

Part A

**Report to:**           **Audit Committee**

**Date of meeting:**   **Thursday, 14 March 2024**

**Report author:**     **Chief Finance Officer**

**Title:**                **Statement of Accounts Update - March 2024**

**1.0 Summary**

1.1 This report sets out the latest position for external audit of the Statement of Accounts for 2020/21, 2021/22 and 2022/23. It also provides an outline of the expected process for the external audit of the 2023/24 accounts.

**2.0 Risks**

2.1

<b>Nature of risk</b>	<b>Consequence</b>	<b>Suggested Control Measures</b>	<b>Response</b> (treat, tolerate, terminate or transfer)	<b>Risk Rating</b> (combination of severity and likelihood)
The Council's Statement of Accounts are not approved and audited within the statutory timeframe	Failure to comply with statutory timeline impacts on audit opinion	Proactive liaison with the external audit team	Tolerate	(2*4)8
Changes to accounting policies are not properly reflected in the Statement of Accounts	Material mis-statement or qualification	Review accounting policies annually. Maintain awareness of future changes	Treat	(2*2)4
Changes to accounting policies have an impact on the revenue budget or capital programme.	Impact on reserves, especially where not identified at budget setting.	Maintain awareness of future changes	Tolerate	(2*3)6

### 3.0 **Recommendations**

- 3.1 To note the update in relation to the 2021/22 and 2022/23 external audits.
- 3.2 To note the progress in relation to onboarding the new external auditors for 2023/24.
- 3.3 To ratify the draft Accounting Policies for 2023/24 as approved by the Chief Finance Officer as set out in Appendix 4.

#### **Further information:**

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#### **Report approved by:**

Hannah Doney, Chief Finance Officer

### 4.0 **Detailed proposal**

#### **4.1 Statement of Accounts 2020/21**

- 4.1.1 The audit team and Officers are continuing to work to close down the final lines of enquiry in order to conclude the audit as swiftly as possible. A further oral update will be provided to the Committee at the meeting.

#### **4.2 External Audit of the Statement of Accounts 2021/22 and 2022/23**

- 4.2.1 As set out in previous reports to this committee, there are significant challenges and delays to the completion of external audits across the sector. The Public Sector Audit Appointments Ltd (PSAA) reported on 10 October 2023 that only 5 out of 467 local government bodies' 2022/23 audit opinion had been given by the statutory deadline of 30 September 2023, representing 1%. By 31 December 2023 this had reached 45 2022/23 audits, 10%. The cumulative total for the backlog of outstanding audits had reduced to 771 across the sector (914 at 10 October 2023).
- 4.2.2 On 8 February 2024, the Minister for Local Government (Simon Hoare) wrote to councils and audit firms to launch a consultation from the Department of Levelling Up, Housing and Communities (DLUHC) on proposals to address the backlog. The main proposal is to introduce the concept of a backstop date for the completion of outstanding audits. The backstop date for accounts for 2015/16 through to 2022/23 is proposed to be 30 September 2024. Further backstop dates are proposed for the 'Recovery Period' of 2023/24 to 2027/28 as follows:

- 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

- 4.2.3 The legislation will require auditors to issue a modified or disclaimed opinion and audited accounts to be published by the relevant backstop, regardless of the progress of the audit.
- 4.2.4 Alongside the DLUHC consultation, a joint statement was issued with the Financial Reporting Council (FRC) who regulate external auditors and a consultation was also issued by the National Audit Office (NAO) on changes to the Code of Audit Practice to complement the DLUHC proposals. Both consultations closed on 7 March. The letter, joint statement and DLUHC consultation are included as appendices 1 to 3 to this report.
- 4.2.5 Following the closure of the consultations, it is expected that government will move to make the required regulatory changes in late spring, early summer. The Council's auditors, EY, have indicated that they will not be able to formally set out their approach until this has taken place. It is the view of Officers that it is highly unlikely that there will be time and capacity to complete the audits for 2021/22 and 2022/23 before the backstop date. Officers are therefore working on the assumption that the audit opinion will be disclaimed for these years.
- 4.2.6 The Value for Money element of the annual audit cannot be disclaimed. Therefore, EY have commenced work in this area for both 2021/22 and 2022/23. This audit work is expected to be completed by the end of March 2024. However, the auditors will not issue the value for money commentary until a position is agreed regarding the audit of the statement of accounts.
- 4.2.7 The joint statement is clear that in order for auditors to disclaim their opinion on a statement of accounts, a draft must have been formally issued and undergone public inspection. This has already been completed for 2021/22 and 2022/23. However, due to the timing of when these drafts were issued, they do not include all adjustments to brought forward balances arising from the 2019/20 audit. As such it is proposed to reissue the drafts for 2021/22 and 2022/23 alongside the draft for 2023/24 and undergo a new public inspection period. This will enable the audit opinion to be disclaimed on accounts that are as complete as possible and ensure consistency between the opening and closing balances in these years. It is acknowledged that Azets will need to undertake additional work on the opening balances for 2023/24 as a result of disclaimed opinions for prior years. However, updating the current drafts will ensure that the opening balances are as robust as possible.

4.2.8 On 29 February, the Chartered Institute of Public Finance and Accountancy (CIPFA) launched a [consultation on changes to the Code of Practice on Local Authority Financial Reporting for 2023/24 and 2024/25](#). These changes would apply to England only and would be short term. The consultation closes on 28 March.

4.2.9 After considering a wide range of options CIPFA LASAAC (Local Authority Scotland Accounts Advisory Committee) decided to explore two approaches. These would affect the 2023/24 and 2024/25 Codes, by providing:

- An option to simplify measurement of operational property plant and equipment using specified indexation, and
- Reduced disclosures for pensions reporting, by aligning that reporting with FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland.

