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SUPPLEMENTARY INFORMATION

CORPORATE GOVERNANCE AND AUDIT COMMITTEE – 12<sup>TH</sup> FEBRUARY 2024

AGENDA ITEM 12 - Update report on Government Proposals to address the national audit backlog, and Grant Thornton's Response and update on the Audit 2021/22

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# Leeds City Council

## Audit Progress on 2021-22 Accounts Audit & Implications of Proposed 'Backstop' on the 2022-23 Accounts Audit



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# 1. Audit Progress on 2021-22 Accounts audit

## 2021-22 Financial Statements Accounts Audit

We updated the Corporate Governance and Audit Committee at its last meeting on 27 November 2023 on progress being made on the 2021-22 audit which was summarised in our updated 2021-22 Audit Findings (ISA 260) draft report. Since this time, audit work has continued to progress but is not yet sufficiently complete for us to conclude our audit work. Our work is approximately 90% complete which compares to some 80% complete in November 2023.

There continue to be work pressures and challenges within the capacity of the finance team to provide working papers and responses to outstanding queries due to other work pressures. The most significant areas of outstanding work and queries now relate to Property, Plant and Equipment (PPE), and resolution of the 'Hot Review' technical queries noted from our Technical Team's review of the Council's draft financial statements.

In addition, there are also a small number of minor queries and outstanding information in a range of areas that the finance team continue to address. Since our last update to the Corporate Governance and Audit Committee, work relating to pensions and operating expenditure is now substantially complete.

We continue to meet on a regular basis with the finance team to discuss progress and resolve issues. We are now targeting to complete our audit work and issue our audit opinion by 31 March 2024. However, this continues to be dependent on adequate capacity being made available within the finance team to provide working papers and respond to requests for information in a timely manner.

Whilst both management and ourselves consider it realistic to complete and conclude the audit work and issue our audit opinion on the Council's 2021-22 financial statements by 31 March 2024, it is critical that this date is achieved as our work will not be extended beyond the end of March 2024.

Any slippage would result in the Firm making application of the 'Backstop' provisions as explained in Section 2 overleaf. Work on the 2021-22 accounts audit would cease and we would not progress the 2022-23 accounts audit either.

Furthermore, if we are not in a position to sign the 2021-22 accounts audit opinion by 31 March 2024, we would expect to issue a 'statutory recommendation' to the Council under Section 24 (schedule 7) of the Local Audit and Accountability Act 2014. This would require discussion by full Council.

## 2021-22 Value for Money arrangements review

We have already completed our 2021-22 Value for Money work at the Council and issued our Auditor's Annual Report in March 2023.

We did not identify any key recommendations from our work, however, we made five improvement recommendations to further develop the Council's existing arrangements.

The Auditor's Annual Report was presented to the Corporate Governance and Audit Committee at its meeting on 20 March 2023.

Our 2022-23 VFM work is also complete, and this is summarised overleaf.

# 2. Implications of Proposed ‘Backstop’

## Background

As previously reported to members of the Corporate Governance and Audit Committee, the local government audit market continues to be under significant pressure. The current deadline to publish audited accounts is 30 September each year, however, for 2022-23, only five out of 467 local government bodies received an auditor’s opinion on their 2022-23 accounts by the required deadline (analysis by Public Sector Audit Appointments). For 2021-22, only 12% of audits were completed by the extended deadline of November 2022. Cumulatively, there are over 900 audits outstanding for 2022-23 and earlier years.

Whilst we as a local Leeds office public sector audit team have a strong record on local authority accounts delivery and signing opinions on a timely basis, with the exception of the Leeds City Council accounts audits, it is noted local audit is in crisis and the Government must take urgent action to fix it.

The cross-party Levelling Up, Housing and Communities (LUHC) Committee published its report on Financial Reporting and Audit in Local Authorities on 20 November 2023. A link to this report is included as a footnote at Appendix A.

The Minister for Local Government wrote to the Chair of the Levelling Up, Housing and Communities Committee on 9 January 2024 setting out arrangements for resetting the system. Arrangements include an initial backstop date for local authorities and auditors of 30 September 2024 for all outstanding local audits in England up to and including the financial year 2022-23. These proposals are subject to the outcome of consultation. A copy of the letter is attached at Appendix A.

## The Implications of the ‘Backstop’

Subject to consultation and legislation to implement the Backstop proposals being introduced, any audit relating to 2022-23 or earlier years not concluded by 30 September 2024, would automatically have the backstop applied.

These proposals would mean that those authorities where audits have not yet started for 2022-23 or earlier years would have the Backstop applied and no audit work would be undertaken. An audit opinion would be issued indicating audit work has not taken place and using a form of words which has yet to be determined.

