

FINANCE, AUDIT AND RISK COMMITTEE

13 NOVEMBER 2024

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: STATEMENT OF ACCOUNTS 2022/23 AND 2023/24

REPORT OF: *SERVICE DIRECTOR: RESOURCES*

EXECUTIVE MEMBER: *NON-EXECUTIVE*

COUNCIL PRIORITY: SUSTAINABILITY

1. EXECUTIVE SUMMARY

At the March meeting of this Committee there was a report on External Audit backlogs in Local Government and plans to address them. The dates to address the backlog have since been updated, and the back-stop date for the 2022/23 Accounts is 13 December 2024. Ernst and Young LLP (EY, the Council's auditors for 2022/23) are carrying out the work that they need to do in advance of the back-stop deadline, but have not completed this in time for this Committee. EY will be issuing a disclaimed opinion on the 2022/23 accounts, as they will not be carrying out any significant audit work. The expectation is that the Council will approve the Statement of Accounts as they are currently. The recommendation is that this is delegated to the Chair of the Committee.

The Council's Annual Governance Statement (AGS) should be approved in advance of approving the Statement of Accounts. This Committee approved the AGS for 2022/23 in September 2023 (see background papers). A review of the AGS has confirmed that no updates are required.

KPMG LLP (KPMG, the Council's auditors for 2023/24 onwards) have recently started their work on the audit of the 2023/24 Statement of Accounts. They expect to complete their work so the Committee can approve the accounts in January 2025. This is in advance of the back-stop date for 2024/25 of 28 February 2025. It is expected that some of the 2024/25 audit opinion will be disclaimed.

2. RECOMMENDATIONS

- 2.1. That the Committee note the 2022/23 Annual Statement of Accounts as set out in Appendix B.
- 2.2. That the Committee delegated to the Chair of the Committee the final approval of the 2022/23 Annual Statement of Accounts. This will include confirming that the Chair of the Committee can sign the Statement of Accounts to confirm that they have been approved by the Committee.
- 2.3. That the Committee note that the Annual Governance Statement for 2022/23 was approved by the Committee in September 2023, and that nothing has been identified since that date that would require a change to that Annual Governance Statement.
- 2.4. That the Committee noted the progress made in the audit of the 2023/24 Annual Statement of Accounts.
- 2.5. That the Committee note the additional audit fees that have been notified by KPMG in relation to ISA315r of £11,597, which will be subject to approval by PSAA.

3. REASONS FOR RECOMMENDATIONS

- 3.1 To ensure that the Council abides by the Audit and Account Regulations 2015, which require the approval and publication of audited Statement of Accounts. Furthermore, to meet the back-stop deadlines set out in the Accounts and Audit (Amendment) Regulations 2024.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1. It might be possible to schedule an additional meeting to approve the Statement of Accounts once EY had completed their work. This would be the approach that would be taken if EY were carrying out a full (or even a substantial) audit. However, as EY will be carrying out minimal work and providing a disclaimed opinion, they will not be recommending any significant changes to the Statement of Accounts. So, there is little benefit in trying to schedule an additional meeting of the Committee as it won't affect what is being approved.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1. Consultation on the Statement of Accounts is not required.
- 5.2 The draft Statement of Accounts for 2022/23 were published on our website at the end of July 2023. Under the Local Audit and Accountability Act 2014 (sections 26 and 27) and the Accounts and Audit Regulations 2015 (sections 14 and 15), members of the public and Local Government electors have certain rights in respect of the audit process. This includes inspection of the accounts, associated documents and being able to ask questions. This opportunity was advertised in accordance with the regulations and ran from 31 July to 11 September 2023. No one took up this opportunity
- 5.2. The draft Statement of Accounts for 2023/24 were published on our website in September 2024. Under the Local Audit and Accountability Act 2014 (sections 26 and 27) and the Accounts and Audit Regulations 2015 (sections 14 and 15), members of the public and Local Government electors have certain rights in respect of the audit process. This includes inspection of the accounts, associated documents and being able to ask questions. This opportunity was advertised in accordance with the regulations and ran from 18 September to 29 October 2024. At the time of writing this report no one had taken up this opportunity.
- 5.3. The Chair of the Committee was consulted on whether to have an additional meeting in December (in advance of the back-stop deadline). It was decided that this was not necessary.

6. FORWARD PLAN

- 6.1 This report does not contain a recommendation on a key Executive decision and has therefore not been referred to in the Forward Plan.

