



Report to Audit and Governance Committee

Date:	6 th March 2024
Title:	STATEMENT OF ACCOUNTS UPDATE
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Recommendations:	Note the progress on 2020/21 Audit of Accounts as summarised in section 2. Note the Department of Levelling Up Housing and Communities (DLUHC) proposals to clear audit backlog in section 3. Note the impact and provisional timeline to clear the backlog for the Council in section 4.

1 Executive Summary

- 1.1 **2020/21 Audit progress** – Overall, we have made significant progress, however there two major areas of work outstanding which is in respect of Journals and Valuations of Other Land and Buildings as detailed in section 2 of the report. Summary of Audit Progress 2020/21 to 2022/23 is attached at Appendix 1.
- 1.2 **Proposals to clear audit backlog** - On 8 February, DLUHC issued a [consultation and cross-system statement](#) on proposals to clear the backlog of local audits in England and is running for a month until 7 March 2024. There are 3 stages of the wider package of measures to address the issues as summarised below and detailed in section 3 of the report: -
 - 1.2.1 Phase 1 – **Reset** – Clearing the backlog of historical audit opinions up to and including financial year 2022/23 by 30 September 2024.
 - 1.2.2 Phase 2 – **Recovery** – to ensure non- recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles for the financial years 2023/24 to 2027/28.
 - 1.2.3 Phase 3 – **Reform** - involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

- 1.3 Section 4 summarises the impact of the proposals on the Council and the provisional timeline to clear the backlog for the financial year up to 2023/24.

2 2020/21 Statement of Accounts update

- 2.1 We have made significant progress, however there two major areas as summarised below where further work needs to be done. In addition to this the team continues with addressing audit queries resulting from the partner and technical team review.

- 2.1.1.1 **Journal Testing** – This is a normal audit routine which is done towards the end of the audit. There have been technical issues with the third party extraction tool used by the auditors which are still ongoing. Once the data is extracted from SAP, the auditors will select sample in the range of 75 to 100 for which the Council will have to provide evidence.

- 2.1.1.2 **Other land and building valuation** – This is in respect of assets which are not valued in the rolling valuation programme. These assets are understated by approximately £30m using various indexation indices. Auditors are reviewing our approach and if acceptable then we need to assess the impact on both Comprehensive Income and Expenditure Statement (CIES) and Balance Sheet. However, there will be no impact on Usable reserves including the General Fund Balance.

3 DLUHC Proposal on Backstop and Consultation

- 3.1 On 8 February, DLUHC issued a [consultation and cross-system statement](#) on proposals to clear the backlog of local audits in England and is running for a month until 7 March 2024.
- 3.2 The Joint Statement from DLUHC, Financial Reporting Standards (FRS), 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) provides context, explaining the cross-system proposals and how the various elements are intended to interact as summarised in the various phases in this section.
- 3.3 Phase 1: **Reset** *clearing the backlog of historical audit opinions up to and including financial year 2022/23 by 30 September 2024* (the ‘backstop date’) by changing the Accounts and Audit Regulations 2015 and the Code of Audit Practice. The NAO is proposing changes to the Code of Audit Practice to require auditors to publish their opinions in time for audited accounts to be published by the backstop dates and “allow them to provide a single commentary on Value For Money (VFM) arrangements for local bodies for all outstanding years, up to an including 2022/23.” The audited

accounts must be approved (in accordance with existing regulation 9(2)) by the 'backstop date'.

3.4 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. Auditors need to be able to conclude that the financial statement as a whole are free from material misstatement before they can provide an unmodified opinion, so modifications and disclaimers may be issued for a number of years before this is achieved. VFM arrangements will be 'back to normal' for 2023/24 and the Code of Audit Practice will require that the Auditors' Annual Report will be issued in draft by 30 November each year, regardless of the position on the audit.

