

MIDDLESBROUGH COUNCIL

Report of:	Director of Finance (S151 Officer)
Submitted to:	Audit Committee
Date:	5 December 2024
Title:	Approval of Statement of Accounts – 2021/22 and 2022/23
Report for:	Decision
Status:	Public
Council Plan priority:	Delivering Best Value

Executive summary

In line with the Accounts and Audit Regulations 2015 and the subsequent (amendment) Regulations 2023, all Local Authorities are expected to produce their draft annual Statement of Accounts by the end of May and an audited set published each year by the end of September for each financial year.

As previously outlined to this Committee due to a longer than normal audit on the 2020/21 Statement of Accounts, national issues which led to a delay in the audit process on the 2021/22 accounts, and the subsequent delay in both publishing and commencing the 2022/23 accounts, our external auditors EY (Ernst & Young) have not been able to deliver the audits for these two financial years by the statutory deadline.

This is not an isolated situation. The backlog in the publication of audited accounts has reached an unacceptable level nationally with the number of outstanding opinions as at 30 September 2023 standing at 918.

This backlog undermines accountability in the local government sector and reduces information available to the users of the accounts. In a bid to provide a solution the Accounts and Audit (Amendment) Regulations 2024 provide for statutory 'backstop' dates to help clear the backlog of audits and rebuild assurance.

The first statutory 'backstop' date is the 13 December 2024 and applies to all outstanding audits up to and including the 2022/23 accounts. This covers the two outstanding sets of accounts for the Council where the audit has not yet been completed.

As a result of not being able to deliver the audits in time for the backstop date, this has led to EY issuing a Disclaimer of opinion for the 2021/22 and 2022/23 accounts. This means that EY have not been able to gain sufficient evidence to form an opinion and can only give a disclaimed or 'no assurance' conclusion on the audit of the financial statements for the Council.

The 'no assurance' position applies to both financial years, even though a reasonable amount of work was done on the former year's audit, but not enough to reach a conclusion on most areas. For 2022/23, only basic audit work and checks have been undertaken. Members should note that although this position is unsatisfactory, it is a consequence of the national position in relation to the local audit system and that there was nothing further that Council officers could have done to alter the outcome of the disclaimed opinion.

EY also have responsibilities under their audit contract to deliver an opinion on the value for money arrangements within the Council and to audit the financial statements of the Teesside Pension Fund for both financial years. The conclusions on value for money were reported to this Committee on 25 July 2024, plus the audit of the pension fund accounts for both years has now been completed.

The external auditors are required by the Public Sector Audit Appointments Ltd (PSAA) to report to Members issues arising from the accounts audit. The Audit Completion Reports for both the Council and Teesside Pension Fund detail the significant findings. They also contain any misstatements (adjusted or unadjusted) within the accounts, and significant issues or deficiencies in relation to internal control, and any other matters that they wish to bring to the attention of those charged with governance in relation to their audit work.

Following consideration of the audit completion reports, and the letters of representation from the S151 Officer to the external auditors for both the Council and the Pension Fund, Members will be asked to approve the audited Statement of Accounts for the financial years 2021/22 and 2022/23. The latest versions of these are attached at **Appendices 1 and 2** to this report.

Members should also note that the aim of the back stop arrangements is to clear the national accounts backlog in a timely and efficient way. However, it may be several audit cycles before full assurance is rebuilt in the opinion on the financial statements and that a conclusion can be given that they give a true and fair view on the financial position, income, expenditure and cashflows of the Council. Again, this position is expected to apply to many other local authorities. Regular updates on this will be given to the Committee and the progress being made by the new council auditors, Forvis Mazars.

1. Purpose

- 1.1 To approve the Statement of Accounts for the Council for the 2021/22 and 2022/23 financial years prior to the statutory date of 13 December 2024, following external audit.
- 1.2 The Committee should note the disclaimed audit opinions given by Ernst & Young (EY) on these two sets of financial statements for Middlesbrough.
- 1.3 The Committee should also note that the work of EY in relation to the value for money commentary and the audit of the Teesside Pension Fund accounts for these two years is complete. In particular, the audit opinion on the pension fund accounts for both years is unqualified, and the accounts give a true and fair view of the financial position.

