

11 July 2024		ITEM: 6
Audit Committee		
Progress Report – Statement of Accounts and Audit – 2020/21 - 2023/24		
Wards and communities affected: All	Key Decision: Non-key	
Report of: Dawn Calvert, Interim Chief Finance Officer s151 Officer		
Accountable Assistant Director: Caroline May, Assistant Director Strategic and Corporate Finance		
Accountable Director: Dawn Calvert – Interim Chief Financial Officer and S151 Officer		
This report is Public		
Version: Committee / Final		

Executive Summary

To provide an update on the recent Department for Levelling Up, Housing & Communities (DLUHC) proposals for amending the Accounts and Audit Regulations 2015 to clear the backlog of audits, and to put the system on a sustainable footing. It describes the Government’s proposed “backstop” arrangements, and the Council’s approach to uncompleted and outstanding 2020/21 external audit, and the external audits for financial years 2021/22 and 2022/23, which have not yet commenced.

Under the proposed backstop arrangements, the Council’s 2021/22 and 2022/23 statement of accounts are to be published and issued with a disclaimed opinion from audit by 30 September 2024.

The absence of a full valuation for the solar farm investment supporting the 2020/21 statement of accounts will possibly lead to a disclaimed opinion from audit for the 2020/21 statement of accounts by the deadline of 30 September 2024.

Commissioner Comment:

1. Recommendation(s)

1.1 That Audit Committee notes and comments on the position for the outstanding external audits of the Council’s statement of accounts covering 2020/21, 2021/22 and 2022/23.

2. Introduction and Background

Version Control (delete as appropriate)

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- 2.2 The backlog in the publication of audited accounts of local bodies in England has grown to an unacceptable level, as acknowledged by DLUHC. In July 2023, the Minister for Local Government published a cross system statement setting out proposals to tackle the local audit backlog. Since then, organisations involved in the regulation and oversight of local body financial reporting and audit (“system partners”) have been working collectively to agree a proposed solution to clear the outstanding historical audit opinions and ensure that delays do not return. A significant number of local body audits in England remain outstanding. The number of outstanding opinions peaked at 918 on 30 September 2023. As at 31 December 2023, the backlog of outstanding audit opinions stood at 771. The current deadline for local authorities to publish unaudited accounts is 31 May following the financial year end.
- 2.3 Government, like all stakeholders involved, did not want this unresolved issue to continue into the next appointing period (2023/24-2027/28) for new external auditors and local authorities. In March 2024, the Government released a 4-week consultation paper on the “backstop arrangement”. The proposal in the consultation paper is that the Accounts and Audit Regulations 2015 will be amended so that any audit from 2015/16 to 2022/23 that is not completed by September 2024, may be disclaimed by the Auditors if necessary.
- 2.4 It is anticipated there would be modified and disclaimed opinions on outstanding accounts from the 30 September 2024 backstop date, designed to enable auditors to rebuild assurance over several audit cycles rather than in a single year, reducing the risk of the backlog re-emerging. There would also likely to be modified or disclaimed audit opinions for several years. The proposal also covers temporary changes to the code of practice on Local Authority Accounting to include extending overrides on infrastructure assets, simplifying the professional revaluation of operational property, and reducing disclosure requirements around net pension assets and liabilities for at least 2 years.
- 2.5 The regulations were expected to be issued after the consultation closed on 7 March 2024. However, as this wasn’t done by the time of the ‘wash up’ period following the announcement of the general election this will now be subject to a new Minister. Also, given that the Financial Reporting Council (FRC) have not released draft regulations to the forms during the pre-election period, and that we are now moving into summer recess, there is likely to be a delay until at least September 2024.
- 2.6 At present the Council has published the 2020/21 draft accounts, although the audit remains uncompleted and outstanding. The external audit of financial years 2021/22 and 2022/23 has not yet commenced. Under the proposals, the 2021/22 and 2022/23 statement of accounts would be published and issued with a disclaimed opinion from audit by 30 September 2024. The absence of a full valuation for the solar farm investment supporting the 2020/21 statement of accounts will possibly lead to a disclaimed audit opinion for 2020/21.

3. Issues, Options and Analysis of Options

- 3.1 DLUHC has worked collaboratively with the FRC and the other system partners to develop proposals to set a series of backstop dates to clear the backlog in local audit opinions in England and embed timely audit.