7. BACKGROUND

- 7.1. The Committee will be aware of substantial delays in the audits of Local Authority accounts. We have fared relatively well in only having one year's accounts that are significantly outstanding (2022/23). Some Councils have many years of accounts audits outstanding.
- 7.2. Like most Councils, our audit appointments are arranged through Public Sector Audit Appointments (PSAA). They determine who our auditor will be and set scale fees for audits. For the 2022-23 Accounts our auditors are EY. For the 2023-24 onwards (for an initial term of 5 years) our auditors are KPMG.
- 7.3. In June 2019, Sir Tony Redmond was asked to undertake an independent review of the effectiveness of local audit and the transparency of local authority financial reporting. His report (the Redmond Review) was published in September 2020. This review made several recommendations.
- 7.4. On 8 February 2024, the Government issued a consultation and joint statement on how to address the audit backlog. The joint statement included commitments from the Financial Reporting Council (FRC), National Audit Office (NAO), Chartered Institute of Public Finance and Accountancy (CIPFA), Institute of Chartered Accountants in England and Wales (ICAEW) and Public Sector Audit Appointments (PSAA).
- 7.5. The joint statement proposed introducing the necessary changes to achieve the following three phases of action:
 - Phase 1: Reset involving clearing the backlog of historical audit opinions up to and including financial year 2022/23 by 30 September 2024.
 - Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.
 - Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.
- 7.6. There was a consultation on the above proposals. The calling of the General Election to take place in July 2024 then meant that there was not sufficient time for the required legislation to be passed.

8. RELEVANT CONSIDERATIONS

- 8.1 On 9 September 2024, the Government laid in Parliament a Statutory Instrument, 'The Accounts and Audit (Amendment) Regulations 2024', to introduce backstop dates by which point local bodies must publish audited accounts. A revised 'Code of Audit Practice 2024' also required audit firms to carry out the work to allow these dates to be met.
- 8.2 The 'Accounts and Audit (Amendment) Regulations 2024' set the following back-stop dates for audited accounts to be approved:
 - Financial years up to 2022/23: 13th December 2024
 - Financial year 2023/24: 28th February 2025
 - Financial year 2024/25: 27th February 2026
 - Financial year 2025/26: 31st January 2027

- Financial year 2026/27 onwards: the 30th November following the end of that financial year.
- 8.3 The regulations also moved the date that Councils should publish their draft Statement of Accounts (on their website) and commence a public accounts inspection period from to 30th June (from 31st May). The impact of Covid-19 and audit delays has meant that there has not been strong adherence to this date in recent years (and in some years the date has been amended by legislation).
- 8.4 The expectation is that there will not be time for Auditors to do any meaningful audit work on the accounts for the periods up to (and including) 2022/23. This means that EY will issue a disclaimed opinion. This reflects that the required work has not been carried out and is very different to an adverse or qualified opinion. A qualified opinion is where audit work has been carried out and has found material errors within the accounts that have not been corrected.
- 8.5 EY still need to issue a report on the work that they have done. When they carry out a full audit this can include any changes that they think should be made. Depending on the value of these changes, there are different implications for if we agree to make the changes. So, in approving the Statement of Accounts, the Committee is confirming the approach that has been taken. We generally make any changes that are identified. As this will not be a full audit, we are not expecting any changes to be recommended. Therefore, the Committee are asked to note the Statement of Accounts as attached at Appendix B (recommendation 2.1) and delegate final approval to the Chair of the Committee (recommendation 2.2). This delegated approval will include making any changes identified (if there are any), so that we can meet the 13th December back-stop deadline.
- 8.6 In advance of approving the Statement of Accounts the Committee must approve the Annual Governance Statement (AGS) for 2022/23. The legislation does not specify that this approval must be immediately before, and the Committee approved a final version at its meeting in September 2023. CIPFA best practise is that where there are audit delays, Councils should consider whether there have been any matters in the interim that would affect the AGS. During that period the Committee has approved a draft AGS for 2023/24 (at June 2024 meeting) which didn't raise any significant issues. Therefore, it is considered that the approval of the AGS in September 2023 can still be relied upon. See recommendation 2.3.
- 8.7 As an audit in one year gets assurance from an audit in the previous year, it will take time to rebuild assurance over the whole Statement of Accounts. This is because the Statement of Accounts includes end of year balances, start of year balances and a prior year comparison. Therefore, disclaimed opinions are expected to continue over a few years, but with an understanding that the scope (elements of the Accounts affected) of these disclaimers will reduce over time. The FRC have produced an accessible guide (Appendix A) which provides a good summary of the potential impact over the next few years.
- 8.8 Even though EY will be carrying out minimal work on the Statement of Accounts, they are still required to provide a Value for Money (VfM) conclusion. The interim VfM report from EY for 2022/23 was considered by the Committee in June 2024. This recommended that we should reclassify the Churchgate shopping centre as a Property Asset rather than an Investment Asset.

We have changed this classification in the 2022/23 (an update from the draft accounts that were published) and 2023/24 Accounts. The VfM report did not find any significant risks or weaknesses. We are not expecting any additional conclusions for the final report.

- 8.9 We published our 2023/24 Statement of Accounts on our website in September. This was later than when we were supposed to publish them. The delay was due to the Accounts team focusing on implementing a new finance IT system and waiting for information in relation to pensions disclosures. We knew that the delay would not impact on when the audit work by KPMG would be carried out. KPMG have recently started their work on the audit. They expect to complete their work so the Committee can approve the accounts in January 2025. This is in advance of the back-stop date for 2023/24 of 28 February 2025. It is expected that some of the 2023/24 audit opinion will be disclaimed. A verbal update will be provided on the progress made with the audit.
- 8.10 KPMG presented their draft 'External Audit Plan & Strategy for the year ending 31 March 2024' to the Committee at the June meeting. In that they identified that fees for their work in relation to ISA 315 ("Identifying and assessing the risks of material misstatement") were still to be determined (the same also applies to work in relation to ISA 240). KPMG have now notified us that the additional cost for ISA 315 work will be £11,597. This will be subject to review and approval by PSAA.

