

AUDIT COMMITTEE

13 FEBRUARY 2025

REPORT OF DIRECTOR FINANCE & IT

A.1 STATEMENT OF ACCOUNTS 2023/24 AND ASSOCIATED PLANNING, ANNUAL AND YEAR END REPORTS OF THE EXTERNAL AUDITOR

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To present for consideration and approval where necessary the following, to enable the final opinion on the accounts and value for money arrangements to be formally issued by the External Auditor:

- The External Auditor's External Audit Plan & Strategy for the year ending 31 March 2024
- The External Auditor's Annual Report for the year ended 31 March 2024
- The External Auditor's Value for Money Report 2023/24
- The External Auditor's Year End Report for the year ended 31 March 2024
- The Council's Statement of Accounts (including the Annual Governance Statement) for 2023/24 for consideration and approval for publication by the backstop date of 28 January 2025.

EXECUTIVE SUMMARY

- In-line with the backstops dates previously discussed, the Council's External Auditor has substantially completed the necessary audit work for 2023/24, with their associated audit reports are attached.
- As set out within their reports, the External Auditor anticipates issuing a disclaimed opinion for 2023/24.
- As set out later in this report and within the attached External Auditor's reports, the reason for the disclaimed opinion primarily relates to the back stop dates.
- The Council's Statement of Accounts for 2023/24 are attached, which reflect any necessary amendments agreed in consultation with the External Auditor.
- In respect of the External Auditors value for money commentary, in terms of two of the three associated strands of work (financial sustainability and improving economy, efficiency and effectiveness) the External Auditor has confirmed that they have not identified any significant weaknesses. In terms of the third strand of work (governance) they have identified a weakness that primarily relates to the known issue relating to the Spendells House capital project.
- The External Auditor has made a limited number of recommendations as highlighted further on in this report and within their attached reports, including those associated

with the Spendells House project mentioned above. Management responses have been set out within the External Auditor's attached reports and updates against each recommendation will be presented to future meetings of the Committee.

- Subject to the Committee's consideration of the various attached reports, and approval of the Statement of Accounts for 2023/24 (including the Annual Governance Statements) it is proposed to publish the Accounts by the backstop date of 28 February 2025.
- In respect of the required management representation letter included within the recommendations below, this will be provided ahead of the meeting or directly at the meeting to enable the Audit Committee to approve it along with authorising the Director Finance & IT and Audit Committee Chairman to sign it before being forwarded onto the External Auditor. As set out on later on in this report, the External Auditor does not currently plan on requesting any specific representations over and above those areas normally covered by their 'standard' letter.

RECOMMENDATIONS

That in respect of the 2023/24 Statement of Accounts and the associated External Auditor Reports relating to the year ended 31 March 2024, the Audit Committee:

- (a) Considers and notes the contents of the External Auditor's reports attached, including the value for money commentary set out therein;**
- (b) subject to (a) above, considers and endorses the management responses set out within the attached External Auditor reports and requests Officers to report the progress against each item to future meetings of the Committee;**
- (c) subject to (a) and (b) above, approves the management representation letter relating to the year ended 31 March 24;**
- (d) subject to (c) above, authorises the Director Finance & IT and the Audit Committee Chairman to sign the management representation letter for forwarding to the External Auditor; and**
- (e) subject to (a) to (c) above, approves for publication the audited Statement of Accounts for 2023/24 as attached, and approves for signing, the Annual Governance Statement set out in therein.**

REASON(S) FOR THE RECOMMENDATION(S)

To conclude the Statement of Accounts Process for 2023/24 to enable the publication of the audited accounts for the same year by the backstop date of 28 February 2025.

ALTERNATIVE OPTIONS CONSIDERED

Not applicable.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

Careful planning to ensure financial stability underpins the Council's capacity and ability to deliver against its objectives and priorities. Both the capital and revenue budgets of the authority are prepared and monitored with the aim of supporting these key objectives. The outturn position and associated Statement of Accounts reflects this process and supports the successful financial planning process which includes communicating and consulting with relevant stakeholders.

