

AUDIT COMMITTEE

Statement of Accounts Update

22 November 2023

Report of Chief Finance Officer

PURPOSE OF REPORT

To provide the Committee with an updated position regarding the conclusion of the audits of the 2019/20, 2020/21, 2021/22 and 2022/23 Statement of Accounts, and the preparations for production of the 2023/24 Financial Statements.

This report is public.

RECOMMENDATIONS

The Audit Committee is recommended to note the following areas.

1. The progress of the audit of the 2019/20, 2020/21, 2021/22, 2022/23 Statement of Accounts
2. Preparation for production of the 2023/24 Statement of Accounts
3. The s151 Officers proposal for the submission of the draft statement of accounts for 2023/24
4. The current proposals for addressing the significant issues within the Public Sector Audit regime.

1.0 INTRODUCTION

- 1.1 The position remains broadly **unchanged** from previous updates in relation to the 2019/20, 2020/21, 2021/22 and 2022/23 Statement of Accounts. This paper seeks to remind Members of the current opposition in regard to those Financial Statements, updating Members of the status of the 2023/24 Financial Statements and providing some details of the current proposals to address the national audit backlog.
- 1.2 Details of the outstanding works for each of the financial years together with a summary of the progress and impact of the work currently outstanding is included in the paragraphs below.

2.0 2019/20 STATEMENT OF ACCOUNTS POSITION

- 2.1 In line with previous updates, the only significant matters that remain outstanding are the objection from a local Council Taxpayer in regard to Note 42: Contingent Liabilities, and the impact of the national infrastructure assets issue as previously reported, both of these issues are discussed below.

3.0 2020/21 STATEMENT OF ACCOUNTS POSITION

- 3.1 As noted previously all audit matters that have been brought to officers' attention and requests for additional information to date have been addressed and any required revisions made to the draft 2020/21 financial statements.

- 3.2 The Committee will also be aware that, as with 2019/20 statement, Note 42: Contingent Liabilities, was once again subject to formal objections by a local Council Taxpayer. The External Auditor is still considering the objections in accordance with regulatory guidance. As noted above the impact of the national infrastructure assets issue will impact the 2020/21 Statements.

4.0 2021/22 STATEMENT OF ACCOUNTS POSITION

- 4.1 The draft 2021/22 Statement of Accounts were published on the Council's website ahead of the 31 July 2022 deadline. A link was sent to Council Members, and paper copies are available on request.

- 4.2 The Committee should also note that, as with the 2019/20 & 2021/20 Statement of Accounts, Note 42: Contingent Liabilities, is subject to formal objections by local Council Taxpayer. The External Auditor is still considering the objections in accordance with regulatory guidance, but it is hoped that the information supplied will assist in resolving all outstanding matters in this area. Further discussion is provided below.

- 4.3 No audit work has been undertaken on the 2021/22 Financial Statements

5.0 2022/23 STATEMENT OF ACCOUNTS POSITION

- 5.1 The draft 2022/23 Statement of Accounts were published on the Council's website ahead of the 31 July 2023 deadline as agreed with Audit Committee at its meeting 22nd March 2023. A link was sent to Council Members, and paper copies are available on request.

- 5.2 In accordance with regulation the Council published a notice on its website advising of the delay and has now published the formal Notice of the Commencement of the Period for the Exercise of Public Rights. This is the 30-day period during which any person interested, or any journalist may, on reasonable notice, inspect and make copies of the accounts or any Local Government Elector may raise an objection to any item of account.

- 5.3 The Committee should also note that, as with the 2019/20, 2020/21 and 2021/22 Statement of Accounts, Note 42: Contingent Liabilities, is subject to formal objections by local Council Taxpayer. The External Auditor is still considering the objections in accordance with regulatory guidance. Further discussion is provided below.

- 5.4 No audit work has been undertaken on the 2022/23 Financial Statements

6.0 OUTSTANDING MATTERS

6.1 The following paragraphs provide a summary of the significant issues that still remain outstanding, which should on completion allow the 2019/20 and 2020/21 audits to be concluded.

Objections to the Financial Statements

6.2 The Committee will recall that the 2019/20, 2020/21, 2021/22 and the 2022/23 Statement of Accounts are subject to formal objections by a local Council Taxpayer. In order to finally conclude the audit, the External Auditors requested that the Council seek assurance from a number of external third parties. Officers from Legal and Economic Growth and Regeneration services have collated this information with two of the assurances requested having been presented to the External Auditors for consideration and, without any information to the contrary, are assumed to have been accepted by them.

6.3 Despite a positive meeting early February with the legal representatives, progress on this issue remains painfully slow. In light of the proposals to address the audit backlog this is and always has been, a priority area for resolution.

