



# Response to Department for Levelling Up, Housing and Communities consultation on addressing the local audit backlog in England

## Introduction

The Department of Levelling Up, Housing and Communities (DLUHC) is consulting<sup>1</sup> on proposed amendments to the *Accounts and Audit Regulations 2015*<sup>2</sup>, as part of a package of cross-system measures<sup>3</sup> to clear the backlog and put the system on a sustainable footing.

The consultation sets out:

- proposals to clear the backlog of historical audit opinions up to and including financial year 2022/23 by 30 September 2024
- proposed backstop dates for the financial years 2023/24 to 2027/28 to allow assurance to be rebuilt over multiple audit cycles

The HFMA agrees that that delays in audit opinions undermine the effectiveness of local audit. We recognise there are a number of complex and intertwined factors leading to the issues in the audit market for local authorities and the NHS<sup>4</sup>.

As reported in the Department of Health and Social Care's *Annual report and accounts 2022-23*<sup>5</sup>, 'Timeliness of financial reporting across the NHS continued to be a challenge in 2022-23, undermining oversight and accountability across the group: 23% of NHS providers and 20% of NHS commissioners missed NHS England's certification deadline of 30 June 2023...A significant number

<sup>1</sup> DLUHC, [Addressing the local audit backlog in England: consultation](#), February 2024

<sup>2</sup> The National Archives, [The Accounts and Audit Regulations 2015](#), April 2015

<sup>3</sup> DLUHC, [Joint statement on update to proposals to clear the backlog and embed timely audit](#), February 2024

<sup>4</sup> HFMA, [The NHS external audit market: an update on current issues](#), August 2022

<sup>5</sup> DHSC, [Annual report and accounts 2022-23](#), January 2024

of NHS provider and NHS commissioner audits were ongoing at 30 November 2023, the date the Department originally committed to Parliament that its accounts would be certified by. This has prevented timely reporting which is a key part of effective management of public money and public trust in how taxpayers' money is spent.<sup>4</sup> The report goes on to comment that 'delays to local government audit opinions adversely impacted on NHS bodies.

NHS bodies reported growing concerns about the capacity of their external auditors, resulting in auditors carrying out fewer interim audits and increasing pressure on the audit of the final accounts.<sup>5</sup>

The proposals set out in the joint statement<sup>3</sup> will clearly lead to an increased level of work in the coming years, requiring a significant effort on the part of both preparers of the accounts and auditors. There is no doubt that this will result in capacity constraints for public sector auditors during the catch-up period that will impact the interim and year-end audits of NHS bodies. This is particularly the case for the May 2025 backstop date which falls within the NHS audit period. The proposed changes may also impact on decisions as to whether an auditor chooses to tender for an NHS audit or not.

We welcome the joint approach to introduce a package of measure that reset, recover and reform local audit. Although the changes in the consultation do not change any requirements in the NHS, NHS bodies will be affected. The HFMA's Governance and Audit Committee is responding to this consultation with a specific focus on areas of the consultation that will impact on NHS bodies.

The HFMA has also responded separately to the National Audit Office (NAO) consultation being run in parallel to this consultation, relating to changes to the *Code of Audit Practice*<sup>6</sup>.

In summary, the HFMA supports the proposed changes as part of the package of measures to address the local audit backlog in England. However, we do have particular concerns with the timing of the May 2025 backstop date, falling within the NHS audit period.

**Question 1: 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)**

**Do you have any comments on this issue?**

Agree

With such a large backlog to address, we note the scale of this challenge to complete this by 30 September 2024. Although a modified or disclaimed opinion on outstanding accounts can be issued if the auditor does not have enough time to complete all audit work before this date, it is important to recognise the time required, at a senior level, to agree a modified or disclaimed opinion.

**Question 2: 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)**

**Do you have any comments on this issue?**

We do not have any comments on this question.

**Question 3: 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)**

**Please explain your response.**

We do not have any comments on this question.

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<sup>6</sup> NAO, [Code of audit practice consultation](#), February 2024

**Question 4: 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)**

**Please explain your response, including, where relevant, details of exceptional circumstances you consider would justify an exemption.**

We do not have any comments on this question.

**Question 5: 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)**

**Please explain your response and, where relevant, include any suggested consequences.**

We do not have any comments on this question.

**Question 6: 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)?**

- **2023/24: 31 May 2025**
- **2024/25: 31 March 2026**
- **2025/26: 31 January 2027**
- **2026/27: 30 November 2027**
- **2027/28: 30 November 2028**

**Do you have any comments on these dates?**

While we agree that the principle of backstop dates across the period reduces the risk of future backlogs and allows for assurance to be gradually be rebuilt, we do have particular concerns with the 2023/24 backstop date of 31 May 2025.

The audit of NHS and local authority accounts is commonly completed by the same audit staff. Most external audit work for 2024/25 NHS audits will take place between April and June 2025. This is a tight window for completing the NHS audits and, usually, there will be minimal other non-NHS audit work being undertaken at this time.

In practice, due to NHS audit work being undertaken in May, work for the 2023/24 local authority backstop date will need to be completed by mid to end April. As such we would recommend the backstop be brought forward to reflect this or back to September 2025, in order to provide a realistic schedule.

As set out in paragraph 46 of the joint statement<sup>3</sup>, NHS England will not accept requests for extensions to audit deadlines for NHS bodies because of auditors needed to complete work ahead of backstop dated for non-NHS local audited accounts.

Auditors will need to prioritise work within their portfolio if they are to achieve both the NHS audit timetable and backstop dates. This may be too much pressure on the audit firms and their staff that are likely to have further implications in relation to auditors' ability and willingness to tender for NHS audit contracts over the coming years. For NHS bodies that cannot extend current contracts this will be a significant issue as it will exacerbate the current low rates of engagements with invitations to tender.

**Question 7: 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.**

We do not have any comments on this question.

**Question 8: Do you think there would be any other exceptional circumstances which might create conditions in which it would 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.**

We do not have any comments on this question.

**Question 9: 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 deadlines for Phase 2? (agree, disagree, unsure)**

**Please explain your response and, where relevant, include any suggested consequences.**

We do not have any comments on this question.

**Question 10: 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 financial years 2024/2025 to 2027/2028? (agree, disagree, unsure)**

**Please explain your response.**

We do not have any comments on this question.

**Question 11: 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)**

**Please explain your response.**

We do not have any comments on this question.

**Question 12: 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 Joint Statement, do you have any views on the feasibility of audited accounts being published by the proposed statutory backstop dates for Phase 2?**

See question 6 for our concerns over capacity issues for the phase 2 backstop dates, and in particular the backstop date of 31 May 2025 proposed for the 2023/24 accounts.

**Question 13: 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?**

We do not have any comments on this question.

**Question 14: 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?**

We do not have any comments on this question.

## About the HFMA

The Healthcare Financial Management Association (HFMA) is the professional body for finance staff in healthcare. For over 70 years, it has provided independent and objective advice to its members and the wider healthcare community. It is a charitable organisation that promotes best practice and innovation in financial management and governance across the UK health economy through its local and national networks.

The association also analyses and responds to national policy and aims to exert influence in shaping the wider healthcare agenda. It has particular interest in promoting the highest professional standards in financial management and governance and is keen to work with other organisations to promote approaches that really are 'fit for purpose' and effective.

The HFMA offers a range of qualifications in healthcare business and finance at undergraduate and postgraduate level and can provide a route to an MBA in healthcare finance. The qualifications are delivered through HFMA's Academy which was launched in 2017 and has already established strong learner and alumni networks.

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