

Title of Report	STATEMENT OF ACCOUNTS 2021/22 AND 2022/23 UPDATE	
Presented by	Councillor Nick Rushton Corporate Portfolio Holder	
Background Papers	Statement of Accounts 2021/22 and 2022/23 Update - Audit Committee 27 July 2022	Public Report: Yes
Financial Implications	There are no direct financial implications arising from this report.	
	Signed off by the Section 151 Officer: Yes	
Legal Implications	There are no direct legal implications arising from this report.	
	Signed off by the Monitoring Officer: Yes	
Staffing and Corporate Implications	There are no staffing and corporate implications arising from this report.	
	Signed off by the Head of Paid Service: Yes	
Purpose of Report	To provide Council with an updated position regarding the completion and audits of the Council's Statement of Accounts 2021/22 and 2022/23.	
Recommendations	THAT COUNCIL: <ol style="list-style-type: none"> 1. NOTES THE PROPOSED TIMETABLE FOR THE COMPLETION AND AUDIT OF THE STATEMENT OF ACCOUNTS 2021/22 AND 2022/23 2. NOTES THE DETAILS OF THE GOVERNMENT'S PROPOSALS IN ADDRESSING THE AUDIT BACKLOGS IN THE SECTOR. 	

1.0 BACKGROUND

- 1.1 The Accounts and Audit Regulations 2015 set out detailed requirements on a relevant authority, other than a health service body, in relation to its annual audit and accounting processes. These include the preparation, approval and publication of the statement of accounts (the Accounts), the annual governance statement and the narrative statement, as well as the inspection and objection rights of local electors and other interested persons.
- 1.2 The Accounts and Audit (Amendment) Regulations 2021 amended the 2015 Regulations to extend some of the deadlines for the publication and audit of accounts relating to the financial years beginning 2020 and 2021. This was in response to the challenges posed by the COVID-19 pandemic on the audit process. The amendments also required a relevant authority to publish a notice if it was not able to commence the period for the exercise of public rights as required by the 2015 Regulations.

- 1.3 The 2021 Regulations state that the draft Accounts for 2021/22 must be prepared and certified by the responsible finance officer (Section 151 Officer) by 31 July 2022 following the end of the financial year, and audited statement of accounts must have been approved and published by 30 November 2022. For the 2022/23 Accounts the draft and publication of audited Accounts deadlines were 31 May 2023 and 30 September 2023 respectively. The draft 2023/24 Accounts deadline will revert to the pre-Covid deadline of 31 May 2024. However, the deadline for audit and publication of the Accounts has been extended to 30 September 2024, reflecting the developing audit delays. This extended audit and final draft publication deadline will apply for Accounts up to and including the 2027/28 financial year.

2.0 NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL STATEMENT OF ACCOUNTS 2021/22 AND 2022/23

- 2.1 The publication of the draft 2021/22 Accounts was delayed due to the ongoing issues with the 2020/21 Accounts, which meant that the statutory deadline was missed. A notice was placed on the Council's website to that effect. Details of this delay were reported to Audit and Governance Committee on 27 July 2022.
- 2.2 The delay in the publication of the Statement of Accounts 2020/21 were largely due to the Council concluding responses to queries from the external auditors regarding the Council's Property, Plant and Equipment (PPE) records.
- 2.3 The Council's external auditors, Mazars, completed the audit of the 2020/21 Accounts in April 2023, details of which were reported to Audit Committee on 26 April 2023.
- 2.4 At the same meeting, Mazars, reported its approach and timetable for completion of the 2021/22 Statement of Accounts. The estimated time for completion of the audit was September 2023. However, this has not been possible due to vacancies in the Council's Finance Team, priorities of focusing on the Council's in-year budget position, preparation of the 2024/25 budget and continuing implementation of the Council's new finance system. This is also coupled with the availability of external auditors to undertake final audit work.
- 2.5 The Council has recently agreed a revised timetable for completion with Mazars for both the 2021/22 and 2022/23 Accounts. It is proposed that the audit of 2021/22 Accounts will be completed in the coming weeks with the 2021/22 Accounts being presented to the Audit Committee meeting scheduled for 13 March 2024.
- 2.6 Following this, work will then commence on the preparation of the 2022/23 Statement of Accounts with the audit due to take place in July/August 2024, before final sign-off of the Accounts at the Audit Committee in September 2024.
- 2.7 In light of the conflicting priorities seen in recent years, additional short-term resource is being sought to enhance the capacity in the Council's Finance Team to ensure that the Council is meeting not only its financial reporting requirements but also ensuring good financial management through regular budget monitoring.