Infrastructure Assets Restatement

6.5 As initially reported to the Committee 25th May 2022 and subject of several updates, CIPFA was made aware of issues relating to the derecognition of parts of infrastructure assets. Specifically, where Councils have incurred on the replacement, or enhancement of existing infrastructure assets they may not be readily able to identify the cost and accumulated depreciation relating to the original asset components being replaced or enhanced.

6.6 This has been a long running and contentious issue and has caused significant delays to a considerable number of Councils across the Country, which now appears to have been resolved. The restatement exercise has now been completed and was presented to the auditors for review in August 2023.

Work to Support the Value for Money Conclusions

6.7 In addition to providing an opinion of the Council's Financial Statements the External Auditor is required to consider and report on the Council's arrangements for securing economy, efficiency, and effectiveness in the use of resources.

6.8 Information requested by the External Auditor to support their consideration is being collated across the Council. However, as the assessments relate to both 2019/20 and 2020/21 the information requested can stretch back to 2017/18 and earlier. Reporting on VFM arrangements remain a high priority and is part of the Audit Code consultation. Whilst work has been undertaken to support the VFM opinion clarification has been sought in regard to any new or revised requirements

Statement of Accounts 2021/22 & 2022/23

6.9 Although a substantial amount of work has been undertaken to address the 2019/20 and 2020/21 Statement of Accounts neither the s151 Officer nor key members of the finance team are aware of any audit work having been undertaken on the 2021/22 Financial Statements to date.

7.0 PREPARATION FOR 2023/24 STATEMENT OF ACCOUNTS

7.1 In preparation for the production of the 2023/24 Statement of Accounts finance staff have undertaken a number of actions including.

- The Council's Accounting Policies & Critical Judgements have been reviewed and are presented elsewhere on this agenda for approval.
- Budget Holder Guidance Notes on Closure of Accounts 2023/24 highlighting all critical deadlines has circulated to relevant staff – **See Appendix A**
- Key members of the finance team have attended on-line training to ensure they are aware of the changes to the 2023/24 Code of Practice
- Internal planning documents have been revised to reflect the revised deadline and changes within the Code of Practice – **See Appendix B**

7.2 Although subject to consultation, the deadline for submission of the draft 2023/24 statement of accounts remains 31st May 2024. In light of the lack of progress in addressing the outstanding audit work and the additional work required to address to audit backlog across the sector the s151 Officer would ask the Committee to consider the benefit of stretching the already limited capacity of the finance team to achieve the earlier submission deadline. Although disappointing, if not achieved the 31st May deadline does not carry any penalty for the Council. The Council must however publish a notice on its website advising of the delay and once available they must publish the formal Notice of the Commencement of the Period for the Exercise of Public Rights. This is the 30-day period during which any person interested, or any journalist may, on reasonable notice, inspect and make copies of the accounts or any Local Government Elector may raise an objection to any item of account.

7.3 An agreed flexing of the deadline would allow the team some capacity to assist the auditors in concluding the outstanding audit work, whilst working on the production of the 2023/24 Statements. This approach has been discussed with the Chief Executive and the Finance Portfolio Holder who are supportive of the suggestion, given the on-going delays and frustrations. The Department for Levelling Up, Housing and Communities are currently consulted on the extending this deadline, with an announcement due shortly.

8.0 ADDRESSING THE AUDIT BACKLOG

8.1 The proposals for addressing the audit backlog and embedding timely audit have been published for consultation (**See Appendix C**). They comprise of:

- DLUHC's intentions for amending the Accounts and Audit Reg, including a joint statement providing context and explanation of the proposals and how their various elements are intended to interact.
- NAO intentions for amending the Code of Audit Practice
- CIPFA LASAAC proposals for temporary changes to the Accounting Code to reduce burdens on those who prepare and audit local body accounts (not yet issued)

8.2 The proposals confirm that the backlog will be resolved by backstop dates by which the Statement of Accounts must be published. These backstop dates are irrespective of whether the auditors have been able to complete the work required by Auditing Standards. **The proposed date for accounts up to 2022/23 is 30 September 2024.** As it will take auditors some time to rebuild assurance for Authorities that do not receive a clean opinion as a result of the backstop, there will be further backstop dates for all financial years up to 2027/28.

- 8.3 The overall proposals have 3 stages but currently provide substantial discretion to auditors to determine how to prioritise their work in the run-up to each backstop date.
- Phase 1: Reset - clearing the backlog of audit opinions up for 2022/23 and earlier years by **30 September 2024**
 - Phase 2: Recovery – preventing a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.
 - Phase 3: Reform – addressing systemic challenges in the system and embedding timely financial reporting and audit.