2. Recommendations

2.1 That the Audit Committee

- Approve the Statement of Accounts for the financial years 2021/22 and 2022/23 set out at Appendices 1 and 2, taking into the external auditor's report on the audit process and management representations on the financial statements presented.
- Note that this is the end of the accounting and financial processes for these two financial years and these accounts are now closed. The latest open audit will now be on the 2023/24 accounts for the Council. Progress on this audit has already been discussed with Members. The back stop date for this audit is 28 February 2025.

3. Background and relevant information

3.1 The external auditors are required by the Public Sector Audit Appointments Ltd (PSAA) to report to Members issues arising from the accounts audit on an annual basis. The Completion Report for Those Charged With Governance details the significant findings from the audit by EY.

Local Audits for 2021/22 and 2022/23

3.2 As previously outlined to this Committee there have been several national and local issues resulting in a delay in finalising the 2021/22 accounts. The audit of the accounts was started towards the end of July 2022 and then paused at the end of March 2023 to allow the council finance team to focus on closing the 2022/23 management accounts. During this time, there had been issues with highways infrastructure assets and CIPFA code compliance (principally affecting the sign off 2020/21's accounts), as well as additional work that was required on IAS 19 on retirement benefits and IAS16 on property, plant, and equipment.

3.3 The previous government introduced some draft proposals to tackle the worsening problems on the timeliness of local audits being completed. Due to the uncertainty around these proposals at first and whether audits could be completed in time, the 2021/22 audit was not restarted during July 2023 awaiting further details on the proposed back stop arrangements.

3.4 As the 2022/23 statement of accounts was being prepared, the Director of Finance requested a review on the methodology that underpinned the bad debt provision of council tax and business rates. Due to the significant financial implications, this work took some time to finalise and validate. Following completion, the 2021/22 and 2022/23 financial statements were restated as the assets and liabilities involved required material changes. The 2022/23 accounts were finally published in late December 2023, with a reworked set of accounts for 2021/22 issued also.

3.5 During the latter part of 2023, further guidance was issued by government around draft dates for clearing the audit backlog and a consultation was launched to get views from all sector partners. Once firm proposals were established by government and in view of

the workload still outstanding on 2021/22 and the restatement of the collection fund totals, it became apparent that it was unlikely that the audit could be completed in time. No further work has been done on 2021/22 accounts bar some review of the collection fund provision adjustments since March 2023. Only basic work and checks have also been done on the 2022/23 accounts due to the delay in the previous year's audit and the audit fieldwork has never fully commenced in respect of this financial year.

National Position and new legislation

- 3.6 Middlesbrough are not alone in this position. The number of outstanding audit opinions as at 30 September 2023 stood at 918 and this included prior year audits for many local authorities. As the backlog of unaudited accounts had reached an unacceptable level, this led to the Department for Levelling-up, Housing and Communities (DLUHC) introducing measures to address these local audit delays. These measures though did not receive approval before parliament was dissolved for the July 2024 general election. As a result, the legislation was not laid until much later than expected.
- 3.7 The Accounts and Audit (Amendment) Regulations 2024 came into force on 30th September 2024 and provided for statutory 'backstop' arrangements in three phases to help clear the backlog of audits and rebuild assurance. The backstop dates were also brought forward by the new government to earlier than previously set out.
- 3.8 The first phase which has a backstop date of 13th December 2024 involves clearing the backlog of historic opinions up to and including the financial year 2022/23. Phase 2 uses various backstop dates to allow assurance to be rebuilt over several years so as not to cause a recurrence of backlog issues. Phase 3 involves reforming the local audit system to address the challenges and ensure timely financial reporting and audit.

Audit Completion Reports

- 3.9 As a result of the position on the two legacy audits for Middlesbrough, the work required to complete these and the earlier back stop dates, EY have determined that they are unable to complete all the necessary procedures to obtain sufficient evidence to provide an opinion on the 2021/22 and 2022/23 accounts and have therefore issued a Disclaimed opinion in respect of both financial years.
- 3.10 The basis of this Disclaimer of opinion can be found in the Audit Completion Report for Those Charged With Governance on the Council. This states that the backstop date and the wider requirements of the local audit system reset meant that EY did not have the required resources available to complete the detailed audit procedures that would be needed to obtain sufficient appropriate audit evidence to issue an unmodified audit report on both sets of financial statements.
- 3.11 Although this position may be an unsatisfactory one, it is a consequence of the backlog of national audits and the back stop arrangements needed to clear these. There is very little control that either auditors or the finance team at the council could have done to change this outcome and this is made clear within EY's report.