The proposed measures consist of three phases:

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3.2 Phase 1: Reset

Legislating for a statutory backstop date of 30 September 2024 for the publication of audited financial statements up to and including financial year 2022/23.

Auditors should issue opinions based on the work they have completed by the backstop date, which may lead to a modified or qualified opinion, and are expected to prioritise to ensure that their audit work provides as much assurance as possible ahead of the date. The promise is also made that the National Audit Office (NAO), working with the FRC, will produce statutory guidance and any additional advice needed to ensure the reset works as intended.

There are expected to be very limited exemptions for either authorities or auditors. A specific exemption for example is if the auditor is unable to issue their opinion where there are outstanding elector objections to the accounts that could be material to the opinion. Thurrock has a pending objection in relation to its 2020/21 statement of accounts.

It is also expected that there will be a requirement for the outgoing audit firms to carry out Value for Money (VFM) audits and provide a single commentary on VFM arrangements for local bodies for all outstanding years up to and including 2022/23. This is a crucial part of the backstop arrangement.

3.3 Phase 2: Recovery

A series of statutory backstop dates covering the financial years 2023/24 to 2027/28 to allow auditors to rebuild assurance over a five-year period of local bodies' financial information, which has been subject to a modified opinion as part of the reset. Auditors will not have the assurance from closing balances that would normally support opening balances for 2023/24, Auditors will therefore need to perform sufficient testing on opening balances to rebuild assurance.

To prevent this recovery work causing delays to future audits, the proposals involve further backstop dates for all years up to and including 2027/28, in consideration that recovery work may take a number of years as modified opinions/disclaimers are rolled forward. The backstop dates within the Recovery phase are proposed as follows:

Statement Accounts	Audit Deadline
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

To reduce burdens on preparers and auditors, CIPFA will make temporary changes to the Code of practice on Local Authority Reporting.

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For VFM it is proposed that the Audit Code identifies that auditor's Annual Report is issued in draft to those charged with governance by 30 November each year (from 2023/24 onwards), irrespective of the position on the audit. This will enable auditors to report the majority of the VFM arrangements work on a timely basis.

3.4 **Phase 3: Reform**

The FRC, alongside The Department for Levelling Up, Housing and Communities (DLUHC) and other system partners, will continue to work to address systemic challenges in the local audit system and embed timely financial reporting and audit. This includes publishing a local audit workforce strategy and parallel workforce strategy for local government finance teams.

3.5 **Council External Audit position**

Thurrock Council has prepared and published all its annual accounts (up to date) by the deadline, apart from the recent three years – 2020/21, 2021/22 and 2022/23. The Council have had all annual accounts audited and VFM opinion issued up to 2019/20.

The 2020/21 external audit by BDO remains uncompleted after almost 3 years. Substantial audit work covering investments remain outstanding as well as other areas such as Heritage assets, Intangible assets, and Infrastructure assets, with the latter two areas impacted by accounting changes. Technical papers have been prepared and submitted to BDO on these matters over the past 10 months. The Council has had informal feedback on these areas, confirming the Council's accounting approach and treatment. However, the Council continues to respond to intermittent queries as part of auditor's review and waits for formal BDO sign off within these areas.

BDO continues to revisit previous areas of substantive audit work requiring further sampling and procedures, due to the passage of time and changes in auditing standards and methodology and coupled with BDO's quality review processes.

The Council is engaged with its valuation expert to obtain prior year valuations of its investment assets for the 2020/21 statement of accounts so that accounting adjustments in relation to Investments can be finalised with the aim of meeting the requirements of a true and fair audit opinion. The valuation expert has recently communicated issues around formulating a valuation for the solar farm covering 31 March for the years between 2019 and 2021, due to the security status of the bonds and the absence of a full balance sheet for the above dates.

External audit had indicated that any valuation would be based on numerous assumptions, open to significant challenge and due to the material value of the solar farm investment most likely to result in an audit qualification. As the solar farm valuation would have a pervasive impact on the statement of accounts, external audit would be expecting to issue a modified opinion specifying the lack of assurance over the solar farm investment valuation.

For best value purposes, due to the complexity of the solar farm valuation, officers propose to Standards and Audit committee that the accounts are prepared without commissioning a comprehensive valuation for the solar farm investment (expected cost to be circa £0.5m) and accept the 2020/21 statement of accounts to be qualified. External audit will continue finalising other areas of 2020/21 audit with the expectation of meeting 30 September 2024 deadline, so that a 'disclaimed opinion' is specific to the solar farm investment.

