



REPORT TO:	Audit and Governance Committee
FROM:	Strategic Director Finance and Resources
DATE:	28 th November 2023

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

KEY DECISION: N

TITLE OF REPORT: Update on the Statement of Accounts 2021/22 and 2022/23

1. PURPOSE

1.1 The purpose of this report is to update the Committee on the production and audit of the Statement of Accounts 2021/22 and 2022/23. Information is also provided on the Government's proposals to address the national backlog of audit opinions on Council Statement of Accounts.

2. RECOMMENDATIONS

2.1 It is recommended that Audit and Governance Committee notes the update on the production and audit of the Statement of Accounts for 2021/22 and 2022/23.

3. BACKGROUND

3.1 Committee will be aware from previous reports on this matter that there are significant delays with the audit and publication of the Council's Statement of Accounts. This applies to both 2021/22 and 2022/23. This largely stems from changes to the statutory deadlines for the production and audit of the Statement of Accounts, pressures on the resourcing of External Audit and a broadening of the scope of the Code of Audit Practice. Taken together with the compounding impact of the Covid-19 Pandemic, both the production of the Statement of Accounts and the subsequent audit have been subject to significant delays.

3.2 Councillors should note that this matter is not unique to Blackburn with Darwen Council. Indeed, it is impact of the majority of Councils across the Country. Indeed, the Government is so concerned about this matter that, as outlined in this report, it is proposing extraordinary measures – the introduction of backstop dates for the completion of audit work – to address the backlog.

4. RATIONALE

4.1 Timely financial reports that are independently audited are a key part of the local accountability framework for Local Authorities. The Statement of Accounts fulfils this requirement and so it is important that it is produced and audited in line with statutory deadlines.

5. KEY ISSUES

Statement of Accounts 2021/22

- 5.1 The audited Statement of Accounts for 2020/21 was presented and approved for publication by Audit and Governance Committee on 23rd July 2023
- 5.2 In their final audit report on the Statement of Accounts for 2020/21, the External Auditors identified seven recommendations, of which one on the valuation of Property, Plant and Equipment (PPE) was assessed as high priority.
- 5.3 The audit of the Council's Property, Plant and Equipment assets highlighted a number of issues related to the valuation of assets, The key issues being:
- The Valuers report should state the overall value of assets revalued in the year;
 - The Latest Building Cost Information Services (BCIS) rates at the date of valuation should be used rather than using historical rates and uplifting for inflation;
 - Unusual rounding adjustments made on valuations.
 - The use of Assumptions regarding leased assets at a peppercorn rate which were incorrect (the future use of these assets should be confirmed at year end to arrive at a correct valuation approach); and
 - Where asset specific valuer judgements are made, these should be documented in the valuation calculations with a clear audit trail supporting the valuation.
- 5.4 The overall recommendation was that a clear audit trail to support judgements used as part of the process to revalue assets should exist. All the issues identified were raised with the Council's internal Property Valuation Team and Terms of Engagement were documented and agreed with the Valuers in advance of the production of valuations for the Statement of Accounts for 2021/22.
- 5.5 At the same time, acknowledging the increased scope of the Code of Audit Practice in relation to PPE and the issues experienced in auditing the valuations in 2020/21, the External Auditors indicated that they would commission an external Valuer to review the Council's PPE valuations used in the Statement of Accounts for 2021/22.
- 5.6 The current position is that the audit of the Statement of Accounts for 2021/22 is almost complete. This is with the exception of the audit of PPE where, again, the External Auditors have experienced issues with the valuations. These stem in part from the issues referenced above but equally more in-depth audit work. Partly in response to this, the Council has commissioned additional valuation work to be undertaken. Subject to this work being completed and the External Auditor being satisfied with the valuation of PPE, it is envisaged that audit of the Statement of Accounts for 2021/22 will be completed early in the new year. In the context of the possible backstop dates referred to below, the completion of the 2021/22 audit is considered to be a priority.

Statement of Accounts 2022/23

- 5.7 Work on the production of the unaudited Statement of Accounts for 2022/23 is almost complete. Again, this is held up due to work on a small number of PPE valuations which are expected to be completed in the near future.

- 5.8 In view of the possible backstop dates referred to below, there is a possibility that there will be insufficient time for the External Auditors to undertake the audit of the Statement of Accounts for 2022/23. The implications of this are set out below.