LEGAL REQUIREMENTS (including legislation & constitutional powers)

The Government has put arrangements in place to clear the backlog of outstanding historical audit opinions. Although these arrangements are referenced within the attached External Auditor's Reports where necessary, a detailed background is set out below for completeness.

On 30 July, The Government set out proposals to tackle the backlog, which included setting a backstop date of December 2024 to clear the backlog of unaudited accounts up to and including the financial year 2022/23. This aimed to enable the system to refocus on recent accounts where assurance is most valuable. There are also five further backstop dates up to and including the financial year 2027/28 to allow assurance to be rebuilt over several audit cycles.

The Government laid before Parliament two pieces of legislation that would give effect to these proposals: the Accounts and Audit (Amendment) Regulations 2024 and, on behalf of the Comptroller & Auditor General of the National Audit Office (NAO), a Code of Audit Practice 2024.

The Accounts and Audit (Amendment) Regulations 2024 came into force on 30 September 2024, which removed the current requirement to publish audited accounts for financial year 2023/24 on that date. The deadline for the publication of audited accounts for 2023/24 is instead, 28 February 2025 to coincide with the second backstop date. The Regulations also amend the date by which bodies should publish draft (unaudited) accounts to 30 June for financial years 2024/25 – 2027/28. Auditors are now required to produce timely audit opinions (which may result in the issue of a disclaimed or modified opinion).

It is acknowledged that issuing modified or disclaimed audit opinions where audits cannot be completed by a backstop date may be uncomfortable for stakeholders, including Local Authorities themselves. However given the scale of the backlog and the absence of viable alternatives, the Government took the difficult decision to proceed with the backstop date approach highlighted above.

It is important to highlight that the Government recognised the measures as exceptional in nature and that local bodies should not be unfairly judged based on disclaimed or modified opinions, caused by the introduction of backstop dates that are largely beyond their control.

Auditors are therefore expected to provide clear reasons for the issuing of such opinions to mitigate the potential reputational risk that local bodies may face.

To support auditors in meeting their responsibilities under the Code of Audit Practice, the

NAO has issued specific guidance, endorsed by the Financial Reporting Council (FRC) on implementing the reset and recovery of local audit in England. This guidance sets out the public interest considerations that require auditors to act in ways that enable a return to the completion of audits on a timely manner whilst complying with professional standards.

The Government is clear that a proportionate approach to the rebuilding of assurance, once the backlog is cleared, is required by auditors - and all system partners including the FRC, NAO and auditors, are aware that this is the Government's objective.

The Government highlighted that in order to comply with the regulations, and to help auditors deliver opinions, any local body that has not yet done so should publish their unaudited accounts (including financial statements, the annual governance statement and narrative statement) and hold the 30-day public inspection period for all years up to and including 2023/24 as soon as possible. This Council had undertaken all of these tasks by the original specified deadlines for all four years - 2020/21 to 2023/24.

It is recognised that the recovering from the backlog is a shared endeavour between auditors and local bodies. Local Authorities therefore have a vital part to play, providing good quality draft financial statements supported by comprehensive working papers and supporting evidence to auditors. The Council has and will continue to work both proactively and pragmatically with the External Auditor to achieve the necessary recovery from the audit backlog.

In terms of the financial statements, they include the following (in addition to explanatory disclosure notes):

- the opening balances brought forward from the prior year which includes cash, general fund and ringfenced reserves, and the property valuation at the start of the year;
- the closing balances which include cash, general and ringfenced (e.g. Housing Revenue Account) fund reserves and the property valuation at the end of the year;
- the in-year expenditure, income, reserves, and cash flow movements; and
- the comparative figures from the prior year.

In terms of the audit process, the objective of the auditor is to obtain sufficient evidence to conclude that they have reasonable assurance that the financial statements as a whole are free from material misstatement. Where an auditor is unable to gain enough evidence or is unable to reach this conclusion based on the evidence gathered, they are required to issue a modified opinion. Auditors will disclaim their opinion where they lack the evidence to support an opinion.

The Financial Reporting Council (FRC) have produced a helpful document setting out details around the types of opinion that can be given, with a relevant summary as follows:

An unmodified opinion is classed as a 'clean' opinion or one that has historically been referred to as an unqualified opinion.