Similarly, where audits are on-going and are not completed by 30 September 2024 for 2022-23 or earlier years, audit work would stop and the Backstop applied.

## Implications of the ‘Backstop’ for Leeds City Council

Leeds City Council currently has two audits open:

1. External Audit 2021-22: where the financial statements accounts audit is on-going but work on the Council’s VFM arrangements is complete
2. External Audit 2022-23: where we have completed work on the Council’s VFM arrangements, IT controls work, and some accounts planning work, but no work as yet on the year-end testing of the Council’s accounts has commenced.

### Backstop implications for 2021-22

We continue to work with the Council’s finance team to complete the 2021-22 audit. As noted in the previous section, work is some 90% complete, and subject to adequate capacity being made available within the finance team to provide working papers and respond to remaining requests for information in a timely manner, we are targeting to conclude the accounts audit and issue our audit opinion by 31 March 2024, following the Corporate Governance and Audit Committee meeting currently scheduled for 18 March.

If however, slippage arises for whatever reason, work will not be extended into April as at that time, we commence work within the NHS and our resources would be deployed with our NHS clients. In this case, we would apply the backstop to 2021-22 and undertake no further work, therefore it is critical that our 2021-22 audit is concluded by the end of March 2024.

# 2. Implications of Proposed ‘Backstop’

## Implications of the ‘Backstop’ for Leeds City Council continued

### Backstop implications for 2022-23

Audit work would only commence on the Council’s 2022-23 financial statements if the audit of the prior year, 2021-22 has been completed and our audit opinion issued by 31 March 2024. If this is not the case, we would backstop the 2022-23 audit and undertake no audit work.

However, based on on-going discussions with the finance team, we believe the 2021-22 audit should be completed by 31 March 2024. As such, we expect to commence the 2022-23 audit in April, using a dedicated audit team which we would ring fence for the audit of Leeds City Council only, with a view to completing audit work by the ‘backstop’ deadline of September 2024. On this basis, we would expect to present our Audit Plan for 2022-23 to the Council’s Corporate Governance and Audit Committee in June 2024.

To ensure the 2022-23 audit progresses efficiently and slippage does not arise, we have proposed a set of key milestones for the Council’s Chief Financial Officer to consider including:

- Working papers relating to the 2022-23 audit to be uploaded to Inflow by 1 April 2024. Given the Council prepared the draft 2022-23 accounts in July 2023, we would expect the supporting working paper to be ready for audit. All working papers should agree to the accounts and the Council’s general ledger (FMS), be easy to follow, have supporting build-up of figures and have been reviewed and signed off by a senior individual independent of the preparer

- Key finance staff to be available to respond to queries in a timely manner, be available for meetings as required to discuss issues and give precedence to the audit process. The Council’s finance resources should be planned to ensure the 2022-23 audit process is given sufficient priority given the competing demands of 2023-24 closedown and the implementation of the new ledger. We understand the Chief Financial Officer is reviewing both staffing resources and procedures to ensure that the priorities of supporting the 2022-23 audit process, closing down the 2023-24 accounts and the successful implementation of the new financial ledger are all delivered within planned timescales
- At all times, priority is given by the finance team, management and other officers involved in the audit process across departments (for example the Council’s valuers) to respond promptly to audit queries and responses for information
- Audit progress is in accordance with the key milestones as set out in the audit timeline included at Appendix B
- Fortnightly meetings commencing April 2024 to monitor progress and escalate issues should this arise.

If all proceeds well, we will be in a position to issue our 2022-23 audit opinion by 30 September 2024, allowing us to then commence the 2023-24 audit on a more normal timeline.

However, if in our view, any of the milestones appear not to be met, audit work on the Council’s 2022-23 financial statements will cease and we will automatically revert to the Backstop. In addition, we would likely raise a Statutory Recommendation on this matter for discussion at full Council.

# Appendix A – Letter from Minister of Local Government



Department for Levelling Up,  
Housing & Communities

**Simon Hoare MP**  
Minister for Local Government  
2 Marsham Street  
London  
SW1P 4DF

Clive Betts MP  
Chair, Levelling Up, Housing and Communities Committee  
House of Commons  
London  
SW1A 0AA

99  
January 2024

Dear Clive

Thank you for your considered report on *Financial Reporting and Audit in Local Authorities*, published by the Levelling Up, Housing and Communities Committee on 24 November 2023.

The Government recognises the vital role played by our systems of local authority financial reporting and audit. Accurate and independently audited financial information, delivered on time, enables local bodies to effectively plan, make informed decisions and manage their services. This aids transparent and accountable local democracy which engenders public confidence and trust.

