

Restoring timely, high-quality financial reporting and audit of local bodies



Overview of proposals

Timely, high-quality financial reporting and audit supports good decision making by local bodies, and transparency and accountability to residents on how taxpayers' money is being spent. The current backlog of historic local government audits is unacceptable.

The FRC has been collaborating with system partners in local audit to develop proposals to tackle these exceptional circumstances and restore timely, high-quality financial reporting and audit.

These partners are the Department for Levelling Up, Housing and Communities (DLUHC), the National Audit Office (NAO), the Chartered Institute of Public Finance and Accountancy (CIPFA), the Institute of Chartered Accountants in England and Wales (ICAEW), and the Public Sector Audit Appointments (PSAA).

DLUHC has published a Joint Statement on its website setting out the proposals and related consultations in more detail. The measures involve three phases of activity:



Phase 1: Reset – legislating for a statutory backstop date for the publication of audited financial statements up to and including financial year 2022/23. Auditors should issue opinions based on the work they have completed by the backstop date – which may lead to a modified opinion – and are expected to prioritise to ensure that their audit work provides as much assurance as possible ahead of the date.



Phase 2: Recovery – a series of statutory backstop dates covering the financial years 2023/24 to 2027/28 to allow auditors to rebuild assurance over a five-year period of local bodies' financial information, which has been subject to a modified opinion as part of the reset. To reduce burdens on preparers and auditors, CIPFA will make temporary changes to the Code of Practice on Local Authority Reporting.



Phase 3: Reform – the FRC, alongside DLUHC and other system partners, will continue to work to address systemic challenges in the local audit system and embed timely financial reporting and audit.

System partner commitments

DLUHC

- Consult on changes to the Accounts and Audit Regulations 2015 to insert statutory backstop dates for historic accounts and for the financial years 2023/24 to 2027/28.
- Publishing a list of local public bodies and their auditors who do not meet the statutory backstop date, making it clear where draft accounts have not been published.

NAO

- Consult on amending the Code of Audit Practice to require auditors to issue audit opinions according to statutory backstop date for historic audits, and place specific duties on auditors to co-operate during the contract handover period.
- Consult on amending the Code of Audit Practice to allow auditors to produce a single Value for Money commentary for the period to 2022/23 and use statutory reporting powers to draw significant matters to the attention of councils and residents.

CIPFA

- CIPFA LASAAC to consult and implement temporary changes to the financial reporting code from 2023/24.
- Issue guidance to CFOs on their responsibilities to certify accounts and the impact of modified opinions and provide bespoke support to those local authorities that have difficulty producing draft accounts and meeting inspection requirements, or are not able to provide a 'true and fair' view.

FRC

- Support system partners on guidance notes for auditors to support implementation of the reset and recovery phases in an ISA (UK) compliant manner and remind auditors of their responsibilities to communicate the reasons for a modified opinion.
- Suspend annual Audit Quality Reviews (AQRs) for historic years to 2022/23 unless there are exceptional cases in the public interest. Routine AQR inspections to resume for 2023/24 audits against the NAO Code.
- Use supervisory role to engage with audit firm leaders where there are pervasive concerns, and lead on developing an escalated reporting framework to capture and address system risks.

ICAEW

- Mirror the FRC's AQR suspension of Quality Assurance Department reviews for 2022/23 and resumption in 2023/24.
- Work with the FRC on registration requirements for local audit and reducing barriers to entry where there is a case for flexibility.

PSAA

- Set scale fees and determine fee variations where the auditor undertakes more or less work than assumed by the scale fee in line with the Local Audit (Appointing Person) Regulations 2015, consulting where appropriate.