A modified opinion covers a range of scenarios, with the following setting out the types of modified opinion that can be given:

	Material but not pervasive	Material and pervasive
Financial statements are materially misstated	Qualified Opinion	Adverse Opinion
Auditor is unable to obtain sufficient evidence to conclude on whether the financial statements are materially misstated	Qualified Opinion	Disclaimer Opinion

The following sets out the sequence of subsequent events based on the opinion given in the prior year:

In an audit following an unmodified opinion - In an audit following an unmodified, or 'clean', opinion, the auditor normally relies on the prior year audit for reasonable assurance over the opening balances brought forward from the prior year (the prior year's audited closing balance); and the comparative figures.

Therefore, during an audit following an unmodified opinion, the auditor performs testing to obtain reasonable assurance over the closing balances such as cash, general fund reserves and the property valuation at the end of the year being audited and the in-year expenditure, income, reserves and cash flow movements.

In an audit following a disclaimed opinion - In an audit following a disclaimer, the auditor will not have assurance over the opening balances brought forward from the prior year and the comparative figures.

It is also unlikely that the auditor will be able to obtain sufficient evidence to conclude they have reasonable assurance over the in-year income, expenditure, cash flow and reserves movements without assurance over the opening balances.

Rebuilding assurance - In normal circumstances, where a disclaimer is issued, an auditor would effectively have to perform work to assure all the opening balances and prior year comparatives in a single year. A recovery period has been designed to allow auditors to rebuild assurance for balances related to 2022/23 or earlier over multiple audit cycles, reducing the risk of the backlog recurring. Because auditors will need to make prioritisation decisions to issue audit opinions ahead of the backstop dates, they may not be able to obtain evidence to support all balances nor all in-year and comparative expenditure, income, cash flow and reserves movements.

The knock-on impact of the auditor not having assurance over in-year movements means they will also not have assurance over those figures when they are shown as comparatives in the following year. Although it was anticipated that many bodies that received disclaimers in 2022/23 will follow a similar cycle to that shown in the table below, in practice it will depend on individual circumstance and it may take longer for auditors to rebuild assurance on some bodies, especially those with underlying weaknesses in financial reporting.

Audit Year	Opinion	Reason
2023/24	Disclaimer	<p>The auditor has begun limited work to rebuild assurance ahead of the 2023/24 backstop date.</p> <p>They have not obtained sufficient evidence to have reasonable assurance over closing balances.</p> <p>The auditor does not have assurance over the brought forward balances from 2022/23. This means they do not have assurance over the in-year movements. They also do not have assurance over the comparative prior year movements.</p> <p>The auditor judges the lack of evidence over these movements and balances means they cannot conclude that the accounts are free from material and pervasive misstatement of the financial statements. Therefore, they disclaim their audit opinion.</p>
2024/25	Disclaimer	<p>The auditor has obtained sufficient evidence to have assurance over closing balances in 2024/25.</p> <p>The auditor does not have assurance over brought forward balances that were deprioritised on the 2023/24 audit. This means they do not have assurance over all in-year movements.</p> <p>They also do not have assurance over the comparative prior year movements.</p> <p>The auditor judges the lack of evidence over these movements and balances means they cannot conclude that the accounts are free from material and pervasive misstatement of the financial statements. Therefore, they disclaim their audit opinion.</p>
2025/26	Qualified	<p>The auditor has assurance over the opening and closing balances plus in-year movements.</p> <p>The auditor does not have assurance over the comparative figures.</p> <p>The auditor judges that this means there could be material but not pervasive misstatement and will need to qualify their opinion for 2025/26 by limiting its scope to not provide assurance over the comparative figures</p>
2026/27	Unmodified (unqualified)	<p>The auditor has assurance over opening balances, closing balances, in-year movements and prior year comparatives. The auditor can therefore issue an unmodified opinion.</p>

Based on the above approach, the aspiration of all local audit system partners including the Government is that disclaimed opinions driven by backstop dates should, in most cases, be limited to the next two years (up to and including the 2024/25 backstop date of 27 February 2026).

