

**ICAS response to the NAO**

7 March 2024



# **Addressing the local audit backlog in England consultation**

**Department for Levelling-Up  
Housing and Communities**

**ICAS response**



# Introduction

The ICAS Public Sector Panel welcomes the opportunity to comment on this consultation. ICAS is a professional body for more than 23,000 members in the UK and in more than 100 countries around the world. Our members have all achieved the internationally recognised and respected CA qualification (Chartered Accountant). We are an educator, examiner, regulator and thought leader.

Our members work in business, the public sector and accountancy practices ranging from the Big Four to the small practitioner.

ICAS was created by Royal Charter in 1854. The ICAS Charter requires its Boards to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Any enquiries should be addressed to [atelfer@icas.com](mailto:atelfer@icas.com).

## Response to detailed questions

SUBMITTED VIA ONLINE FORM

### ICAS response

Questions	Final draft - response
<p>Q1. Notwithstanding the possibility of exemptions in exceptional circumstances (covered by questions 3 and 4 below), do you agree that Category 1 authorities should be required to have published audited accounts for all financial years up to and including financial year 2022/2023 by 30 September 2024? (agree, disagree, unsure)</p> <p>Do you have any comments on this issue?</p>	<p>We agree.</p> <p>We stress the gravity of the current situation, the unacceptable failures in accountability for public spending and extensive backlog built up over time which have to be addressed as soon as possible.</p> <p>We note the pressure on timelines and various challenges on both sides. However, the overarching priority now is to stabilise and recover. Sufficient time has passed. We are not convinced that exemptions at this stage are helpful.</p> <p>The focus from DLUHC and the NAO should be to stress the need for both sides to meet their respective statutory and regulatory responsibilities as best they can, by the dates required and accept a temporary elevated level of qualified audit reports to reflect these exceptional circumstances so that organisations can reset and move forwards.</p>
<p>Q2. Do you agree that the requirement at Regulation 10(2) for Category 1 authorities to publish a delay notice should be disapplied in relation to any outstanding audits covering financial years 2015/2016 to 2022/2023? (agree, disagree, unsure)</p> <p>Do you have any comments on this issue?</p>	<p>Agree.</p> <p>Whilst it is important for the public to review and have an opportunity to object to the accounts, a future review of existing arrangements is needed to ensure that this element of public accountability is future fit and fit for purpose.</p>

Questions	Final draft - response
<p>Q3. Do you think it would be appropriate for Category 1 authorities to be exempt from the statutory backstop date of 30 September in circumstances where the auditor is unable to issue their opinion due to outstanding objections to the accounts that could be material to that opinion? (agree, disagree, unsure)</p> <p>Please explain your response.</p>	<p>We are not convinced this exception is needed or appropriate. Please see our response to question 7.</p> <p>The only way forward to clear the backlog is to apply a statutory backstop date. The seriousness of the situation merits this action, even if this results in a significant number of modified opinions.</p> <p>We suggest that government should also consider a media statement to explain the exceptional circumstances, why so many modified options were issued, the implications on accountability and what is being done to address this.</p> <p>In particular, this statement should clarify the multi-dimensional reasons for why this situation arose to minimise the risk of misreporting in the media.</p>
<p>Q4. Do you think there would be any other exceptional circumstances which might create conditions in which it would be appropriate for Category 1 authorities to be exempt from the 30 September backstop date? (agree, disagree, unsure)</p> <p>Please explain your response, including, where relevant, details of exceptional circumstances you consider would justify an exemption.</p>	<p>No.</p> <p>If an authority fails to produce its accounts, this is a breach of their statutory duty.</p> <p>It may help to have FRC guidance to clarify how to resolve situations where the accounts have not been prepared (to the standard needed) or approved in time and the auditor is therefore unable to issue an audit report and may be required to issue a disclaimer.</p> <p>A clear approach is important to avoid extending the backlog.</p>
<p>Q5. We intend to publish a list of local bodies and audit firms which meet statutory deadlines for the publication of audited accounts and those which do not. Do you think there should be additional consequences for Category 1 authorities or audit firms (excluding an authority or firm covered by an exemption) if they do not comply with the statutory deadline of 30 September 2024? (agree, disagree, unsure)</p> <p>Please explain your response and, where relevant, include any suggested consequences.</p>	<p>We agree that a list should be published. This is consistent with the principle of transparency which is important in relation to public finances.</p> <p>Further work would be needed on the benefit of any additional consequences, but from our perspective publication, transparency and the inherent potential reputational impact (which may affect funding and credit ratings) can be an effective factor to promote a more positive culture and behaviours.</p>
<p>Q6. Notwithstanding the possibility of exemptions in exceptional circumstances (covered by questions 7 and 8 below), do you agree that Category 1 local authorities should be required to publish audited accounts for financial years 2023/2024 to 2027/2028 by the following dates (agree, disagree, unsure)?</p> <ul style="list-style-type: none"> <li>• 2023/24: 31 May 2025</li> <li>• 2024/25: 31 March 2026</li> <li>• 2025/26: 31 January 2027</li> </ul>	<p>Yes, we agree that a staged return to normality is pragmatic.</p> <p>We believe that the 2023/24 backstop date should be brought forward to the 31 March 2025 to facilitate wider public sector (NHS) audit management.</p>

