (FRC).

In addition, the letter recognised that this action to tackle the backlog, while vital, would not provide a long-term, sustainable solution to the wider, broken local audit system which would still require significant reform.

2. Update on implementation and guidance

1.9 In September, the Government commenced the statutory process required to enforce these new backstop dates, with the updated Audit Code of Practice being laid before Parliament on 9th September 2024. The Code is required to be laid before Parliament for 40 days before coming into effect.

1.10 On the 10th September 2024, the NAO published a series of documents referred to as its Local Audit Reset and Recovery Implementation Guidance (LARRIG) ([here](#)).

1.11 Under the Local Audit and Accountability Act 2015, auditors must have regard to LARRIGs but are not required to comply with them if the firm considers that alternative approaches are necessary to satisfy their audit duties. The guidance includes a requirement to refer any departures to the NAO and the FRC's Director of Local Audit.

1.12 The LARRIGs are very technical, but key points include the following:

- auditors are tasked to secure a return, as soon as is reasonably possible, to a position where they are able to issue opinions on financial statements that are based on sufficient appropriate audit evidence
- auditors should make reasonable endeavours to perform an audit in accordance with International Standards on Auditing (UK) (ISAs) before they issue a disclaimer
- where a disclaimer is to be issued, auditors should still aim to perform as many audit procedures as are reasonably possible before the backstop date
- auditors are to judge what work should be performed, but the guidance provides a hierarchy of transaction/balance types that should be given priority (primarily balances that are audited by looking at in-year movements, including most usable and unusable reserves)

1.13 There are 5 LARRIGs and a summary of each is set out in the following table.

LARRIG 01: General arrangements supporting guidance for auditors in implementing the reset and recovery
<ul style="list-style-type: none"> • sets out the approach that NAO and FRC will be taking to develop and maintain guidance to support the reset and recovery of local audit in England

- will focus upon producing guidance to support auditors to complete their work in time to enable local public bodies to publish their audited accounts in accordance with the backstop dates
- It is the aspiration that disclaimed opinions driven by backstop dates should in most cases be limited to the next two years (up to and including the 2024-25 backstop date of 27 February 2026), with only a small number of exceptional cases, due to specific individual circumstances, continuing thereafter. However, the impact of comparative figures means modifications may remain necessary up to and including the 2025-26 audit cycle, and possibly for longer in some circumstances.

LARRIG 02: Guidance on the impact of backstop arrangements on audits of English local authorities

- provides guidance on the application of ISAs in the exceptional circumstances created by the backlog in completing audits, and is limited solely to audits for financial years up to and including 2022/23 (which have a proposed backstop date of 13th December 2024)
- sets out how public interest considerations require a return, as soon as is reasonably possible, to a position where auditors are able to issue opinions on local body financial statements that are based on sufficient appropriate audit evidence and how the auditor must make reasonable endeavours to perform the audit in accordance with the ISAs before issuing a disclaimed opinion
- emphasises that the timely delivery of audited financial statements is a collective enterprise where both preparers and auditors have important responsibilities.
- allows that the frequency with which matters required by ISA (UK) 260 are communicated to Those Charged With Governance may be less in the circumstances created by backstop arrangements. It may therefore be appropriate to include all communications relevant to an audit within a single document.

LARRIG 03: Modifications of independent auditor’s opinions on the financial statements for audits of English local authorities (see Appendix A for full list)

- provides guidance on how to draft audit reports, so as to give users the best understanding of why a modified opinion has been provided
- describes the types of modification that may be made:
 - Disclaimer of opinion: anticipated to be the most common form of modified opinion issued due to the backstop arrangements
 - Qualified opinion: lack of sufficient evidence or material misstatement that is not pervasive, resulting in a true and fair view “other than” for certain items.
 - Adverse opinion: where there is sufficient appropriate evidence that material and pervasive misstatements exist that undermine the reliability of the financial statements as a whole.
- lists additional disclosures that may be made that are not modifications, such as “emphasis of matter” where something is reported as it is fundamental to users’ understanding of the financial statements or disclosures relating to Going Concern

LARRIG 04: Auditor reporting requirements under ISA(UK) 250A (Consideration of Laws and Regulations in an Audit of Financial Statements) and reporting in the public interest

- confirms that the auditor's responsibilities in relation to breaches of laws or regulations apply regardless of the eventual form of the audit opinion - particularly to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