Auditors and audited bodies should work together to agree jointly-owned delivery plans for each year's audit to enable this.

Audit firms will design their own approaches which may differ between individual firms and audited bodies with relevant factors including:

- Audit opinion for 2022/23 and earlier years.
- Nature and complexity of the audited bodies' transaction streams and balances.
- The auditor's previous experience of the audited body.
- Ability of the audited body to provide high quality audit evidence.
- Firm-wide audit methodology.

When designing approaches to rebuild assurance over multiple years, auditors will need to decide which balances to prioritise each year so as to deliver the optimal pathway to returning, as soon as possible, to a position where they are able to complete audits in full and the opinion is not influenced by backstop dates. The attached reports provide some further details around this issue.

The auditor's opinion - The nature of the audit opinion in each financial audit cycle will depend on the professional judgement of the auditor, and the evidence available to support the opinion given. The auditor is required to disclaim their opinion if they are unable to gather sufficient evidence to conclude whether the financial statements are free from material misstatement (error).

A disclaimer of opinion does not mean that the auditor has not carried out any work. Even where an auditor has disclaimed or modified their opinion, an auditor may consider if they can assure individual balances or classes of transactions to support rebuilding assurance on a timely basis. Key to the success of this plan is effective communication between the auditor and the audited body, including its Audit Committee.

Auditors have a responsibility under auditing standards to clearly communicate the reasons for modified or disclaimed audit opinions in their reports. This includes making it clear where the modified or disclaimed opinion has been caused by the statutory backstop dates. Local bodies should therefore not be unfairly judged for modified or disclaimed opinions that are beyond their control.

The measures have been designed to enable any limitation of scope of the audit to be caused by the system-imposed backstop and not by the actions of management, as the latter may lead to significant consequences for a local body.

In terms of value for money, the Code of Audit Practice requires auditors to carry out full scope audit of Value for Money (VFM) arrangements for 2023/24 onwards, with the outcome set out within the attached associated report. From 2024/25 onwards, auditors will be required to issue their annual auditor's report containing the VFM commentary each

year by 30 November. This has been designed to ensure that, even where the financial audit opinion is disclaimed, the audit still provides useful information to audit committees and other stakeholders about the financial management and financial sustainability of local bodies.

The requirement for auditors to report any significant weaknesses in VFM arrangements that they identify remains. The temporary changes introduced during Covid-19 to enable auditors to report significant weaknesses in VFM arrangements in the audit certificate or the audit opinion will remain until 2023/24. For 2024/25 auditors must report significant weaknesses in VFM arrangements in the audit opinion.

The closure of accounts process, the preparation of the Statement of Accounts and their subsequent audit, along with the arrangements to secure value for money, reflect the requirements and responsibilities of the Council.

FINANCE AND OTHER RESOURCE IMPLICATIONS

Finance and other resources

There are no direct financial implications - the External Auditor's proposed fees as set out within their attached reports can be accommodated within existing budgets.

USE OF RESOURCES AND VALUE FOR MONEY

The following are submitted in respect of the indicated use of resources and value for money indicators:

A) Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;	Detailed commentary on these matters is set out within the attached External Auditor's Reports.
B) Governance: how the body ensures that it makes informed decisions and properly manages its risks, including; and	
C) Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.	

MILESTONES AND DELIVERY

The information and activities set out within this report enable the Council to conclude the Statement of Accounts Process for 2023/24 and to enable the publication of the audited accounts by the backstop date of 28 February 2025.

ASSOCIATED RISKS AND MITIGATION

The preparation, reporting and publishing of the Statement of Accounts follows a prescribed programme with various milestones along the way. Against this backdrop, the production of the accounts is required to be completed to the necessary standards and deadlines with the aim of preventing any significant issues arising from the audit process. This is in addition to key elements of work that need to be undertaken on an iterative process each year alongside the annual review of the Council's Governance arrangements, to ensure that the Council can continue to deliver positive value for money outcomes.