3.0 LOCAL AUDIT

- 3.1 According to a report by the National Audit Office (NAO) published in October 2020, only 45% of local authorities received an audit opinion by 31 July 2019, compared with 87% in 2017-18. The main reasons for the delays were the complexity of accounting for property, plant and equipment, changes in audit standards, quality issues identified by audit regulators, and capacity constraints within audit firms.

- 3.2 In a recent Parliamentary briefing published in January 2024, it cited that, as of October 2023, a total backlog existed of 918 delayed audit opinions.
- 3.3 The government has recognised the need to reform the local audit system and launched a consultation on various proposals in December 2020. These included strengthening audit quality and standards, improving transparency and accountability, enhancing auditor reporting and recommendations, simplifying fee setting and procurement arrangements, and ensuring effective oversight and regulation of local audit.
- 3.4 In June 2023, a Public Accounts Committee report highlighted an unacceptably high backlog of audit opinions for local government, commenting it might get worse before it gets better if not addressed. Only 12% of local government bodies received audit opinions on their finances in time to publish accounts for 2021/22 at that time.
- 3.5 The report highlighted the main concerns of local audit, these being:
- Staff shortages – a limited number of staff, and senior partners, in audit firms with sufficient expertise to carry out local audits.
 - Valuation difficulties – from the late 2010s, auditors have reported difficulty in valuing non-investment properties and pension funds.
 - Decline in firms in the local audit market – the number of audit firms bidding for local audit contracts has declined since the abolition of the Audit Commission.
 - Audit Fees – audit fees are charged according to a scale that is set each year. Fees fell substantially after the abolition of the Audit Commission in 2015. However, for 2023/24 they rose by approximately 150%.
- 3.6 In July 2023, local government minister, Lee Rowley appeared before a Commons Committee citing that the aim was to spend the summer recess finalising the process to clear the audit backlog with sector bodies. This included exploring how to mitigate any unintended consequences of the measures. He stated that once statutory deadlines had been set for outstanding audits, auditors will be “*required to provide as much assurance as possible for these outstanding years*”. He went on to state that “*Where necessary, it is intended that auditors would need to limit their opinion and make clear to the users of the accounts those aspects or sections of a set of accounts which are not supported by sufficient, appropriate evidence, and which the auditor is unable to provide assurance over*”.
- 3.7 These deadlines may lead to qualifications and disclaimers for some sets of Accounts, with auditors instructed to focus on the most recent set of accounts.
- 3.8 On 9 January 2024, the Department for Levelling Up, Housing and Communities wrote to local authorities confirming that it supports the proposals set out in the Public Accounts Committee Report from July 2023 and will be launching consultation on these proposals. This includes an initial backstop date for local authorities and auditors of 30 September 2024 for all local authorities up to and including financial year 2022/23. It is recognised that in setting the backstop date may result in some qualifications of the accounts and disclaimers of opinion in the short term.
- 3.9 As a result of the delays in signing-off the 2021/22 and 2022/23 Statement of Accounts, the Accounts for the financial year 2023/24 will not be completed by the statutory deadlines. The Council will liaise with its new external auditors, Azets, to develop a suitable timetable for completion which will be reported to Audit Committee in due course.

4.0 CONCLUSION

- 4.1 The Council is committed to signing off its Statement of Accounts 2021/22 and 2022/23 and to ensure it meets the deadlines outlined above.
- 4.2 Additional resource in the Council's Finance Team will help to support this process and ensure that the Accounts are prepared in accordance with the relevant standards and regulations. The Council will continue working closely with its external auditors to resolve any outstanding issues and provide the necessary evidence and supporting information to expedite the completion of the Accounts.

Policies and other considerations, as appropriate	
Council Priorities:	A well-run council
Policy Considerations:	None.
Safeguarding:	None.
Equalities/Diversity:	None.
Customer Impact:	None.
Economic and Social Impact:	None.
Environment, Climate Change and zero carbon:	None.
Consultation/Community Engagement:	Where appropriate to do so, the Council will respond to the Government's consultation in respect of the proposed backstop to address the delays to local audits.
Risks:	<ul style="list-style-type: none"> - Loss of public trust and confidence in the Council's financial management and governance. - Reduced transparency and accountability to the council's stakeholders, including taxpayers, service users, creditors, grant providers and regulators. - Increased scrutiny and intervention from external bodies, such as the Department for Levelling Up, Housing and Communities and Local Government, the National Audit Office, the Local Government Association and the Public Sector Audit Appointments. - Potential legal challenges or claims from aggrieved parties who may rely on the accuracy and timeliness of the financial information in the Statement of Accounts. - Additional costs and resources required to resolve the audit issues and complete the audit process.
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