LARRIG 05: Rebuilding of assurance following a disclaimed audit opinion

- Backstop arrangements mean that many audits conducted for the 2023/24 financial year will not be able to take reliance from the work performed during the prior year audit on closing balances for current year opening balances if prior years have been disclaimed.
- In these circumstances, auditors will need to apply professional judgement within the specific context of the facts and circumstances of individual engagements and may prioritise work on opening balances, closing balances, or in-year movements, to achieve the best pathway to assurance.
- The extent of work performed in the prior year audit and the auditor's underlying assessment of the risk of material misstatement will be important considerations.
- Prior auditors are required to share necessary information with in-coming auditors.
- Different scenarios are set out in this LARRIG to demonstrate how an auditor might secure sufficient appropriate audit evidence.

- 1.14 It is inevitable that the introduction of backstop dates will increase the number of modified opinions within the sector due to the large number of outstanding audit opinion for years up to and including 2022/23. Largely due to auditors having insufficient time and resources to complete their audit work before that date but also due to the result of the backlog on local authorities who may have difficulty providing sufficient support for multiple audits, in respect of evidence for transactions and accounts that are now several years old, potentially alongside the loss of detailed knowledge of historic transactions as key staff may have moved on over the period.
- 1.15 It is important that readers of the accounts will be able to distinguish between modified audit opinions caused by the introduction of backstop dates and those that indicate significant financial reporting or financial management issues, so that local authorities will not be unfairly judged should they receive a modified opinion stemming from the imposition of back stop dates for reasons largely outside of their control. It is safe to say that restoring timely audits and returning to unmodified audit opinions for the majority of local bodies will not be easy to achieve. Councils must work with their auditors to achieve the revised deadline where possible, and to repair the audit system, as continued delays have a significant impact both on the Council's own staffing resources and on the reputational damage risked by having an on-going backlog.
- 1.16 The government will publish a list of local bodies and their auditors which do not meet the backstop date.

2 Update on progress with outstanding audit work

- 2.1 BDO LLP, the Council's auditors for the reporting period up to the financial year 2022/23, are yet to complete their audits for the 4 years 2019/20 to 2022/23.
- 2.2 A backstop date for these audits will now apply of 13th December 2024.

2.3 BDO last reported formally to this Committee in March 2024, when the backstop date was still proposed to be 30th September 2024 with the following indicative timetable included in their Progress Report

MARCH - MAY 2024	JULY - AUGUST 2024	SEPTEMBER 2024
<ul style="list-style-type: none"> ▶ Completion of our 2019/20 value for money work. As part of this we are reviewing <ul style="list-style-type: none"> ○ the Council's consideration of the financial and other risks associated with the acquisition investment property and the associated borrowing ○ the adequacy of the legal advice obtained by the Council, and whether any further advice is required ○ whether in acquiring these assets the Council acted in accordance with the applicable statutory framework. ▶ We will also consider the Best Value Notice issued in December 2023 by the Department for Levelling Up, Housing and Communities, the Capital Assurance Review undertaken by the Chartered Institute of Public Finance and Accountancy, and the Council's response to this. 	<p>In relation to 2019/20 we will:</p> <ul style="list-style-type: none"> ▶ Finalise our audit procedures ▶ Reconsider any new information that has arisen ▶ Report the final position to Those Charged With Governance ▶ Issue our 2019/20 auditor's report <p>In relation to 2020/21, 2021/22, and 2022/23:</p> <ul style="list-style-type: none"> ▶ Complete value for money conclusion work ▶ Undertake any necessary work in advance of us issuing our audit report on those year 	<ul style="list-style-type: none"> ▶ Subject to the outcome of the consultations referred to on the following page, we will: <ul style="list-style-type: none"> ○ Issue Auditor's Annual Report and commentary on VFM covering period 2020-21 - 2022-23 ○ Issue auditor's reports on 2020/21, 2021/22 and 2022/23 in line with new code requirements

2.4 In May BDO confirmed by email to the Council's s151 officer that they would not be asking the Council to obtain any further legal advice in respect of the holding of investment property, but that they may consider securing their own additional advice. A formal report to the Committee was not considered necessary at this stage due to the full update provided to the March Committee and as no milestones had been reached in the plan set out at that meeting. Furthermore, the necessary Statutory Instrument had not yet been laid in respect of the backstop dates and guidance was awaited in respect of clarifying the work required to support issuance of disclaimed opinions.