OUTCOME OF CONSULTATION AND ENGAGEMENT	
Not directly applicable.	
EQUALITIES	
There are no direct implications.	
SOCIAL VALUE CONSIDERATIONS	
There are no direct implications.	
IMPLICATIONS FOR THE COUNCIL'S AIM TO BE NET ZERO BY 2050	
There are no direct implications.	
OTHER RELEVANT IMPLICATIONS	
Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.	
Crime and Disorder	Not applicable
Health Inequalities	Not applicable
Area or Ward affected	Not applicable
ANY OTHER RELEVANT INFORMATION	
There are no direct implications from this report. However in respect of equality and diversity, the Council ensures that the Statement of Accounts and associated governance reports are accessible to all by advertising their availability and publishing them electronically on the Council's website.	

PART 3 – SUPPORTING INFORMATION

BACKGROUND
<p>The pre-audited Statement of Accounts for 2023/24 were previously approved for publication by the Council's S151 Officer (Director Finance & IT).</p> <p>The pre-audited Annual Governance Statement for 2023/24 was previously approved for publication by the Leader and Chief Executive.</p> <p>The publication of the above along with a period of public inspection was undertaken in accordance with the requirements set out in associated regulations.</p> <p>The Council's External Auditors have prepared the following four reports which are attached:</p> <p>1) <i>The External Auditor's External Audit Plan & Strategy for the year ending 31 March 2024 (Attachment 1)</i></p> <p>This sets out their planned audit work in respect of informing their opinion on the 2023/24 Financial Statements and the Council's use of resources. The plan forms an important element of their audit cycle / timetable along with its associated</p>

communication with the Council. Their approach recognises the importance of fostering effective communication throughout the audit process with those charged with governance.

The plan is set against a number of key elements, which include materiality and risk along with considering areas of focus such as the items highlighted by the Financial Reporting Council set out in the attached report.

A draft version of the report was presented to the Committee in April 2024. There have been no changes to the report and is being presented to the Committee along with the other 3 reports below for completeness.

2) *The External Auditor's Annual Report for the year ended 31 March 2024 (Attachment 2)*

External Auditors are required to prepare such reports setting out the outcomes from their review of the Statement of Accounts (including the Annual Governance Statement) and the Council's value for money arrangements. The Audit Committee is required to consider the content of this annual report as part of the associated approval process relating to the publication of the final audited Statement of Accounts and Annual Governance Statement.

3) *The External Auditor's Value for Money Report 2023/24 (Attachment 3)*

External Auditors are required to set out a separate and detailed commentary on Local Authorities value for money arrangements. The approach to value for money reporting aligns to the National Audit Office (NAO) guidance and includes

- i) Commentary on the arrangements in place against each of the three value for money criteria;
- ii) a summary of any further work undertaken against identified significant risks and the findings from this work; and
- iii) recommendations raised as a result of any significant weaknesses identified and follow up of previous recommendations.

The Council is required to publish the commentary on its website at the same time as publishing its Statement of Accounts.

4) *The External Auditor's Year End Report for the year ended 31 March 2024 (Attachment 4)*

To a large extent this covers the issues raised in the reports highlighted above but along with some additional matters, it effectively acts as an overall summary of the various activities undertaken by the Auditor and their associated findings. It is worth drawing the Committee's attention to the important notice set out on page 3 of the attached report.

As set out on page 6 of the attached report, the External Auditor states that their audit is substantially complete except for the following two matters:

- The Management Representation Letter
- Finalising their Audit Report and signing

In respect of the management representation letter, the Audit Committee are required to separately approve this along with authorising the Director Finance & IT and Audit

Committee Chairman to sign it before being forwarded onto the External Auditor. As set out on page 33 of the attached, the External Auditor does not currently plan on requesting any specific representations over and above those areas normally covered by their 'standard' letter.

It is currently expected that these two outstanding matters can be concluded via this meeting of the Committee, and it is planned to provide the management representation letter either ahead of or directly at the meeting.

Once the above tasks are completed the External Auditor can conclude the audit process for 2023/24 by finalising and formally issuing their audit opinion along with the certification of the accounts.

EXTERNAL AUDIT REPORTS RELATING TO 2023/24 – FINDINGS AND RECOMMENDATIONS

A summary of the content of the External Auditor's Reports referred to above is as follows:

External Auditor's External Audit Plan & Strategy for the year ending 31 March 2024

As set out above, there have been no changes to the draft version presented to the Committee in April 2024 so there are no additional matters to highlight.