### **4.3 Statement of Accounts and External Audit 2023/24**

4.3.1 The on boarding process for the new auditors has continued since the last committee and an interim audit commenced on 26 February 2024. The interim audit includes testing of transactions up to 31 January 2024.

4.3.2 Under the Accounts and Audit Regulations as amended in 2022, the draft accounts must be authorised for issue by 31 May 2024. The public inspection period will commence on 1 June 2024 for 30 working days.

4.3.3 The Annual Governance Statement must be approved by the Audit Committee ahead of the commencement of the public inspection period. This will be presented to Audit Committee in May.

4.3.4 The statutory deadline for the completion of the external audit is 30 September 2024. The timing of the main audit is subject to agreement and will depend on the outcome of the approach to the outstanding audits for 2021/22 and 2022/23 as set out above. However, at this stage, officers are working on the assumption that it will take place over the summer with the aim of achieving the statutory deadline.

### **4.4 Accounting Policies 2023/24**

4.4.1 The Council's Statement of Accounts is prepared in accordance the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Council is required to adopt accounting policies which describe how the Council has interpreted and applied the Code.

- 4.4.2 The Code defines Accounting Policies as ‘the specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements.’
- 4.4.3 The significant accounting policies adopted by the Council are disclosed within note 1 to the Core Financial Statements in the Statement of Accounts, ‘Accounting Policies – Single Entity and Group Accounts’.
- 4.4.4 The Code prescribes that ‘authorities shall apply the objective, underlying assumption and qualitative characteristics of useful financial information, in the selection and application of accounting policies and estimation techniques.’
- 4.4.5 The Code provides a detailed framework within which accounting policies must be set:
- When the Code specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the Code. Those policies need not be applied when the effect of applying them is immaterial.
  - Where the Code does not specifically apply to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is:
    - a) relevant to the decision-making needs of users, and
    - b) reliable, in that the financial statements:
      - i) represent faithfully the financial position, financial performance and cash flows of the authority
      - ii) reflect the economic substance of transactions, other events and conditions and not merely the legal form
      - iii) are neutral, i.e. free from bias
      - iv) are prudent, and
      - v) are complete in all material respects.
  - In making the judgement management shall refer to, and consider the applicability of, the Code requirements dealing with similar and related issues. Management may also consider the most recent pronouncements of standard-setting bodies and accepted public or private sector practices to the extent, but only to the extent, that these do not conflict with the requirements of the Code.
  - An authority shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless the Code specifically requires or permits different treatment.
  - An authority shall change an accounting policy only if the change is required by the Code or results in the financial statements providing reliable and more relevant information about the effects of transactions, other events and conditions on the authority’s financial position, financial performance or cash flows.

- Where an authority changes an accounting policy, it shall apply the changes retrospectively unless the Code specifies transitional provisions that shall be followed. A change in accounting policy shall be applied retrospectively by adjusting the opening balance of each affected component of net worth for the earliest period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied, except to the extent that it is impracticable to so do.

4.4.6 The code states that the Chief Finance Officer is responsible for selecting 'suitable' accounting policies and ensuring that they are applied consistently in the preparation of the statement of accounts. The Chief Finance Officer has approved Note 1. Accounting Policies for 2023/24 as set out in Appendix 4. All significant accounting policies have been selected with reference to the Code.

4.4.7 The Council's auditors will review the adopted accounting policies as part of the audit of the statement of accounts. There is also an expectation that the auditors will be able to evidence that the accounting policies have been approved by the Audit Committee in its capacity as 'Those Charged with Governance'. The Audit Committee is therefore asked to ratify the accounting policies as set out in Appendix 4.

4.4.8 There are currently no proposed changes to the Accounting Policies for 2023/24. The policies will be kept under review as the accounts are drafted and to take into account any changes arising from the CIPFA consultation on changes to the Code of Practice for 2023/24.

## 5.0 **Implications**

### 5.1 **Financial**

5.1.1 The Chief Finance Officer comments that there are no financial implications arising directly from this report.

### 5.2 **Legal Issues** (Monitoring Officer)

5.2.1 The Group Head of Democracy and Governance comments that there are no direct legal implications arising from this report.

### 5.3 **Equalities, Human Rights and Data Protection**

5.3.1 Under s149 (1) of the Equality Act the council must have due regard, in the exercise of its functions, to the need to –

- eliminate discrimination, harassment, victimisation and any other conduct prohibited by the Act
- advance equality of opportunity between persons who share relevant protected characteristics and persons who do not share them
- foster good relations between persons who share relevant protected characteristics and persons who do not share them.

Having had regard to the council's obligations under s149, it is considered that there are no equalities or human rights implications.

#### **5.4 Staffing**

5.4.1 There are no staffing implications arising from this report.

#### **5.5 Accommodation**

5.5.1 There are no accommodation implications arising from this report.

#### **5.6 Community Safety/Crime and Disorder**

5.6.1 There are no community safety/crime and disorder implications arising from this report.

#### **5.7 Sustainability**

5.7.1 There are no sustainability implications arising from this report.

### **Appendices**

Appendix 1 – Letter from Minister for Local Government to Councils and Audit firms

Appendix 2 – Local audit delays: Joint statement on update to proposals to clear the backlog and embed timely audit

Appendix 3 – Addressing the local audit backlog in England: Consultation

Appendix 4 – Significant Accounting Policies 2023/24 (Note 1 to the Statement of Accounts)

### **Background Papers**

- Statement of Accounts Update report to Audit Committee 26 July 2023
- Statement of Accounts Update report to Audit Committee 23 November 2023