

Report Title: Statement of Accounts Update – Local Audit Backlog in England

Date of meeting:	4 September 2024		
Report to:	Audit and Governance Committee		
Report of:	Executive Director of Corporate Services and Commercial		
Portfolio:	Corporate Services		
Wards affected:	All wards		
Is this a key decision:	No	Included in Forward Plan:	No
Exempt/confidential report:	No		

Summary:

This report provides members with an update on the Government’s proposals to deal with the backlog of audits currently being experienced across local authorities in England. It also provides an update on the current position in relation to the audit of Sefton’s Statement of Accounts for 2021/22, 2022/23 and 2023/24 Statement

Recommendation(s):

That Audit and Governance Committee:

- 1) Note the Government proposals to deal with the backlog of audits across local government in England.
- 2) Note the current status of the audits of Sefton’s Statement of Accounts for 2021/22, 2022/23 and 2023/24.

The Rationale and Evidence for the Recommendations

The Council, or nominated Committee charged with responsibility for Governance, must approve the Statement of Accounts, including the Annual Governance Statement. The Audit and Governance Committee has been delegated with this responsibility and is required to approve the audited Accounts prior to their publication.

The deadline for publication of the final approved Statement of Accounts for 2021/22 was 30 November 2022, for 2022/23 was 30 September 2023 and for 2023/24 is 30 September

2024. However, the regulations allow for a delay in publication where the audit has not yet been completed. This report explains the current position relating to the completion of the audits for these three years.

1. **Background**

- 1.1 Since 2010/2011 the Audit and Governance Committee has only been required to approve the Statement of Accounts following the completion of the Audit. In 2017/2018 approval and publication of the audited Statement of Accounts was required by 31 July (previously 30 September).
- 1.2 However, since 2019/20 the deadlines for approval and publication of the audited Statement of Accounts has been changed a number of times. For 2019/20 the deadline was extended to 30 November 2020 to take into account the impact of COVID19 on the ability of finance teams and external auditors to complete the work required. For 2020/21 the deadline was extended to 30 September 2021 (from the statutory deadline of 31st July) and for 2021/22 was extended to 30 November 2022 (with a deadline of 31 July for the publication of the draft accounts). This was in response to the Redmond Review into the audit of local government which highlighted the fragility of the local audit market.
- 1.3 The previous Government implemented legislation that from 2022/2023 (to 2027/2028) the deadline for approving the audited Statement of Accounts would be 30 September rather than 31 July (with a deadline of 31 May for the publication of the draft accounts).
- 1.4 Although regulations require the publication of the Statement of Accounts by specific deadlines, the same regulations allow for this to be delayed where the audit has yet to be concluded. This delay needs to be published on our website. The publication of the final Statement of Accounts needs to take place *“as soon as reasonably practicable after the receipt of any report from the auditor which contains the auditor’s final findings from the audit which is issued before the conclusion of the audit”*.
- 1.5 Members will recall that an updated Statement of Accounts for 2021/22 was presented at a special meeting of the Committee on 27th September 2023, as were the draft Statement of Accounts for 2022/23. The audit of these two Statement of Accounts has yet to be completed. The draft Statement of Accounts for 2023/24 was presented to the Committee on 19th June 2024.
- 1.6 Members will also recall that proposals had been put forward by the previous Government to try to resolve the issue of numerous local government audits still being outstanding. The new Government has now issued its own proposals to resolve this issue. This report provides an overview of these proposals, as well as an update on how this will impact on the approval of Sefton’s outstanding audits for 2021/22 and 2022/23, as well as the current audit for 2023/24.

2. Action to Tackle Local Audit Backlog in England

2.1 On 30th July 2024, the Minister of State for Housing, Communities and Local Government issued a written statement to Parliament announcing a number of actions to tackle the backlog of outstanding audits relating to local government bodies. It is expected that after the deadline for the audit of the 2023/24 audit has passed (30th September 2024) there will be nearly 1,000 local authority audits outstanding across numerous years.

2.2 The Minister expects to introduce secondary legislation when parliamentary time allows to introduce the following measures:

- A backstop date of 13th December 2024 for all audits to be finalised for 2022/23 and prior years.
- Additional backstop dates for subsequent years until 2027/28 as per the table below.

Financial Year	Backstop date
2023/24	28 February 2025
2024/25	27 February 2026
2025/26	31 January 2027
2026/27	30 November 2027
2027/28	30 November 2028

- For 2024/25 to 2027/28 the date by which draft Statement of Accounts are required to be published will move from 31st May to 30th June.

2.3 It is expected that the introduction of backstop dates will mean that for a significant number of audits up to 2022/23 auditors will need to issue a “disclaimed” (no assurance) opinion. In addition, given auditors to some extent have to rely on audits from previous years, audits will still need to issue “disclaimed” opinions in later years. The Government expects that “disclaimed” opinions driven by the backstop dates (i.e. auditors don’t have enough time to gain assurance) will probably only be required in 2023/24 and 2024/25. However, given the reliance on audits in previous years, it’s possible “disclaimed” opinions will be required in later years.

2.4 These “disclaimed” opinions may take different forms, given the different circumstances that may apply. The Government intend to work with various bodies, including the Financial Reporting Council, to ensure that stakeholders fully understand what the different types of modified opinions mean. The Minister stated that local bodies should not be unfairly judged on modified opinions because of the introduction of backstop dates. Auditors will be expected to clearly set out the reasons for issuing modified opinions to mitigate the potential reputational risk that local bodies may face.