External Auditor's Annual Report for the year ended 31 March 2024

A useful high level summary against the three key elements being the accounts, narrative statement and value for money is set out on page 4 of the Auditor's report.

At the time of finalising this report, the External Auditor anticipated issuing a disclaimed audit opinion primarily due to the limitations imposed by the backstop date, but attention is also drawn to the valuation of a limited number of specialised assets held by the Council. This latter point has been previously discussed with the Committee and remains an on-going issue.

In respect of the narrative statement, the Auditor has confirmed that they did not identify any significant inconsistencies between the content and their knowledge of the Council.

In respect of value for money, in effect the Council does have appropriate arrangements in place apart from where there has been an impact from the issues associated with the Spendells House capital project that has previously been reported to Members.

In respect of the limited number of issues identified, management responses have been set out within the report, and as reflected within the recommendations, further updates will be provided to future meetings of the Committee.

External Auditor's Value for Money Report 2023/24

Although a summarised outcome has been set out and referenced within the report highlighted above, more detailed commentary has been provided across the various value for money 'elements' of

- Financial sustainability;

- governance; and
- improving economy, efficiency and effectiveness.

In terms of items 1 and 3 above, the External Auditor confirms that they have not identified any significant weaknesses.

In terms of their findings and recommendations relating to item 2 above, this primarily relates to the Spendells House issue mentioned earlier with the associated management response included within their report.

The Council is required to publish this report on its website at the same time as publishing its Statement of Accounts.

External Auditor's Year End Report for the year ended 31 March 2024

As mentioned earlier, this report is effectively a summary of the above reports but also provides the opportunity to raise a number of further issues as necessary.

Therefore, in addition to the points raised above, the attached report also sets out a limited number of further findings and recommendations. Management responses have been set out within the report against each identified item, and as reflected within the recommendations, further updates will be provided to future meetings of the Committee.

It is also worth highlighting that the attached report sets out a useful summary of the points raised in the legal section above relating to the reset and recovery of local audit following the external audit delays over recent years.

The Statement of Accounts (including the Annual Governance Statement) for 2023/24 are set out as **Attachment 5**. These include any required changes made in consultation with the External Auditor, with no direct impact on the overall financial position of the Council.

To conclude the Statement of Accounts process for 2023/24, the Audit Committee is being asked to consider the:

- The External Auditor's External Audit Plan & Strategy for the year ending 31 March 2024;
- the External Auditor's Annual Report for the year ended 31 March 2024;
- the External Auditor's Value for Money Report 2023/24;
- the External Auditor's Year End Report for the year ended 31 March 2024; and
- approve the management representation letter and the final Statement of Accounts for 2023/24.

The Annual Governance Statement is included within the Statement of Accounts referred to in the bullet points above, and their approval along with seeking the necessary agreement to the Chief Executive and the Leader to sign it, are reflected in the recommendations above.

Subject to the agreement of the recommendations above and the completion of the External Auditor's outstanding work, the final Statement of Accounts for 2023/24 will be published by the 28 February 2025 backstop date deadline.

The External Auditor will formally present their Audit Reports directly at the meeting of the Committee.

PREVIOUS RELEVANT DECISIONS TAKEN BY COUNCIL/CABINET/COMMITTEE ETC.

External Auditor's Draft Audit Plan and Strategy for the Year Ending 31 March 2024 – Item A.2 Audit Committee 25 April 2024.

BACKGROUND PAPERS AND PUBLISHED REFERENCE MATERIAL

None

APPENDICES

- Attachment 1** External Auditor's External Audit Plan & Strategy for the year ending 31 March 2024
- Attachment 2** External Auditor's Annual Report for the year ended 31 March 2024
- Attachment 3** External Auditor's Value for Money Report (2023/24)
- Attachment 4** External Auditor's Year End Report for the year ended 31 March 2024
- Attachment 5** The Council's Statement of Accounts 2023/24 for Publication (Including the Annual Governance Statement)

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