Phase 1 – Reset

- 8.4 The backstop dates are deadlines by which Councils must publish audited accounts, and auditors would be required to issue an opinion based on the work they have been able to complete to enable authorities to meet the publication deadline. Auditing standards already provide for the impact of backstop dates. System partners will provide clear explanations of what the different types of audit opinions mean, especially to clarify that modified/ disclaimed opinions attributable to the backstop date do not necessarily indicate significant financial reporting or financial management issues in the audited body.
- 8.5 There does not appear to be any minimum expectations for the work that auditors would need to carry out at individual authorities, so that there would be a minimum level of assurance provided by the auditor. However, the Joint Statement promises an expectation that auditors will complete as much audit work as possible by the backstop date.
- 8.6 Reporting on VFM arrangements remain a high priority. The Audit Code consultation is largely about enabling auditors to produce a single commentary on VFM arrangements covering all outstanding periods for 2022/23 and earlier years and whilst work has been undertaken to support the VFM opinion clarification has been sought in regard to any new or revised requirements.
- 8.7 The Government will publish a list of local bodies and their auditors which do not meet the backstop date.
- 8.8 It is likely that the measures will result in a significant number of modified or disclaimed audit opinions during both Phase 1 and Phase 2. ***The s151 Officer would like to inform Members of the Committee that given the long-established and reported issues with the audit of our financial statements the Council will receive either a modified or disclaimed opinion as part of Phase 1.*** To be clear any modified/ disclaimed opinions attributable to the backstop date do not necessarily indicate significant financial reporting or financial management issues.

Phase 2 – Recovery

- 8.9 As previously reported the issue with the Reset phase is that for Councils such as us who are impacted by the backstop, auditors will not have the assurance from closing balances that would normally support opening balances for 2023/24. To further exacerbate this issue Members will recall that Public Sector Audit Appointments Ltd (PSAA) have appointed KPMG as the Council's External Auditors for the 5-year period 2023/24 – 2027/2028.
- 8.10 KPMG 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, so that recovery work might take a number of years as modified opinions/ disclaimers are rolled forward: The following are the current proposed audit deadlines.

Financial Years Statements	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

8.11 In an attempt to ensure Phases 1 and 2 are delivered the following expectations are placed on Council's and Auditors.

- Councils should raise concerns about specific financial risk resulting from the proposals with their auditors and engage with the Government at the earliest opportunity.
- Auditors and local bodies should work together to ensure that as many audits can be completed in full as possible.
- The potential introduction of backstops does not preclude the legal responsibilities for the publication of the unaudited accounts and the public inspection period - where an authority believes it will not be able to publish unaudited accounts and complete the inspection period in sufficient time ahead of the backstop date, this should be flagged to the Government.
- In the absence of a clean audit opinion for the prior year, s151 officers should have sufficient internal controls and processes to comply with their responsibilities to prepare unaudited accounts and confirm they show a true and fair view.
- Auditors will need to make prioritisation decisions about the work they complete - when making these decisions, auditors should consider the impact on other bodies' audits, e.g., by prioritising audit work on pension funds to provide IAS 19 assurances to auditors of other bodies.
- Finance teams should ensure they provide high-quality evidence requested by auditors in a timely manner.
- Auditors should clearly communicate the reasons for modified or disclaimed opinions in the auditor's report and explain in reports to the audit committee if the modified opinion is attributable to the backstop dates and what work they have been able to carry out.
- Auditors will need to conclude and report significant weaknesses in VFM arrangements in the audit report ahead of the backstop date as VFM reporting duty cannot be disclaimed.

Phase 3 – Reform

8.12 There are no concrete proposals put forward for Phase 3, but commitments are made in the following areas:

- the government remains committed to establishing the Audit, Reporting and Governance Authority as system leader for local audit when Parliamentary time allows.
- CIPFA LASAAC's has a workstream looking at long-term reforms to financial reporting based on the needs of accounts users.
- HM Treasury will shortly be setting out the outcome of the thematic review into the valuation of non-investment assets.
- the FRC intends to publish its Local Audit Workforce Strategy during 2024, including plans to increase the supply of suitably skilled auditors, including changes to Key Audit Partner requirements.
- the government has successfully procured the development of a Local Audit Qualification which will shortly be launched by CIPFA.
- CIPFA and the Local Government Association are working on a workforce strategy for local government finance teams.