3.4.1 The proposed backstop dates are: -

- 2023/24: 31 May 2025 (which will also be the publication date for 2024/25 unaudited accounts)
- 2024/25: 31 March 2026
- 2025/26: 31 January 2027
- 2026/27: 30 November 2027
- 2027/28: 30 November 2028

3.4.2 As with phase 1:

- the audit opinion will be required in time to meet the publication deadline.
- the requirement to publish delay notices if the audit hasn't been completed before the date specified, would be suspended.
- a list of authorities and audit firms meeting and not meeting the published audited accounts deadline, and the unaudited publication deadline for authorities will be published.
- public inspection periods continue to apply as now.
- the audited accounts must be approved by the backstop dates.

3.5 Phase 3: **Reform** involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit. The joint statement says that work will build on the recommendations of the Redmond Review and that the government remains committed to establishing the Audit, Reporting and Governance Authority. Other initiatives include CIPFA's long-term reforms to financial reporting; HM Treasury response to the thematic review of the valuation of non-investment assets and the implications for the Accounting Code; FRS Local Audit Workforce Strategy and the development of a Local Audit Qualification by CIPFA.

- 3.6 To facilitate Phase 1 and 2, following actions are being taken.
- 3.6.1 CIPFA will consult on temporary changes to the Code for 2023/24 and 2024/25, including extending the override on infrastructure assets, simplifying the revaluation of operational properties by allowing the use of indexation until new revaluation requirements are introduced in 2025/26, and reducing net pension assets and liabilities disclosures for at least 2 years. This will reduce the burden on finance teams and auditors.
 - 3.6.2 The NAO is currently consulting on related changes to the Code of Audit Practice.
 - 3.6.3 There will be no routine inspections by the FRC of major local audits for financial years up to including 2022/23.
 - 3.6.4 The 2015 regulations will also be amended to remove the duty to publish a delay notice for outstanding audits for financial years 2015/16 to 2022/23.
- 3.7 Auditors are only able to provide an opinion – whether unmodified, modified or disclaimed – on a set of accounts which have been certified by the Section 151 Officer as true and fair, subject to the 30-day inspection period and approved as final by those charged with governance. If an authority thinks it will not be able to provide draft accounts which comply with these requirements, then they are expected to engage with their auditors, and flag to DLUHC/sponsor department as soon as possible.
- 3.8 The consultation focuses on Phase 1 and 2 of the proposal as summarised below. We will be submitting our response to the Consultation process.
- 3.8.1 The backstop dates.
 - 3.8.2 Publication of delay in notice.
 - 3.8.3 Exemption from the backstop dates in exceptional circumstances such as outstanding objection that could be material to that opinion.
 - 3.8.4 In addition to naming and shaming should there be any other consequences if the backstop dates are met.
 - 3.8.5 Appropriateness of 31 May publication date of unaudited accounts for financial years 2024/25 to 2027/28.
 - 3.8.6 To Publish audit letters whenever they are issued rather than, as is currently the case only following the completion of audit.

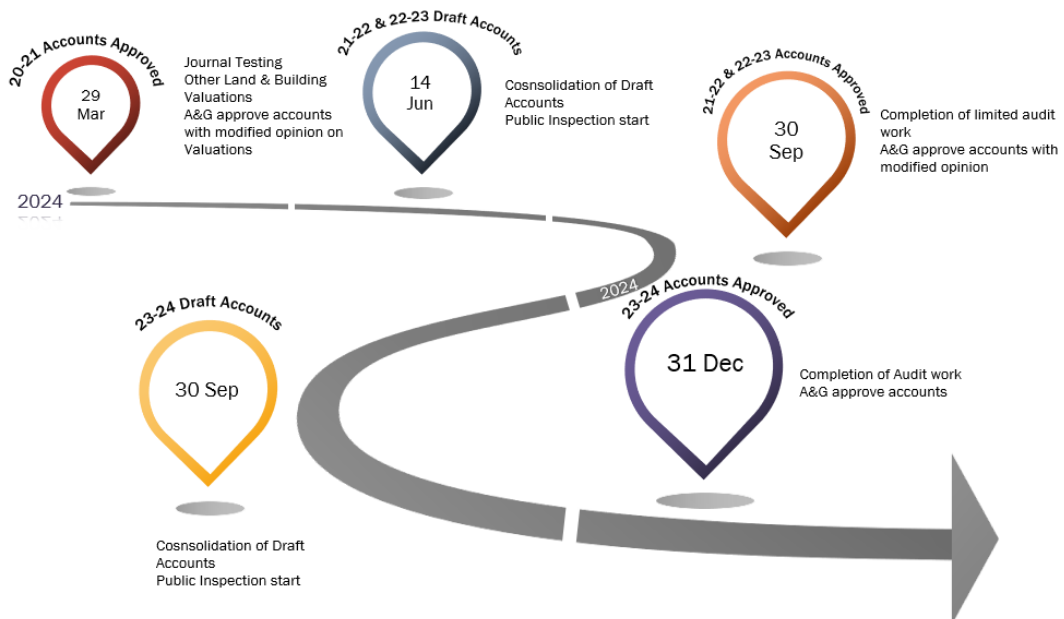
4 Impact of the proposals and provisional timeline for the Council