9. LEGAL IMPLICATIONS

- 9.1 The Accounts and Audit Regulations 2015 determine how and when the Annual Statement of Accounts should be approved and published.
- 9.2. The Accounts and Audit Regulations 2015 (section 9) state the accounts should be signed and dated by the Member presiding at the meeting which formally approves the accounts. Under the constitution, the Finance, Audit & Risk Committee has responsibility to "review and approve the Statement of Accounts" (constitution 10.1.5a).
- 9.3. The Local Audit and Accountability Act 2014 (sections 26 and 27) and the Accounts and Audit Regulations 2015 (sections 14 and 15) grant members of the public and Local Government electors certain rights in respect of the audit process.
- 9.4. The Local Government Act 2003 (section 21) determines that the Council must follow 'proper practices' in the preparation of the annual Statement of Accounts
- 9.5 The Accounts and Audit (Amendment) Regulations 2024' have introduced the back-stop dates and a revision to the date when Councils should publish their draft Statement of Accounts.

10. FINANCIAL IMPLICATIONS

- 10.1. The change to the asset classification in the 2022/23 Accounts does not affect the year-end General Fund balance (or other usable reserve balances). In preparing the 2023/24 Accounts there has been no change to the year-end General Fund balance (or other usable reserves) compared to that reported to Cabinet and Council in July 2024.
- 10.2. *The CIPFA guidance on audit delays and the Annual Governance Statement is published on their website:*
<https://www.cipfa.org/-/media/BB18222040D3429781DD4B756C7250CB.pdf>

10.3 Paragraph 8.10 identifies additional fees which will be an overspend against the current budget.

11. RISK IMPLICATIONS

11.1. Good Risk Management supports and enhances the decision-making process, increasing the likelihood of the Council meeting its objectives and enabling it to respond quickly and effectively to change. When taking decisions, risks and opportunities must be considered.

11.2. The process of compiling the Statement of Accounts is a control mechanism to help mitigate against the risk of poor financial management and is a way the Council can demonstrate to the public how it has managed its resources and acted in its responsibility as a steward of public funds. The audit process also provides assurances. The role of audit is weaker where it provides a disclaimed option, although a full VfM review has been undertaken.

12. EQUALITIES IMPLICATIONS

12.1. In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.

12.2. There are no equalities implications arising from this report.

13. SOCIAL VALUE IMPLICATIONS

13.1. The Social Value Act and “go local” requirements do not apply to this report.

14. ENVIRONMENTAL IMPLICATIONS

14.1. There are no known Environmental impacts or requirements that apply to this report.

15. HUMAN RESOURCE IMPLICATIONS

15.1 Paragraph 8.9 references the resource implications of preparing our Statement of Accounts and balancing these against other staffing demands.

16. APPENDICES

16.1 *Appendix A: Financial Reporting Council: Local Audit Backlog Rebuilding Assurance: Accessible Guide*

16.2 *Appendix B: Statement of Accounts 2022/23*

17. CONTACT OFFICERS

17.1 *Ian Couper, Service Director: Resources, ian.couper@north-herts.gov.uk, ext: 4243*

18. BACKGROUND PAPERS

- 18.1 *FAR report on Clearing the External Audit backlog (March 2024):*
<https://democracy.north-herts.gov.uk/documents/s24505/Clearing%20the%20External%20Audit%20Backlog.pdf>
- 18.2 *FAR report on Value for Money Interim Report 2022/23 (EY) (June 2024)*
<https://democracy.north-herts.gov.uk/documents/s25190/23%20NHDC%20VFM%20Interim%20Report%20template%20FINAL%20sw.pdf>
- 18.3 *FAR report on External Audit Plan and Strategy 2023/24 (KPMG) (June 2024)*
<https://democracy.north-herts.gov.uk/documents/s25192/NHDC%20Audit%20Plan%20Draft%20V2.pdf>
- 18.4 Council report on Revenue Budget 2023/24 Outturn (July 2024)
<https://democracy.north-herts.gov.uk/documents/s25636/REVENUE%20BUDGET%20OUTTURN%20202324.pdf>
- 18.5 FAR report on Annual Governance Statement 2022/23 (final) (September 2023)
<https://democracy.north-herts.gov.uk/documents/s22896/Annual%20Governance%20Statement%202022-23.pdf>
- 18.6 FAR report on Annual Governance Statement 2023/24 (draft) (June 2024)
<https://democracy.north-herts.gov.uk/documents/s25182/AGS%20Committee%20Report%20FAR%20June%202024%20-%20FINAL.pdf>