Consultation Summary

- 8.13 Consultation on amendments to the Accounts and Audit Regulations is open until 7 March. The Regulations will be amended so that the statutory dates for the publication of the audited accounts are set at the backstop dates for the years from 2023/24 to 2027/28.
- 8.14 Views requested in the consultation include whether:
- the proposed backstop dates for Phases 1 and 2 are appropriate.
 - there are any exceptional circumstances under which authorities should be exempt from the backstop (especially in relation to outstanding objections)
 - there should be consequences for authorities or audit firms if they do not comply with the backstop dates, apart from being included on the Government naughty list.
 - the 31 May deadline for publication of the unaudited accounts remains appropriate for 2024/2025 to 2027/2028
 - whether the particular coincidence of 31 May 2025 as the publication date for the unaudited 2024/25 statement of accounts and as the backstop date for 2023/24 will give practitioners particular problems
 - noting the need to rebuild assurance following a modified/disclaimed opinion, the backstop dates for Phase 2 are feasible.

Accounting Code Amendments 2023/24 & 2024/25

- 8.15 In order to assist Phase 1 there are a number of temporary changes proposed to the Accounting Codes for 2023/24 and 2024/25, these will cover:
- Extending the override relating to the measurement and disclosure requirements for infrastructure assets
 - Simplifying the revaluation of operational property to permit the use of indexation.
 - Reducing the requirements for disclosures around net defined benefit pension liabilities/assets for 2 years to align with the simplified requirements in FRS 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland.

9.0 DETAILS OF CONSULTATION

- 9.1 The report provides the Committee with an update on the progress of the audit of the Statement of Accounts 2019/20 to 2022/23 Statement production and so consultation has been limited to discussion with the current and incoming External Auditors.

10.0 OPTIONS AND OPTIONS ANALYSIS

- 10.1 As the report is for noting no alternative options are put forward, but the Committee could make supplementary recommendations regarding any matters arising.

11.0 CONCLUSION

- 11.1 Members should note the progress and matters arising to date.

CONCLUSION OF IMPACT ASSESSMENT
(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing):

No implications directly arising.

LEGAL IMPLICATIONS

S27 of the Local Audit and Accountability Act 2014 makes provision for an elector of the Council's area to make an objection to the local auditor in respect of the grounds set out at

paragraph 3.4 of this Report. On receipt of an objection the local auditor must decide (a) whether to consider the objection, and (b) if the auditor does so, whether to take action within paragraph (a) and (b) of s27(1) in response.

In considering any objection, the auditor will need to have regard to the provisions of the 2014 Act and the code of audit practice applicable to the Council. The Local auditor must in carrying out functions under the 2014 Act, have regard to guidance issued by the Comptroller and Auditor General under paragraph 9 of Schedule 6 of the 2014 Act. This includes the Auditor Guidance Note 4.

An objector aggrieved by a decision of a local auditor not to consider the objection or not to apply for a declaration under s28 of the 2014 Act may within 6 weeks from notification of the decision require the auditor to provide written reasons for the decision and within 21 days from receipt of the written reasons may appeal against the decision to the court.

FINANCIAL IMPLICATIONS

There are no financial implication flowing directly from this report.

However, Member's should be aware of the additional audit fees that may accrue because of the objection to the financial statements.

OTHER RESOURCE IMPLICATIONS, such as Human Resources, Information Services, Property, Open Spaces

No implications directly arising.

SECTION 151 OFFICER'S COMMENTS

This report forms part of the Chief Finance Officer's responsibilities, under his role as s151 Officer.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS

Statement of Accounts 2019/20

<http://www.lancaster.gov.uk/the-council-and-democracy/budgets-and-spending/statement-of-accounts>

Statement of Accounts 2020/21

<http://www.lancaster.gov.uk/the-council-and-democracy/budgets-and-spending/statement-of-accounts>

Statement of Accounts 2021/22

<https://www.lancaster.gov.uk/the-council-and-democracy/budgets-and-spending/statement-of-accounts>

Statement of Accounts 2022/23

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External Audit Plan 2020/21

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Ref:

[Agenda for Audit Committee on Wednesday, 23rd March 2022, 6.10 p.m. - Lancaster City Council](#)

Statement of Accounts Updates

[Agenda for Audit Committee on Wednesday, 26th July 2023, 6.00 p.m. - Lancaster City Council](#)

[Agenda for Audit Committee on Wednesday, 24th May 2023, 6.10 p.m. - Lancaster City Council](#)

[Agenda for Audit Committee on Wednesday, 22nd March 2023, 6.10 p.m. - Lancaster City Council](#)

[Agenda for Audit Committee on Wednesday, 23rd November 2022, 6.10 p.m. - Lancaster City Council](#)

[Agenda for Audit Committee on Wednesday, 25th May 2022, 6.10 p.m. - Lancaster City Council](#)

[Agenda for Audit Committee on Wednesday, 23rd March 2022, 6.10 p.m. - Lancaster City Council](#)

[Agenda for Audit Committee on Wednesday, 24th November 2021, 6.10 p.m. - Lancaster City Council](#)