

External Audit Update

Report of the Head of Finance and Revenues

Recommended:

That the Head of Finance and Revenues, in consultation with the Chairman of the Audit Committee, be given delegated authority to approve the Statement of Accounts for 2022/23 following receipt and review of the Audit Completion Report from the Council's external auditor.

SUMMARY:

- The Council is required to prepare, and have externally audited, a Statement of Accounts for each year.
- This report seeks delegated authority for the Head of Finance and Revenues to approve the final Statement of Accounts for 2022/23 and explains the reasons for the approach taken to this financial year's audit.
- It also provides a brief update on plans for the 2023/24 audit of the accounts.

1 Introduction

- 1.1 This report provides an update to the Audit Committee on the audit of the 2022/23 Statement of Accounts and sets out recommendations for the conclusion of the audit process.
- 1.2 It sets out the context for why a full audit has not been undertaken and the implications related to the recommended course of action.
- 1.3 It also provides a brief update on the plans for the audit of the 2023/24 Statement of Accounts.

2 Background

- 2.1 Previous reports to the Audit Committee have set out the background to the national backlog of local authority audits, related to the 2022/23 and prior financial years.
- 2.2 For Test Valley Borough Council, all Statements of Account up to and including the 2021/22 financial year, have been audited and approved.
- 2.3 Prior to the General Election in July 2024, it was expected that measures would be put in place to resolve all outstanding local authority audits by 31 July 2024. With the dissolution of Parliament, that was no longer possible.

- 2.4 The new government is also committed to resolving the backlog together with a refresh of the way local authority audits are undertaken and seeking to review the capacity of the audit sector for this type of work.
- 2.5 The Minister of State for Housing, Communities & Local Government, Jim McMahon OBE, wrote to all local authorities and audit partners on 30 July to set out plans for new backstop dates by which time all audit opinions must be issued. This is either as a result of a completed audit with a full audit report or a disclaimed opinion following a limited audit engagement.
- 2.6 The new backstop date for 2022/23 audit reports to be issued is 13 December 2024. The backstop date for 2023/24 audits will be 28 February 2025. This report focuses on the 2022/23 Statement of Accounts.
- 2.7 The substantive audit work in respect of the 2023/24 Statement of Accounts is scheduled to commence in early October. At this stage, it is anticipated that a full audit will be undertaken and concluded by the February 2025 deadline. Ernst & Young will present an update on the progress of this audit to the December meeting.
- 2.8 There is not enough time to undertake an audit of the 2022/23 Statement of Accounts and for a full opinion to be given on them. Even if there were capacity, it is questionable whether any meaningful results would be received so long after the year-end. It is inevitable that a disclaimed opinion will be required for this Statement of Accounts – and that is an eventuality that will be encountered by hundreds of Councils across the country. A disclaimed opinion is not an assessment of weaknesses in controls or that the accounts contain material mis-statements.
- 2.9 The issuing of a disclaimed opinion in this context is new to both local authorities as well as our external auditors. Full details of exactly how the process will be resolved remain to be confirmed; however, there are certain actions that must be taken.
- 2.10 These steps include:
- Approval of the Statement of Accounts for audit by the S151 Officer – this was completed on 28 July 2023.
 - Publish the Statement of Accounts – this was also completed on 28 July 2023.
 - Hold a minimum 30-day public inspection period for the Statement of Accounts – this was undertaken between 31 July and 8 September 2023.
 - Provide updated assurances related to the year in question – this information has been sought from Chairman of Audit Committee; S151 Officer; Monitoring Officer; and Internal Audit Manager. No issues were identified that require reporting.
 - Review and provide comments on the external auditor’s Audit Completion Report – this is required to be done prior to the approval of the accounts and by 29 November at the latest.
 - Approve a final Statement of Accounts – this is required by 29 November at the latest and is the subject of this report.

- Signature of a Letter of Representation – normal practice to complete this at the time the audit is finalised. This will be signed by the Chairman of the Audit Committee and S151 Officer.
- Publish the final auditor's report and completion report with the final approved Statement of Accounts for 2022/23 – this is required to be done by 13 December.

