

21 August 2024

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Dear Section 151 Officer colleagues

As you will be aware, Jim McMahon, the new Minister of State responsible for Local Government and English Devolution made a statement to parliament on Tuesday 30 July 2024, setting out the Government's policy proposal for addressing the local government audit backlog. This statement outlines immediate actions the Government – together with the Financial Reporting Council (FRC), the National Audit Office (NAO) and organisations in the wider system – is taking, which are designed to address the backlog and put local audit on a sustainable footing. ([Written statements - Written questions, answers and statements - UK Parliament](#)). The Minister then issued a cross system letter that same day. These now provide helpful clarity on the government's policy intentions and recognise the commitment of finance teams and auditors and the important role that we will all play to restore timely financial reporting and audit across local government in England.

As you will recall I wrote to you on 26 July and 6 December 2023 setting out EY's response and approach to dealing with Government proposals to re-establish the local authority audit framework on a more sustainable basis. Following this statement to parliament, I am now writing to update you how we are working to deliver the Government's policy intentions.

As you are aware, the challenges facing the local audit system have been highlighted by auditors, the Redmond Review, the NAO, PSAA Ltd, the Local Government Association and Parliament – through Select Committee hearings. The critical factors leading to these delays can be attributed to shortages in specialist audit resources and finance teams across local authorities, increasing regulatory requirements, specific governance or technical matters at audited bodies, emerging national accounting issues for Infrastructure Assets and more recently Pension Liability valuation matters, with all of these being further compounded by the impact of Covid.

We remain committed to delivering high quality local audit in the public interest. Therefore, in the light of the latest government announcement we are reviewing our current and future work prioritisation to ensure that we meet the requirements now being placed on us by government, the FRC and the NAO. At the same time, we are also mindful of the expectations on us to safeguard the timeliness of the audits in other priority sectors where we audit public funds – central government, the NHS and higher education.

The government's intention is to implement backstop dates relatively soon for financial years up to 2022/23 (13 December 2024) and 2023/24 (28 February 2025). While guidance remains to be issued, we have been working with the system leaders to understand what their expectations will be on all auditors to implement the government's policy proposals effectively. To ensure that we fully comply with the guidance given the relative proximity of the backstop dates and support an effective reset of the system across 2023/24 and 2024/25, it is clear that we, and other local audit firms will have to make difficult prioritisation decisions in how to best deploy finite audit resources. For these reasons we agree with the government's estimates that auditors are "likely to issue hundreds of disclaimed audit opinions and disclaimed opinions will likely continue for some bodies for a number of years". Most immediately, many audits will be disclaimed up to 2022/23 and 2023/24 under these backstop proposals. We anticipate that from 2024/25 the recovery of the system will commence, with assurance being rebuilt over several subsequent audit cycles, before unmodified opinions are able to be issued.

Therefore, in line with the timelines set out above our intention is to prioritise our resources to:

- a. finalise value for money reporting up to 2022/23 and complete the process of disclaiming audit opinions up to 2022/23 by end of November 2024;
- b. ensuring that other priority sectors are protected, including resources for the commencement and planning of 2024/25 local government audits;
- c. deliver 2023/24 audits including our continued focus on pension fund audits, where practical, ensuring the value for money responsibilities placed on auditors are completed; and
- d. complete the process of disclaiming audit opinions for 2023/24 by the end of January 2025, to then allow audit teams to begin planning 2024/25 audits with a view to commencing the build back of assurance.

In respect of the delivery of 2023/24 audits, we will be prioritising those audits that we consider meet the following criteria:

- draft unaudited financial statements were published by 31 July 2024<sup>1</sup>;
- there is evidence that finance teams can effectively and efficiently support the audit process; and
- have high-quality audit evidence and supporting information that is delivered in accordance with our agreed timetable and in advance of the commencement of the audit.

Where these factors are not present our experience tells us that there is an increased risk that the backstop provisions will be required for those 2023/24 audits, and in our view deploying valuable audit resource would not be in the best public interest.

We continue to work through the detail of the Minister's letter and the impact that the stated backstop dates have on our delivery plans. Your Key Audit Partner will be in touch in early September to discuss and answer your questions on what this means for your organisation, for any open years of audit to 2022/23 and your current 2023/24 audit. We will also provide a roadmap of what will be required and next steps to allow us to complete the necessary procedures to close outstanding audits by the respective backstop dates to ensure compliance with FRC and NAO requirements.

As the Government recognises, these are bold and exceptional measures and aspects of these proposals are uncomfortable. It therefore remains important that our respective teams continue to work constructively together to ensure that the Government's policy proposals on backstop dates are achieved, and that the local audit system is effectively reset in the short term to enable sustainable recovery in later years. I will, of course, update you if we become aware of any changes to the Government's intentions that would impact the approach set out above.

If you have any questions about the contents of this letter, please don't hesitate to contact me, otherwise your Key Audit Partner will be in touch as outlined above.

Yours sincerely



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for and behalf of Ernst & Young LLP

<sup>1</sup> The Account and Audit Regulations (2015) set the 31 May 2024 as the publication for an Authority's 2023/24 draft financial statements. We acknowledge that this is an important responsibility upon an Authority but recognise the impact that delayed audits have on closedown processes for 2023/24 and the respective authorisation of draft financial statements by S151 Officers. Using the 31 July 2024 as a follow up date for publication ensures no Authority is unreasonably disadvantaged and is linked to the date of the Ministers Announcement.