In July my predecessor, Lee Rowley MP, wrote to you providing a cross-system statement on proposals to clear the backlog of local audits. He set out that there exists a shared resolve and commitment amongst the organisations which comprise the local audit system to take action to tackle the exceptional circumstances of the current backlog and ensure a return to timely delivery of high-quality financial reporting and external audit in local bodies. This resolve remains strong and considerable. Detailed development of the proposals, alongside engagement with stakeholders across the sector, has taken place since the Summer. I am pleased that the Committee have acknowledged that "a resetting of the system through a limited series of statutory deadlines... represents a necessary first step...".

I can now confirm that the Department, supported by the FRC, alongside the National Audit Office, will launch consultations on these proposals soon. Our proposals will include an initial backstop date for local authorities and auditors of 30 September 2024 for all outstanding local audits in England up to and including the financial year 2022-23. Subject to the outcome of the consultations on necessary legislative changes as well as changes to the Code of Audit Practice, we intend to bring forward legislation to implement the backstop proposals. While these consultations take place, preparers and auditors should continue undertaking existing work to produce and audit local authority financial statements to ensure the system is in the best place possible to implement any final package of measures.

The Government is carefully considering the Committee's report, and its content is helping to inform our work with key system partners to develop solutions to the challenges in the local authority financial reporting and audit system. The Committee's report makes a wide range of recommendations for both the backlog and the future of local financial reporting and audit and I agree that important questions concerning systemic challenges must be addressed.

**SIMON HOARE MP**  
Minister for Local Government

Note: The report from the cross-party Levelling Up, Housing and Communities Committee is available at: <https://committees.parliament.uk/publications/42279/documents/210125/default/>



# Appendix B – Audit timeline and key milestones

We have set out below, an indicative timeline of the key work areas and when we expect to start and complete work in each area along with progress milestone of work completion. The timeline of key work areas is to be agreed with the Council’s Chief Financial Officer.

			Expected start	Expected End	Milestone completion %
<b>Planning work</b>			01-Apr-24	12-May-24	20
<b>Fieldwork</b>					
Journals			01-Apr-24	31-May-24	
Analytical Review			01-Apr-24	26-Apr-24	
Supervision, management and review			01-Apr-24	27-Sep-24	
A1 - Casting and comparatives			08-Apr-24	26-Apr-24	
Disclosure checklist			08-Apr-24	26-Apr-24	
EL/AM Review of accounts			08-Apr-24	30-Aug-24	
Agree Accounts to ledger			22-Apr-24	16-Jun-24	
Employees benefits and disclosures			01-May-24	31-May-24	40
Interest payable			01-May-24	17-May-24	
Refcus			01-May-24	30-Aug-24	
PPE various (incl inv properties, heritage & ahfs)			01-May-24	30-Aug-24	
ST Debtors other incl cut off			08-May-24	05-Jul-24	
Bad debt prov			08-May-24	05-Jul-24	
LT & ST Creditors incl cut off			01-May-24	28-Jun-24	
Borrowings			01-May-24	15-May-24	
PFI			06-May-24	28-Jun-24	
Other financial statement steps			06-May-24	31-May-24	
Capital Commitments			03-Jun-24	28-Jun-24	
Capitl exp and financing			03-Jun-24	28-Jun-24	50
OPEX incl schools			03-Jun-24	27-Jul-24	
LT & ST Investments			03-Jun-24	14-Jun-24	
Financial Instruments			10-Jun-24	28-Jun-24	
Going concern			10-Jun-24	21-Jun-24	
Revenue income other			01-Jul-24	03-Aug-24	
Collection Fund including disclosures			01-Jul-24	31-Jul-24	70

# Appendix B – Audit timeline and key milestones continued

	Expected start	Expected End	Milestone completion %
Pensions Liab IAS19 incl interest and gains/losses	01-Jul-24	13-Sep-24	
Grant income Capital/Revenue & Grants RIA	15-Jul-24	30-Aug-24	
Dedicated school grant	15-Jul-24	30-Aug-24	
MIRS and Reserves	29-Jul-24	30-Aug-24	80
Provisions	01-Aug-24	13-Sep-24	
Cont liAB	01-Aug-24	13-Sep-24	
Pooled Budget	01-Aug-24	13-Sep-24	
Leases	01-Aug-24	13-Sep-24	
Cash	05-Aug-24	13-Sep-24	
Related Parties	08-Aug-24	20-Sep-24	
HRA including disclosures	08-Aug-24	20-Sep-24	
Other incl AGS	08-Aug-24	20-Sep-24	
EFA	12-Aug-24	30-Aug-24	
LT Debtors	19-Aug-24	20-Sep-24	
Group	19-Aug-24	20-Sep-24	
Cash Flow	19-Aug-24	20-Sep-24	
Housing Benefits	02-Sep-24	13-Sep-24	
Audit fee	02-Sep-24	06-Sep-24	
Closure steps	02-Sep-24	27-Sep-24	100



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