- 4.1 Phase 1 proposal is *clearing the backlog of historical audit opinions up to and including financial year 2022/23 by 30 September 2024* (the ‘backstop date’). The audited accounts must be approved (in accordance with existing regulation 9(2)) by the ‘backstop date’. It is not possible to complete the audits for 3 years of accounts in 7 months. Therefore, the focus is to complete 2020/21 accounts for which we

may need to look at additional audit committee date towards the end of March or beginning of April.

4.2 The financial statements along with supporting working papers for 2021/22 and 2022/23 will be prepared by mid-June when the auditors will return from NHS client to continue with the Council's audit. Limited work will be done on these sets of accounts to establish the opening position for 2023/24 and will likely have a disclaimed opinion based on the time available to conclude the audits before the backstop dates.

4.3 The provisional date for preparing the draft statement of accounts for 2023/24 is by end of September and it is expected that the audit will be completed by December 24 subject to confirmation by the auditor on audit work required by the new proposals. The roadmap with the key milestones is below:



4.4 In addition to the above, the Council will also need to comply with the audit regulations in respect of Public Inspection which means this will start as soon as the draft accounts for 2021/22 and 2022/23 are ready and likely to be in June 2024.

5 Legal and financial implications

5.1 **Finance** : Financial Implications are contained in the body of this report and noted by S151 officer.

5.2 **Legal** : There are no direct implications arising out of this report and the monitoring officer is content with this statement.

6 Next steps and review

Continue to work with the auditor to complete 2020/21 accounts by end March 24.

Appendix 1

Summary of External Audit Progress for 2020/2021 to 2022/2023			
Activity	2020/2021	2021/2022	2022/2023
Audit Plan & Fee Letter - Main Council Accounts	Noting - 23 November 22	TBC	TBC
Audit Plan & Fee Letter - Pension Fund Accounts	Noting - 28 July 21	Noting - 29 Mar 23	Noting - 27 September 23
Audit Risk Assessment - Main Council Accounts	Consider & Comments 23 November 22	TBC	TBC
Annual Governance Statement - Main council Accounts	Approved with delegation 11 May 22	Approved 23 November 22	Approved 27 September 23
Audited Statement of Accounts - Main Council	TBC	TBC	TBC
Audited Statement of Accounts - Pension Fund	Approved with delegation 5 July 23	Approved with delegation 10 May 23	Approved with delegation 27 November 23
Management representation letter - Council & Pension Fund Accounts (not due until main accounts are ready for approval)	TBC	TBC	TBC
Value for Money Assessment - Auditors Annual Report	Consider & Comments 1 February 23	Consider & Comments 5 July 23	Consider & Comments 4 March 24
Housing Benefit Grant Claim Certification	Noting 05 July 23	Noting 27 September 23	Noting 27 November 23
Farnham Park Sport Field Chariry Accounts	Approved with delegation 30 Nov 21	Approved 27 September 22	Approved 27 September 22
Higginson Park Chairty Accounts	Approved with delegation 25 January 22	Approved 27 September 22	Approved 27 September 22