

To: Audit Committee

From: Justin Weston, Head of Finance & Investment

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### **Backstop progress on the 2021-22 and 2022-23 Statement of Accounts**

Members will be aware from previous reports, discussion, and training, that the external audits of the Council's 2021/22 and 2021/22 draft statement of accounts, have been delayed for some time pending government direction on how to address the national backlog. This applies to over 1,000 set of unsigned local authority accounts across the country, with many local authorities being in a similar position to Middlesbrough of having more than one set of accounts not being audited.

The government has now set out and laid the legislation (9 September 2024) around the statutory backstop dates. These are the dates by which an external audit for a particular financial year needs to be finalised by. These dates were reported to the last Committee meeting but are set out below for clarity.

- 2022/23 & before: 13 December 2024
- 2023/24: 28 February 2025
- 2024/25: 27 February 2026
- 2025/26: 31 January 2027
- 2026/27: 30 November 2027
- 2027/28: 30 November 2028

The first backstop date (13 December 2024) would clear the backlog of unaudited accounts up to and including 2022/23. Where auditors have been unable to complete audits, they will issue a 'disclaimed' or 'modified' audit opinion. Auditors are likely to issue hundreds of 'disclaimed' audit opinions but need to make clear that this is not the fault of the organisation involved but of issues with the local audit system itself.

The five further backstop dates up to and including financial year 2027/28 allow full assurance on external financial reporting to be rebuilt over several audit cycles. It is the aspiration of the Government and key local audit system partners that, in the public interest, local audit recovers as early in this five-year period as possible. This means disclaimed opinions driven by backstop dates should, in most cases, be limited to the next two years (up to and including the 2024/25 - backstop date of 27 February 2026), with only a small number of exceptional cases, continuing thereafter.

While there will be modified or disclaimed opinions in relation to the external audit of financial statements, auditors' other statutory duties – including to report on Value for Money (VfM) arrangements, to make statutory recommendations, and to issue Public Interest Reports – remain a high priority.

## The position for Middlesbrough Council

For Middlesbrough Council, the 2021/22 accounts audit was partially undertaken by Ernst & Young (EY) between July 2022 and March 2023. At which point the audit was paused given the council finance team had to closedown and prepare the 2022/23 accounts. The audit should then have restarted by July 2023 but did not, due to central government considering what to do about the backlog position nationally and there being uncertainty for external auditors about how to continue.

No further work has been done on the Council's financial statements for 2021/22 since March 2023, except for a specific piece of work requested by the S151 Officer in relation to the collection fund bad debt provision. EY have though continued their work on the value for money assessment and on the Teesside Pension Fund. Both are progressing to a conclusion and the appropriate audit opinion being issued. Since the issue of the government legislation, EY have indicated that they can give no formal assurance on the 2021/22 council financial statements given the amount of work undertaken to date. As a result of this, the audit opinion on these statements will need to be 'disclaimed'.

In relation to the 2022/23 external audit process, the position is very similar to 2021/22. For the value for money assessment and the work around the teesside pension fund, this work will be completed satisfactorily and reported to Members. For the audit of the council financial statements, this work has not started given the delay on the 2021/22 accounts. As a result, this will also be disclaimed in line with 2021/22.

### Disclaimer process

The value for money interim results for 2021/22 & 2022/23 have already been reported to the Committee by EY on 25 July 2024.

The results of the teesside pension fund work for these years (including a finalised audit opinion) will be reported on at a future meeting of the Committee – probably the next meeting on 28 November 2024.

We have now had further details from EY on the process for disclaiming the financial statements audits for 2021/22 and 2022/23. Given the number of potential disclaimed opinions needing to be issued, this work is being undertaken by a central disclaimer hub rather than the local EY team.

The process to be followed for these two sets of council accounts are as follows:

- 1) The responsible financial officer should certify any accounts for these years, that have either not been issued yet or need amendment as soon as possible.
- 2) The annual governance statement should be updated for any appropriate items that have occurred since the relevant financial year end.
- 3) Assurance letters are required from key individuals in the audit process for each year – these are the responsible financial officer, the monitoring officer, and the chair of the audit committee for the Council.

The above information will then need to be sent to the EY disclaimer hub so checks can be made on the accounts and supporting documentation during October and November. We are working to send all this information to EY as soon as possible.

#### Re-issue of the 2021/22 and 2022/23 Statement of Accounts

In terms of the 2021/22 and 2022/23 years, the financial statements and notes have been updated following of the conclusion of EY's work on the revision to the bad debt provision on council tax and business rates. As these are material adjustments to the accounts, it is necessary for the responsible officer to re-certify the statement of responsibilities within the statement of accounts document. This was done by the Director of Finance on Tuesday 24 September 2024 and updated versions of these accounts will be published on the Council website. These restatements are important as they influence the opening balances for the 2023/24 accounts (also on this agenda).

#### Approval of the audited legacy accounts

Once the legacy statements of accounts for 2021/22 and 2022/23 have been reviewed by the EY disclaimer hub, disclaimed opinions will be issued by the external auditor to finalise the audit process for these financial years. These will accompany the value for money opinion and the true and fair view on the pension fund accounts.

The approval process for the audited accounts will then follow the normal process under the Accounts and Audit Regulations 2015:

- EY will issue an audit completion report to the Council for comment to the Council.
- A letter of representation will need to be confirmed by the S151 Officer. This gives various assurances to the external auditor on the preparation and systems that underpin the Statement of Accounts.
- The audited accounts, letter of representation and audit completion report for the two years will then come to Audit Committee for consideration and approval (expected to be on 28 November 2024).
- The accounts for these years once approved will then be complete, with the latest open set of accounts for the Council being for 2023/24.

#### Conclusion

For Audit Committee members to note the above position on the 2021/22 and 2022/23 external audit processes, and the subsequent steps required to finalise & approve the accounts for these years before the statutory backstop date of 13 December 2024.