2.5 The Minister stated that issuing a disclaimed or modified audit opinion and a subsequent return to being able to fully complete audits will require differing levels of work by auditors. The Public Sector Audit Appointments Ltd (PSAA) will set scale fees and determine fee variations where the auditor undertakes substantially more or less work than assumed by the scale fee and will consult with bodies where appropriate. Where an auditor has acted in good faith, and undertaken work in line with the Code of Audit Practice in place at the time, then the fee will be due, even if a modified or “disclaimed” opinion has been issued. Conversely, if in issuing a modified or “disclaimed” audit opinion the auditor has undertaken less work than would normally be expected then the fee will be reduced accordingly.

3. Current Position on the Completion of the Audit of the Statement of Accounts 2021/22

- 3.1 Committee on 27th September 2023 approved the 2021/22 Statement of Accounts, subject to the final completion of the audit. However, since that approval the audit of the Statement of Accounts for 2021/22 has largely been in abeyance. EY, the external auditor for 2021/22, are currently considering the measures announced by the Government and how that will impact on providing an audit opinion by the backstop date of 13th December 2023. A representative from EY will attend this meeting to update Members on this latest position.
- 3.2 It should be noted that the vast majority of the audit had been completed when Committee approved the Statement of Accounts for 2021/22 in September 2023. However, a “disclaimed” opinion relating to the Statement of Accounts will still need to be issued. It should be noted that an unqualified opinion on the Council’s Value for Money arrangements in 2021/22 is expected to be issued.
- 3.3 As approved by the Committee on 27th September 2023, the final updated Statement of Accounts for 2021/22 can be approved by the Chair under delegated authority, as can a revised Letter of Representation.
- 3.4 Once the audit opinion has been issued, the final Statement of Accounts for 2021/22 will be presented to the Committee in December 2024.

4. Current Position on the Completion of the audit of the Statement of Accounts 2022/23

- 4.1 The draft Statement of Accounts for 2022/23 were presented to the Committee on 27 September 2023. The report noted that valuations of the Council’s assets hadn’t yet been finalised, so the impact had yet to be included in the financial statements. In addition a small number of notes hadn’t been completed. The valuations were finalised by late October 2023 and a revised Statement of Accounts, including the impact of the valuations and the missing notes, was published at the beginning of November 2023.
- 4.2 However, since the updated draft Statement of Accounts for 2022/23 was published in November 2023, the audit of has largely been in abeyance. EY, the external auditor for 2022/23, are currently considering the measures announced by the Government and how that will impact on providing an audit opinion by the backstop date of 13th December 2023. A representative from EY will attend this meeting to update Members on this latest position.
- 4.3 It should be noted that, unlike for 2021/22, very little audit work has taken place on the Statement of Accounts for 2022/23. A “disclaimed” opinion on the Statement of Accounts will therefore need to be issued. However, an unqualified opinion on the Council’s Value for Money arrangements in 2022/23 is expected to be issued.
- 4.4 In addition, the Chair doesn’t currently have delegated authority to approve the accounts. The meeting of the Committee on 11th December 2024 is expected to be too late to approve the Statement of Accounts for 2022/23 in time for the backstop date of 13th December 2024 to be met. Therefore, a special meeting may be required in late November 2024. Officers will liaise with EY as to what is required.

5. Current Position on the Completion of the audit of the Statement of Accounts 2023/24

- 5.1 The draft Statement of Accounts were published on 31st May 2024, and considered by the Committee on 19th June 2024.
- 5.2 The Council's external auditors for 2023/24, Grant Thornton, have been undertaking their audit since early June and have made significant progress. It is anticipated that an updated Statement of Accounts for 2023/24, including all issues identified during the audit so far, will be presented to the special meeting of the Committee on 25th September 2024.
- 5.3 A representative from Grant Thornton will attend this meeting to update Members on the latest position (attached as Appendix A is Grant Thornton's Audit Progress Report and Sector Update). It is anticipated that by late September the main areas still to be finalised will relate to valuations and the Council's Group Accounts.
- 5.4 Given that the audit opinions for 2021/22 and 2022/23 won't be issued until nearer the backstop date of 13th December 2024, Grant Thornton won't be in a position to issue their audit opinion on 2023/24 until early 2025 in advance of the backstop date of 28th February. A "disclaimed" opinion will need to be issued due to the assurance not being available of previous years' audits.
- 5.5 A further special meeting of the Committee will need to be arranged in early February 2025 to approve the Statement of Accounts for 2023/24.

Financial Implications

None

Legal Implications

The Accounts and Audit Regulations (2015) will be amended through secondary legislation.

Corporate Risk Implications

The reporting of the Council's financial position each year through the Statement of Accounts, and the subsequent issuing an audit opinion from the Council's external auditor, supports its Financial Sustainability in 2024/25 and future years.

Staffing HR Implications

None

Conclusion

The introduction of measures by the Government will mean that the outstanding audits for 2021/22 and 2022/23 will be finalised by the 13th December 2024. The audit of the Statement of Accounts for 2023/24 will then be finalised in January or February 2024.

Alternative Options Considered and Rejected

None.

Equality Implications:

There are no equality implications.

Impact on Children and Young People:

None.

Climate Emergency Implications:

The recommendations within this report will have a neutral impact.

What consultations have taken place on the proposals and when?**(A) Internal Consultations**

The Executive Director of Corporate Services and Commercial is the author of this report (FD7765/24).

The Chief Legal and Democratic Officer (LD5865/24) has been consulted and any comments have been incorporated into the report.

(B) External Consultations

None

Implementation Date for the Decision:

Immediately following the meeting.

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Appendices:

The following appendix is attached to this report:

Appendix A - Grant Thornton's Audit Progress Report and Sector Update.

Background Papers:

There are no background papers to this report