Clearing the Audit Backlog

- 5.9 In 2017/18 the deadline for External Audit to issue audit opinions was brought forward from 30th September to 31st July. Since this point there has been a reduction in the number of local government audit opinions delivered on time, with significant reductions from 2018/19 onwards. This downward trend accelerated during the COVID-19 pandemic with only 45% of 2019/20 audits completed by the extended deadline of 30 November 2020 and only 9% of 2020/21 audits completed by the extended deadline of 30 September 2021.
- 5.10 As the National Audit Office (NAO) outlined in its 2020 report [Timeliness of local auditor reporting on local government in England](#), a variety of complex factors are contributing to audit delays. Audit firms are struggling with a net loss of qualified staff, with many qualified accountants choosing to leave the audit sector entirely. For auditors that are choosing to stay within the profession, alternative audit opportunities are often perceived as more attractive than local audit, which is contributing a high turnover of staff within firms.
- 5.11 In addition, increasing workload and regulatory pressure on auditors have contributed to further delays. The NAO found that the additional requirements of new International Financial Reporting Standards (IFRS), along with increased expectations from the Financial Reporting Council (FRC) following high-profile corporate failures such as Carillion and Patisserie Valerie, had combined to produce a significant increase in audit work, particularly on asset and pensions valuations. In some cases, issues with the preparation of local authority accounts have led to delays in audits being signed off.
- 5.12 On 26 November 2021, the Director General for Local Government, wrote to all local authority Section 151 Officers to emphasise the need for local bodies to work with audit firms as part of a system-wide response to clear the backlog of delayed audits. The letter and the attached paper acknowledged the complexity of the drivers behind audit delays, and stated that a whole system response was needed, with local bodies, audit firms, regulatory bodies and code-setters working collectively to implement solutions across the sector. At the time of receipt Local audit completion for the financial year 2021/22 was approximately 27 percent, with the combined total of outstanding local audits dating back to 2015/16 totalling nearly 520.
- 5.13 Given no material improvement in the issue of audit opinions, on 14th July 2023, the Government issued a statement – ‘Local Audit Delays – Cross System Statement on Proposals to Clear the Backlog and Embed Timely Audits’. This statement set out proposals to address the local audit backlog. A copy of the Statement is provided at **Appendix A**.
- 5.14 In essence, DLUHC would work together with the National Audit Office (NAO), Chartered Institute of Public Finance and Accountancy (CIPFA), the Financial Reporting Council (FRC), Institute of Chartered Accountants in England and Wales (ICAEW), audit firms, Chief Executive Officers, Section 151 Officers and Audit Committees to address this backlog.

- 5.15 In summary, the Statement proposed that the NAO and DLUHC set a series of statutory deadlines for accounts preparers and auditors to clear the backlog of delayed audits for financial years 2015/16 to present. Auditors would then be required to provide as much assurance as possible for these outstanding years, reporting as normal any significant concerns they have on an organisation's financial controls and financial reporting, as well as financial resilience, governance and risk. Where necessary, auditors would need to limit their opinion, making clear to the user of the accounts where full evidence hadn't been confirmed. The auditors' statutory duty to report on value for money (VfM) arrangements and their statutory audit powers (such as the power to make statutory recommendations or produce Public Interest Reports where necessary) would remain.
- 5.16 It was acknowledged that these deadlines may result in qualifications and disclaimers of opinion for a number of local bodies, but that these steps were believed necessary to reset the system and to restore the assurance which is provided by timely annual audits. Work across the local audit system must be sustainable and ensure proportionate financial reporting requirements, auditing requirements and regulatory requirements are in place, however where an auditor had to issue a disclaimer of opinion, there would still need to be a need to audit the opening balances of the subsequent set of accounts, as the prior year figures would not be covered by an unqualified auditor's opinion.
- 5.17 The work identified above to eradicate the backlog of delayed audit opinions and the steps being taken to ensure that the local audit system is sustainable and there are proportionate financial reporting requirements is still taking place and the final outcomes are to be decided, however secondary legislation is likely to impose statutory deadlines for sign off of accounts. If accounts have not been signed off by the auditors by these "back stop" dates, then they auditors will have to qualify accounts/provide a disclosure of their opinions.
- 5.18 The back stop dates being considered but not yet confirmed are:-
- 2021/22 Accounts signed off by **31st March 2024**
 - 2022/22 Accounts signed off by **30th Sept 2024** (*although there is some suggestion this, too, could be 31st March 2024*)
 - 2023/24 Accounts signed off by **31st March 2025**
- 5.19 In the event these dates are confirmed and given the Council's position with its Statement of Accounts as set out above, there is a likelihood that whilst the External Auditors will have sufficient time to provide an opinion on the Council's Statement of Accounts for 2021/22, they are likely to find it challenging to provide an opinion on the Council's Statement of Accounts for 2022/23 (particularly so if the backstop date is 31st March 2024).
- 5.20 The key consequence of a limited or no opinion on the Council's Statement of Accounts for 2022/23 is that the Council's new External Auditors will need to obtain their own assurance on the opening balances for the financial year 2023/24 (as well as movements in accounting transactions on the Corporate Income and Expenditure Account). This is likely to involve significant additional audit work and will result in additional costs to the Council. In recognition of this, DLUHC has indicated that it will consider measures to address any knock-on effects of the backstop dates.

6. POLICY IMPLICATIONS

- 6.1 There are no policy implications arising directly from this report.

7. FINANCIAL IMPLICATIONS

7.1 There are no financial implications arising from the recommendations in this report.

8. LEGAL IMPLICATIONS

8.1 There are no legal implications arising from the contents of this report.

9. RESOURCE IMPLICATIONS

9.1 The production of the Statement of Accounts is a significant task. Given the issues experienced with both the production of the Accounts and the subsequent audit, including the need for the Finance Team to respond to enquiries from the External Auditors, there has been a significant impact on the resourcing of the Finance Team.

9.2 Whilst the introduction of backstop dates may result in a limited or no opinion on the Council's Statement of Accounts and will impact on the audit work necessary for the Statement of Accounts for 2023/24, it is absolutely necessary to clear the backlog. Doing so will ease the burden on the Finance Team.

10. EQUALITY AND HEALTH IMPLICATIONS

10.1 There are no equality and health implications arising from the contents of this report.

11. CONSULTATIONS

11.1 None arising from the contents of this report.

12. STATEMENT OF COMPLIANCE

12.1 None arising from the contents of this report.

Appendices

Appendix A – Letter from Government on Proposals to Address Audit Delays

VERSION:	1
CONTACT OFFICER:	Simon Ross, Head of Service - Financial Services
DATE:	16 th November 2023
BACKGROUND PAPERS:	None