The 2020/21 audit has been resource intensive, cost and time consuming for the council. The current forecast for 2020/21 audit fees is circa £0.5m.

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The Council's draft 2021/22 and 2022/23 statements of accounts are also currently being prepared waiting on the outcome of the 2020/21 audit and the finalising of non-current valuations. The accounts were not published in the respective years, due to concerns over opening balances and the ongoing treatment of investments, therefore falling short of being 'true and fair.' External auditors have indicated that for these accounts they will not perform any audit work by the proposed 30 September 2024 backstop date and a 'disclaimed opinion' to be issued, with the backstop date as the reason for the qualification. Many local authorities will be in similar situations.

The Council is preparing its 2023/24 statement of accounts. The Council did not meet the deadline of 31 May 2024 as valuations for non-current assets, as per rolling valuation programme, are outstanding. Also due to the issues above regarding opening balances, the accounts would fall short of being 'true and fair' until the Council updates its 2020/21 statement of accounts with audit amendments, which will feed through subsequent years. The auditors for 2023/24 statement of accounts are Ernst and Young (EY).

3.6 Council's Uncertain Position

Following the consultation on the above proposals, the amended accounts and audit regulations are yet to be issued. Although there are limited exemptions for authorities or auditors against the backstop date arrangements, a possible identified exemption is an outstanding elector objections to the accounts that could be material to the opinion. Currently the Council has one pending objection in relation to its 2020/21 statement of accounts. In the absence of the amended regulations the Council is uncertain of its position regarding the proposed timelines and its current objection.

Further, the Government has approved a capitalisation direction for the Council for 2022/23 which is based on the funding gap for the period 2022/23 and prior periods. This exceptional financial support is contingent on the Council reporting a final amount for which it requires capitalisation with the agreement of the Council's external auditors and the Commissioners. This would require the usual full audit for the years impacted by the Capitalisation in order for external audit to provide their assurance. This is contrary to a possible disclaimed opinion for 2020/21, 2021/22 and 2022/23.

4. Reasons for Recommendation

- 4.1 This an update report which informs the committee of the proposals to address the ongoing challenges in respect of the audit backlog which is a national problem.
- 4.2 The report also gives the committee an indication of the impact on the delivery of the outstanding audit of accounts for the council, the potential outcomes and timescales for completion of the audits.

5. Consultation (including Overview and Scrutiny, if applicable)

- 5.1 N/A

6. Impact on corporate policies, priorities, performance and community impact

- 6.1 This report is for information purposes only.

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7. Implications

7.1 Financial

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Implications verified by: **Mike Jones**
Head of Finance – Adults and Health
20 June 2024

7.2 Legal

Implications verified by: **Helen Nicol**
Assistant Director Legal & Governance
24 June 2024

Section 21 Local Government Act 2003 enables the Secretary of State to issue regulations on the preparation and publication of accounts for local authorities. The Account and Audit Regulations 2015 (as amended) require that: each Council must prepare an Annual Statement of Accounts in accordance with the Regulations to include a narrative statement and to be signed by the section 151 officer that they are satisfied that they provide a true and fair view of the Council's finances; and that following a period of public consultation that the Statement of Accounts be considered by Full Council or a Committee of the Council. Thereafter, the Statement of Accounts are required to be submitted to external auditors for review.

The Regulations contain various deadlines for these steps with the Statement of Accounts to be completed by 31 May following the end of the financial year and the audited Statement of Accounts to be published by 30 September.

Due to challenges in compliance with the timescales in the Regulations and a national backlog of audited accounts, the Government has consulted authorities on draft regulations: The Account and Audit Amendment Regulations 2024. This report sets out the proposed amendments to regulations to address the backlog of audited accounts. It is noted that these Regulations are in draft at present.

7.3 Diversity and Equality

The report provides an update on the position regarding the financial statements 2020/21 to 2023/24, and is for information purposes. There are no direct diversity and equality implications.

7.4 Risks

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N/A

- 7.5 **Other implications** (where significant) – i.e., Staff, Health Inequalities, Sustainability, Crime and Disorder, or Impact on Looked After Children

N/A

8. **Background papers used in preparing the report** (including their location on the Council's website or identification whether any are exempt or protected by copyright):

None

9. **Appendices to the report**

None

Report Author:

Mike Jones

Head of Finance – Adults and Health

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