2.5 At the start of July, there had been little change reported from BDO for similar reasons to above. In terms of the backstop dates, the necessary legislative process had not been completed before the general election was called leaving the position unclear with speculation that if these arrangements were implemented the backstop date would now be pushed back. BDO confirmed that they would continue to follow the plan outlined in their March Progress Report for the 2019/20 audit, with planned completion by the end of September 2024, but did not intend to start any of the subsequent audits (i.e. 2020/21, 2021/22 or 2022/23).

2.6 A further update was provided during an online meeting with BDO on the 13th September, confirming that BDO were continuing work on the 2019/20 audit and the associated Value for Money (VFM) work. While this had previously been expected to be completed by the end of September, this is no longer the case. A new audit manager was working through the 2019/20 audit files and BDO would revert to the Council with a list of any additional information required to complete the audit or the VFM conclusion. BDO confirmed their intention to secure external legal advice in

matters pertaining to investment property holdings although this had not yet been progressed, it was not anticipated to be a lengthy piece of work.

- 2.7 BDO expect to report to the November Committee with the opinion for 2019/20 and its VFM conclusion and at the same meeting issue disclaimer opinions for all subsequent years 2020/21 to 2022/23, with a single VFM statement to cover these years, as is now allowed for in the guidance. This will conform with the revised backstop date of 13th December 2024.

3 Update on progress with publication of the unaudited Statement of Accounts for 2023/24

- 3.1 The Council chose to participate in the national procurement exercise for the next appointing period for its auditors, to benefit from economies of scale, reduce administration costs and ensure it was able to appoint an auditor in a landscape of scarcity of eligible firms. Grant Thornton were subsequently appointed as the Council's auditors for the 5-year period commencing with the audit of the financial year 2023/24.
- 3.2 The Accounts and Audit Regulations set out dates by which local authorities are required to produce their "draft" or unaudited accounts. Throughout the Covid19 pandemic and beyond, due to the backlog, this date had been extended to allow councils enough time to prepare Accounts to an acceptable standard despite the numerous time pressures they were experiencing. Auditors were also provided with extended deadlines by which to audit the accounts. The scarcity of audit resource has, as noted above, meant that backlogs have built up which in turn provide additional pressure on finance teams who are unable to properly plan for the audit process due to uncertainty over when audit resources will be available. In addition, the lengthy delays mean that staff who have compiled detailed working papers and have a direct knowledge of major transactions within the accounts may have moved on, weakening the knowledge base to support detailed audit queries on historic transactions.
- 3.3 These issues have impacted Runnymede's ability to produce the 2023/24 unaudited accounts by the relevant deadline of 31 May 2024. Workloads in the team have also been impacted by the receipt in December 2023 of a non-statutory Best Value Notice (and prior to that date due to close engagement with DLUHC and Cipfa leading up to the issuance of the December notice). This is being addressed through the appointment of additional resource as previously approved by the Corporate Management Team.
- 3.4 To date, officers have found Grant Thornton's approach to their audit role to be robust and thorough with a welcome level of communication. Regular updates are scheduled with officers and the Engagement Lead attended Committee in March 2024 with their Audit Progress Report, introducing themselves to the Committee and setting out their preparations for the coming audit and the outputs they expected to deliver. [Agenda Document for Standards and Audit Committee, 19/03/2024](#). The key deliverables were set out as follows:
- Audit Plan: July 2024
 - Interim Audit Findings: Oct 2024
 - Audit Findings Report: November 2024
 - Auditors Report: 31 December 2024
 - Auditors Annual Report: July 2024 (Interim) and 31 December 2024 (Final)