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<ul style="list-style-type: none"> <li>• 2026/27: 30 November 2027</li> <li>• 2027/28: 30 November 2028</li> </ul> Do you have any comments on these dates?	
<p>Q7. Do you think it would be appropriate for Category 1 authorities to be exempt from the statutory backstop dates for Phase 2 in circumstances where the auditor is unable to issue their opinion due to outstanding objections to the accounts that could be material to that opinion? (agree, disagree, unsure) Please explain your response.</p>	<p>We disagree with the proposed exception to the deadlines where there have been objections to the accounts.</p> <p>The auditor could issue a modified opinion on scope limitation grounds until it is resolved.</p> <p>We stress the importance of local authorities complying with their responsibilities to produce and certify their accounts as true and fair as per <a href="#">The Accounts and Audit (England) Regulations 2011 part 3</a> and of auditors complying with their duties.</p> <p>If accounts are not provided, are late or of insufficient quality this affects the ability to comply with the inspection and objections requirement and ability of auditors to conduct their audit duties to the standard required before issuing an opinion.</p> <p>See also our response to question 1.</p>
<p>Q8. Do you think there would be any other exceptional circumstances which might create conditions in which it would be appropriate for Category 1 authorities to be exempt from the backstop dates for Phase 2? (agree, disagree, unsure) Please explain your response, including, where relevant, details of exceptional circumstances you consider would justify an exemption.</p>	<p>No.</p>
<p>Q9. We intend to publish a list of local bodies and audit firms which meet statutory deadlines for the publication of audited accounts and those which do not. Do you think there should be <b>additional consequences</b> for Category 1 authorities or audit firms (excluding an authority or firm covered by an exemption) if they do not comply with the statutory deadlines for Phase 2? (agree, disagree, unsure)</p> <p>Please explain your response and, where relevant, include any suggested consequences.</p>	<p>Yes, we support publication as an appropriate method of promoting transparency, driving positive behaviours and wider understanding.</p> <p>We suggest that further work is done to review additional consequences. In our view, the reputational effect of publication has some benefit. There may also be credit and funding implications which could help drive positive behaviours.</p> <p>See also our response to question 5.</p>
<p>Q10. The Accounts and Audit Regulations 2015 (regulation 15(1)(a)) currently requires Category 1 local authorities to publish unaudited accounts by the 31 May following the end of the financial year. In light of the proposed deadlines for the publication of audited accounts, do you think the 31 May deadline remains appropriate for</p>	<p>Yes, however we also support the logic in providing one additional month in 2025 if this is likely to give authorities time to produce higher quality accounts and facilitate a more efficient audit.</p> <p>A common date of 30 June across the UK appears reasonable.</p>

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<p>financial years 2024/2025 to 2027/2028? (agree, disagree, unsure)</p> <p>Please explain your response.</p>	
<p>Q11. The existing annual deadline for the publication of unaudited accounts is 31 May. As set out above, we are proposing a backstop date for the publication of audited accounts for the financial year 2023/2024 of 31 May 2025. This would mean that 31 May 2025 would be the statutory deadline for both the publication of audited accounts for financial year 2023/2024 and unaudited accounts for financial year 2024/2025. Do you expect this would create any significant issues? (agree, disagree, unsure)</p> <p>Please explain your response.</p>	<p>Yes, however see our response to Q10.</p>
<p>Q12. The government anticipates that the Phase 1 backstop proposals will result in modified or disclaimed opinions. A modified or disclaimed opinion at the end of Phase 1 would require auditors to subsequently rebuild assurance. The Phase 2 backstop dates are intended to enable this work to be spread across multiple years. Given this additional work, and noting the further explanation at paragraphs 15 to 46 of the <b><u>Joint Statement</u></b>, do you have any views on the <b>feasibility</b> of audited accounts being published by the proposed statutory backstop dates for Phase 2?</p>	<p>This is reasonable. At this stage, matters are serious enough to support this action.</p> <p>Some areas would benefit from additional FRC and NAO guidance. This includes opening balances, reserves and audit handover arrangements for clients with audit report disclaimers.</p> <p>This would help to manage audit risks, enable consistency and confidence in auditor judgements as part of rebuilding assurance.</p>
<p>Q13. Do you agree that it would be beneficial for the 2015 Regulations be amended so that Category 1 bodies would be under a duty to consider and publish audit letters received from the local auditor whenever they are issued, rather than, as is currently the case, only following the completion of the audit? (agree, disagree, unsure)</p> <p>Do you have any comments on this issue?</p>	<p>Yes, we agree</p>
<p>Q14. Do you have any comments on whether any of the proposals outlined in this consultation could have a disproportionate impact, either positively or negatively, on people with protected characteristics or wish to highlight any other potential equality impacts?</p>	<p>-</p>
<p>Q15. Finally, do you have any further comments on the proposed changes to the 2015 Regulations not covered by the questions so far, including relating to any unintended consequences?</p>	<p>We believe it is important to have strong collaboration across all relevant stakeholders to progress reform.</p>


<b>Questions</b>	<b>Final draft - response</b>
	As some reforms will require legislative change, strong engagement from role of the Department for Levelling Up, Housing and Communities is critical.




CA House, 21 Haymarket Yards, Edinburgh, UK, EH12 5BH  
+44 (0) 131 347 0100  
[connect@icas.com](mailto:connect@icas.com)  
[icas.com](http://icas.com)

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