- 2.11 To meet the expected backstop date, it is recommended that delegated authority be given to the Head of Finance and Revenues, in consultation with the Chairman of the Audit Committee, to approve the Statement of Accounts for 2022/23 following receipt and review of the Audit Completion Report from Ernst & Young.
- 2.12 A copy of the unaudited Statement of Accounts is attached as an annex to this report. Ernst & Young have confirmed that they are anticipating their opinion will be issued on the accounts as they are currently presented.

3 Corporate Objectives and Priorities

- 3.1 The Statement of Accounts is a public facing document that sets out a number of key financial figures related to the Council's financial performance and sustainability.
- 3.2 The external auditor's report provides assurance to stakeholders as to the effectiveness of the Council's internal control environment and its efficiency in securing value for money in the use of public funds.
- 3.3 It provides assurance on the financial standing of the Council and ensures that commitments to Corporate Action Plan projects can be delivered with adequate and sustainable financing.

4 Options

- 4.1 The options in this report are:
- Option 1 – to give delegated authority to the Head of Finance and Revenues, in consultation with the Chairman of the Audit Committee, to approve the 2022/23 Statement of Accounts
 - Option 2 – not to give the above delegated authority to the Head of Finance and Revenues.

5 Option Appraisal

- 5.1 The Statement of Accounts was prepared in accordance with CIPFA guidance and the Accounting Policies that were approved by the Audit Committee. The processes used were similar to those that have produced robust accounts in previous years.
- 5.2 The lack of a thorough external audit inspection of the 2022/23 Statement of Accounts does increase the risk that a material mis-statement may exist and has not been identified. However, officers are not aware of any changes that are needed and no changes have been requested by EY from the work that they have undertaken.

- 5.3 The government is putting in place plans that will require auditors to issue opinions for financial years 2022/23 and earlier by 13 December 2024. To be able to issue their disclaimed opinion, EY require that the Council approves a Statement of Accounts on which that opinion can be made.
- 5.4 The next meeting of the audit committee is not until after that deadline and EY have confirmed that no further work on the 2022/23 figures will be undertaken.
- 5.5 Therefore, Option 1, to give delegated authority to the Head of Finance and Revenues, in consultation with the Chairman of the Audit Committee, to approve the 2022/23 Statement of Accounts, is the recommended option.
- 5.6 Any changes to the accounts undertaken using this authority, together with the issued opinion for the 2022/23 Statement of Accounts will be reported to the next meeting of the Committee.

6 Risk Management

- 6.1 An evaluation of the risks indicates that the existing controls in place mean that no significant risks have been identified at this time.

7 Resource Implications

- 7.1 The Statement of Accounts has been prepared by officers using existing resources.
- 7.2 It is anticipated that there will be a saving on the budgeted audit fee for the year as significantly less work was undertaken by EY than was expected. This will be subject to a third party review by Public Sector Audit Appointments Ltd once all matters related to the accounts have been closed.

8 Legal Implications

- 8.1 There are no legal implications arising as a result of the recommendations in this report.

9 Equality Issues

- 9.1 There are no equality matters arising as a result of this report.

10 Conclusion

- 10.1 There has been a lot of publicity related to a national backlog in the completion of local authority audits for 2022/23 and prior financial years.
- 10.2 The recommendations of this report are to give delegated authority to the Head of Finance and Revenues, in consultation with the Chairman of the Audit Committee, to approve the Statement of Accounts for 2022/23 so that the Council's external auditors can complete their obligations to that year's Statement of Accounts by the backstop date by which time all audit opinions must be completed.

- 10.3 This situation will be monitored in respect of anticipated work on the 2023/24 Statement of Accounts. Officers will work closely with Ernst & Young to deliver the most effective audit possible with the resources that are available.

<u>Background Papers (Local Government Act 1972 Section 100D)</u>			
None			
<u>Confidentiality</u>			
It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	1		
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