

AUDIT COMMITTEE

Statement of Accounts Update

22 May 2024

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 and audit of the 2023/24 Statement of Accounts

1.0 INTRODUCTION

- 1.1 Members will be pleased to note that although the 2019/20, 2020/21, 2021/22 and 2022/23 Statement of Accounts still remain outstanding **significant progress** has been made in a number of key areas. This paper seeks to remind Members of the current opposition in regard to those Financial Statements and importantly provide information on the broadly agreed route and timescales for resolution. In addition, provide Members of the status of the 2023/24 Financial Statements and future audit arrangements.

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. The External Auditor has informed the Council that there are no issues in regard to the impact of the national infrastructure assets.

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. Progress in this area is discussed in more detail below. Similar to the 2019/20 position the External Auditor has informed the Council that there are no issues in regard to the impact of the national infrastructure assets.

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. 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 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. Further discussion is provided below.

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

6.0 UPDATE ON OUTSTANDING MATTERS

6.1 At its meeting 22 March 2024 the Committee were informed of a number of proposals and key deadlines for addressing the audit backlog and embedding timely audit. The following paragraphs provide an update on progress in addressing the significant issues outstanding, and timescales to enable completion and allow the outstanding 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 discharge its duties in regard to the objection and finally conclude the audits, the External Auditors requested that the Council seek assurances from a number of external third parties. Whilst two of the requests were presented to the External Auditor several months ago Members of the Committee will recall delays in obtaining the final assurance.

6.3 Following a series of meetings in April and May between the remaining party and the Council's solicitors an agreement has now been reached draw this matter to a conclusion. Details of this agreement have been shared with the External Auditor who has not raised any issues and feels, subject to sight of the final agreement is sufficient to allow him to address the substantive nature of the objections and finally conclude this matter.

6.4 Committee Members should be aware that the annual Audit Fee does not contain an amount for dealing with objections and so the associated costs will be borne by the Council. Current estimates are an additional cost to the Council of c£45K. This figure does not include a significant amount of internal officer time.

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 was completed and presented to the External Auditors for review in August 2023. Feedback received from the External Auditor is that this work is satisfactory and there are no issues that require further work.

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 no audit work has been undertaken on either the 2021/22 or 2022/23 Financial Statements. Details of the 3 Phase proposals to address the national audit backlog were presented at the last Committee meeting but are summarised as.
- 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.
- 6.10 As no audit work has been undertaken on the 2021/22 or 2022/23 financial statements, the External Auditor will not be able to meet the September 2024 deadline, and it is their intention to disclaim the audits. The level of work required to enable the External Auditor to disclaim the audits is yet to be agreed with the regulator, but the current proposals do mandate work to support the Value for Money Assessment and also that any objections must be resolved. The proposals do provide degree of discretion for remaining areas and the External Auditor has intimated that it is his intention to undertake the minimum work required in order to comply with the relevant Auditing Standards.
- 6.11 As reported to the Committee in March ***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 a 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.

6.12 Drawing on the previous paragraphs and discussions with the External Auditor the following areas are required to finally conclude the audit backlog.

2019/20: Objection to be formally closed
Revision to supporting note.

2020/21: Objection to be formally closed
Revision to supporting note.
Work to support the Value for Money Assessment

2021/22: Objection to be formally closed
Revision to supporting note.
Work to support the Value for Money Assessment
Work to allow the auditor to disclaim the 2021/22 audit.

2022/23: Objection to be formally closed
Revision to supporting note.
Work to support the Value for Money Assessment
Work to allow the auditor to disclaim 2022/23 audit.

6.13 It has been agreed that once confirmed with the regulator all work to support the disclaimer and the other areas will be presented for review by the External Auditor by 28 June 2024. This should enable him to consider the work and conclude the audits ahead of the 30 September 2024 deadline.

7.0 PREPARTION AND AUDIT OF THE 2023/24 STATEMENT OF ACCOUNTS

7.1 Members will recall that at its March meeting the Committee noted the s151 Officers request to delay publication of the draft 2023/24 Financial Statements. This request was made in light of the lack of progress in addressing the outstanding audit work, the additional work required to address to audit backlog and the benefits of stretching the already limited capacity of the finance team to achieve the earlier submission deadline.

7.2 Regulation require that we 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 Whilst disappoint not to achieve the 31 May 2024 deadline and subject to a technical issue regarding Business Rates affecting the Collection Fund and the governments NNDR3 production of the Statement of Accounts is progressing well.

7.4 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.

7.5 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

7.6 Discussions have been held with KPMG and whilst there is pressure to meet the 31 May 2025 Recovery (Phase 2) deadline it is their intention to do so. Both the Council and KPMG have obligations and commitments through the year and are currently working to identify times which do not impact unduly on each other workloads throughout the year.

7.7 The External Auditors are required to present an annual audit plan setting out their approach to auditing the financial statements. It is expected that KPMG will present their plan to this Committee shortly.

8.0 DETAILS OF CONSULTATION

8.1 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.

9.0 OPTIONS AND OPTIONS ANALYSIS

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

10.0 CONCLUSION

10.1 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>

Contact Officer: Paul Thompson

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Email: pthompson@lancaster.gov.uk

Ref:

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

[Statement of Accounts - Lancaster City Council](#)

External Audit Plan 2020/21

[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, 20th March 2024, 6.00 p.m. - Lancaster City Council](#)

[Agenda for Audit Committee on Wednesday, 22nd November 2023, 6.00 p.m.](#)

[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](#)