



London Borough of Tower Hamlets

Briefing note on plans for addressing the backlog in local audits

Issued on 15 April 2024 for the meeting of the audit committee on 23 April 2024

Briefing note – purpose and background

1. Purpose of briefing note

This briefing note has been prepared to respond to the Corporate Director, Resources’s report on the council’s plans for addressing the backlog in the audit of the council’s accounts for years ended 31 March 2021 through to 31 March 2023 which is to be considered at the audit committee meeting on 23 April 2024.

2. Background to the reset

The Corporate Director, Resources’s report describes the government’s proposals for dealing with the national backlog in local audits and consequent changes proposed by the National Audit Office (NAO) to the Code of Audit Practice to support auditors in responding to the government’s proposed changes to the Accounts and Audit Regulations. In particular, in relation to the period of our appointment, the report describes the government’s proposal to re-set the system of local audit nationally by requiring auditors to issue their reports by a backstop date of 30 September 2024, whether or not they have been able to carry out all of their planned procedures on the financial statements by that date. The consultation recognises that, where the auditor has not been able to obtain sufficient appropriate audit evidence by the backstop date, this will result in either a qualified or disclaimer of opinion on the financial statements.

The proposals envisage only limited exceptions to the requirement to issue the audit report by the backstop date: if the authority has not completed all of its obligations under the Accounts and Audit Regulations in relation to the preparation and approval of the statement of accounts; if the auditor’s work on value for money is not complete; and if there are outstanding objections to the accounts which could be material to the opinion.

The government and the NAO have undertaken that system partners will provide clear communications explaining that modified or disclaimed opinions caused by the backstop date do not necessarily indicate significant financial reporting or financial management issues at a local authority. Conversely, the government proposes to publish a list of local bodies and their auditors which do not meet the backstop date.

The proposals recognise that authorities and auditors will need to have

regard to competing priorities such as auditors meeting pre-existing commitments to carry out other public sector audit work including NHS external audit work in determining their approach to the backstop date.

The consultation periods are now closed but, at the time of writing, the government had not yet published its response and plans. Also, it is expected that the NAO will produce statutory guidance in relation to the operation of the reset.

3. Status of our audits

Our appointment covers each of the five years of account through to the year ended 31 March 2023. We issued our audit certificates for the first two years of account in November 2023; the audits for the remaining three years of account remain open.

We did not start work on the financial statements for the year ended 31 March 2021 until June 2023 as a result of delays in concluding the audits for the preceding two years of account. The reasons for those delays are set out in our previous reports to the audit committee.

We were not able to complete our planned procedures on the financial statements for that year during our scheduled visit as a result of a slow turnaround of requests for information. We did not arrange additional staffing at the conclusion of the visit to carry out our remaining procedures as further progress was reliant on the provision of information and, as set out in the Corporate Director, Resources’s report, the council determined at that time to prioritise preparation and publication of financial statements for later years of account.

We have not performed any procedures in relation to the audit of the financial statements for later years of account. We have requested but not yet received a complete set of information in relation to planning and risk assessment procedures for the purpose of our value for money work.

Briefing note – local process

4. Local process

Once we know the government and the NAO's final plans and have received and considered the NAO's guidance in relation to the changes, we will prepare and issue audit planning reports covering the remaining three open years of account of our appointment which reflect any changes to be made to the regulations and code.

Based on the proposals which the government and the NAO have consulted on:

- We expect to prioritise work on value for money as completion of this is necessary for the reset to operate as intended. We will complete our planning and risk assessment work once we have received the outstanding information requested for that purpose. Where we have identified risks of significant weaknesses in arrangements, we will set out details of those risks in our audit planning report and carry out further procedures to evaluate and respond to those risks. We expect this work to be carried out in June/July 2024. The council's decision to give priority to the preparation of the remaining information needed for our planning and risk assessment and to support any additional testing on areas of identified risk is consistent with this.
- The council proposes to give priority to closing the accounts for the year ended 31 March 2024 and supporting the new auditor's work on those accounts and does not envisage that the council has sufficient capacity to also support completion of our planned procedures on the financial statements for 2020/21 at the same time. This decision on priorities is consistent with the objectives of the government's reset plan.

On this basis, we expect to perform a detailed review of the evidence obtained during our visit in 2023, including identifying gaps where we were not able to complete planned procedures and evaluate whether we have sufficient, appropriate evidence to give an opinion. We expect to conclude this work in June 2024. If, as we currently anticipate, we do not have sufficient, appropriate evidence, we would prepare a qualified or disclaimed opinion. In the latter case, this means that we would state in our audit report that we do not express an opinion on the financial statements as we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an opinion.

We expect also to carry out limited procedures on the updated version of the statement of accounts which was re-published in December 2023,

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subsequent to our visit, such as agreeing to the accounting records, checking the cast and internal consistency of the statement of accounts and checking whether the statement of accounts is in an appropriate format and includes the information which the Code of Practice on Local Government Accounting requires to be disclosed. We expect to perform this work in June/July 2024.

Where we identify errors or other deficiencies, including the deficiencies set out in the Corporate Director, Resources's report which the council does not propose to remediate, we will consider whether our audit report should be modified in respect of those matters, notwithstanding that we may also disclaim our opinion on the financial statements. We expect to complete our evaluation of the results of these procedures and to prepare a draft audit report in July/August 2024.

- We do not expect it would be possible to complete and give an opinion on the accounts for the years ended 31 March 2022 and 31 March 2023 and therefore expect that we would need to issue a disclaimer of opinion in respect of both these years. We will nevertheless expect that we will need to complete some procedures (such as those set out above in relation to the updated statement of accounts for the year ended 31 March 2021) and sufficient time would be needed to be allowed for these, as well as evaluating the impact on our audit report of any errors or deficiencies identified. We expect to complete these procedures in June/July 2024 and evaluate the results of those procedures and draft our audit report in August 2024.

We have the resources in place to carry out this work and will bring a final report to the audit committee setting out the findings from these procedures and proposed wording of our audit reports for each of the open years. We will also bring a consolidated Annual Auditor's Report, including a commentary on value for money, to the meeting. We will agree a suitable date for the meeting, expected to be in September 2024 and in time for the council to comply with its obligations under the revised Regulations in relation to the publication of the statement of accounts.

Purpose of our report and responsibility statement

This briefing has been prepared for the Audit Committee and the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, slightly slanted style.

Deloitte LLP

London

15 April 2024



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