- 3.5 Grant Thornton attended Committee again in July to present their Indicative Audit Plan and their Interim Annual Report, in line with their original timetable. [Agenda Document for Standards and Audit Committee, 17/07/2024](#)
- 3.6 Officers have been responding to Grant Thornton's requests during preparation for the audit and provided additional reports to the Committee in May detailing some of this work such as responding to the auditor's Audit Risk Assessment questionnaire and providing an update on proposed Accounting Policies to be used in the compilation of the Accounts. [Agenda Document for Standards and Audit Committee, 30/05/2024](#)
- 3.7 As noted above, the Council was meant to issue its unaudited statements by 31st May 2024 and Grant Thornton had planned their audit resource to carry out the main audit work for Runnymede during October. It became evident early in the process that the May deadline would not be achieved due to resourcing issues in the team and the late receipt of some key financial data from external parties (Valuation data, Assets and Pensions). Officers informed Grant Thornton of the position and published the requisite notice on the Council's website [Statement of accounts – Runnymede Borough Council](#). At that point, officers still anticipated producing the Statements in line with the resource allocation set aside by Grant Thornton for October.
- 3.8 However, whilst the bulk of the work has now been completed on the draft Statement of Accounts for 2023/24, the Council is experiencing issues with its Asset Management Software which means that it is unable to complete key capital-accounting entries which are required to produce some of the main notes in the Statements in relation to Property, Plant and Equipment. Some of the resulting transactions also filter in and out of the revenue account. Until this issue is resolved, the team will be unable to complete the accounts and the s151 will be unable to sign them as a "true and fair view" of the Council's financial position. This delay has a potential knock-on effect for Grant Thornton as it is likely that they will need to reschedule their audit resource.
- 3.9 Officers have informed Grant Thornton of the delay and provided an indication that closure of the accounts is unlikely to be achieved before the end of October and more realistically would be mid-November at the earliest. The backstop date for completion of the 2023/24 audit is 28th February 2025. Officers will continue to liaise with the auditor on progress and the rescheduling of audit resource, and further updates will be provided to the Committee during the year.

4 Policy framework implications

- 4.1 None identified

5 Resource implications/Value for Money

- 5.1 While there are no direct resource implications in terms of additional costs identified in the report, human resource issues have clearly been a challenge for the team which is being addressed by the recruitment of a Chief Accountant. Delays in the provision of audited accounts and the on-going uncertainty provided by the backlog of outstanding audits, means that external opinion on the reporting of the Council's finances and its arrangements for securing value for money is not being provided, which may affect public perception of the financial position of the Council.

6 Legal implications

- 6.1 The Council is required to comply with the Accounts and Audit Regulations 2015 and the statutory instrument setting out the revised backstop dates for the publication of audit accounts as set out in this report.

7 Equality implications

- 7.1 None identified

8 Environmental/Sustainability/Biodiversity implications

- 8.1 None identified

9 Risk implications

- 9.1 The Council may suffer reputational risk if it is unable to provide a draft set of accounts in time for its auditor to carry out sufficient audit work to evidence an opinion on the Statements by the backstop date of 28th February 2025. If this risk materialises and the auditor is unable to furnish that opinion within the required timeframe, then a disclaimer of opinion may be issued. It should be noted that there is a risk of disclaimer in any case due to the effect of the pre-existing backlog and the extent of work auditors may be required to do to establish assurance on opening balances in the 2024/24 accounts. However, up until now, the Council has been confident that the reason for any disclaimers would be due to lack of audit resource and not due to any fault of the Council. In the scenario set out above, the Council will also have to bear its part in the reasoning behind any disclaimer as it will have contributed to the delay.
- 9.2 There is no financial penalty for missing the initial publication date for draft accounts or the eventual backstop dates. There are a limited number of exemptions to meeting the backstop dates (set out in the LARRIGs) but where an exemption is not present, and an authority fails to publish by the backstop date, it must issue a notice stating that it has not been able to publish the statement of accounts, the reasons why not and an acknowledgment that the authority must publish the statement as soon as reasonably practicable. The notice must also be sent to the Secretary of State. A list of local bodies who have not met the backstop date, and their auditors, will be published.

10 Other implications

- 10.1 Not applicable

11 Timetable for implementation

- 11.1 Officers continue to press to get the account production back on track and will work closely with the auditor to achieve the audit ahead of the backstop date of February 2025.

12 Conclusions

- 12.1 Now that guidance has been issued to auditors around the reset and recovery of local audit, and the statutory process has commenced to agree the backstop dates, it is hoped that long-overdue progress will now be made with the audit for 2019/20. The Council has been advised that BDO do not intend to commence work on the

other outstanding audits and will be issuing disclaimed opinions for the years 2020/21 to 2022/23.

- 12.2 For the 2023/24 year, a new relationship has commenced with Grant Thornton and is currently working well. The Council has fallen behind with its production for the 2023/24 unaudited accounts for a number of reasons, including resources, other work pressures, delays in receiving data from external parties and issues with its Asset Management system. Staff are working with Grant Thornton to bring this back on track in order to meet the relevant backstop date for auditing these accounts.

13 Background papers

- None

14 Appendices

- Appendix A – Modifications to the Auditor’s Opinion or additional disclosures in the Auditor’s Report