- 3.12 Over the period, EY identified other priorities to complete as much of the audit as possible. A significant amount of effort and resources have been deployed to complete the work needed to assess the Council's value for money arrangements for 2021/22 and 2022/23. Also, the work required to complete the audit of the pension fund financial statements has also been finished.
- 3.13 The value for money commentary, including several significant weaknesses, was presented to Audit Committee on 25 July 2024. The findings on this are repeated in the Council's audit completion report covering both financial years. Members will be aware that a governance improvement plan has been in place to address these weaknesses over the last 12-18 months and progress is continuing to be made.
- 3.14 For the pension fund accounts, these are presented in two separate completion reports covering each individual financial year and any issues to report.
- 3.15 The Audit Completion Reports for the Council and Pension Fund will be presented to the Committee before this report by EY but in summary the reports will cover the following areas:
- An Audit Results and Findings section highlighting key issues and any misstatements identified in the audit of the financial statements which were not corrected by management, with notes to those misstatements that have been corrected.
 - Members are specifically required to consider items that are classified as unadjusted differences that officers propose not to adjust in the accounts (pension fund only).
 - The Value for Money commentary on arrangements in place (council only).
 - EY are also required to report to management and the Audit Committee any significant deficiencies in internal control identified during their audit.
- 3.16 Upon consideration of the Auditors Completion Report, Members should then review the letters of representation. These are key assurances needed by EY, in terms of the systems, processes, judgements, and compliance arrangements put in place by management at the Council when preparing the Statement of Accounts and in undertaking the audit. These need to be signed off by the Director of Finance, as the lead officer with financial management responsibility for the Council and Pension Fund, and the Chair of the Audit Committee, on behalf of those charged with governance.
- 3.17 There are four letters of representation required by the auditors for this set of approvals. Two for the Council and two for the pension fund, representing one for each of the financial years where the audit process has not been completed due to the impending back stop date.
- 3.18 The audited accounts for 2021/22 and 2022/23 for both the Council and Pension Fund can then be approved by the Committee and this will mark the end of accounting process for these two financial years. The audited accounts will be published on the website and the 2023/24 accounts will then be the latest open set of council accounts.

3.19 As mentioned earlier, it is likely to take several financial years to move from a set of disclaimed audit opinions to a true and fair view on the financial position. The back stop date for the 2023/24 financial year is 28 September 2025. Forvis Mazars are only in the early stages of this audit and have indicated that it is likely that a disclaimed audit opinion will be required for this financial year also. Further information will be presented to Committee on this set of accounts in due course.

4. Other potential alternative(s) and why these have not been recommended.

4.1 Not applicable due to the statutory nature of the decision being made to approve the accounts for the relevant financial years and this needing to be done by the backstop date of 13 December 2024.

5. Impact(s) of the recommended decision(s)

Topic	Impact
Financial (including procurement and Social Value)	Although the statement of accounts is the main method of external financial reporting for the Council and the audit process gives assurance to Members and other stakeholders on the values contained within this. There are no specific financial implications on the decision being made, except for the additional external audit fees that are associated with an audit process over a prolonged period.
Legal	The external audit of the statement of accounts for a local authority is a legal requirement under the Accounts and Audit Regulations. Under normal circumstances, these would have been due by 30 November 2022 (for 2021/22) and by 30 September 2023 (for 2022/23). Due to the national audit backlog, the regulations were amended on 9 September 2024 to introduce a statutory backstop date by which older financial year audits must be completed by. For these accounts, this is 13 December 2024. Approval of the reports by the Committee by this date, following consideration of the external auditors reports and comments, plus the necessary representations from management, allow this statutory back stop date to be met.
Risk	The main risk associated with the late completion and publication of the statement of accounts for a local authority, particularly those were a disclaimed (no assurance) opinion is reputational. However, in the current circumstances there are a significant number in of Councils in this position across the country. Most have had their audit process cut short by the backstop arrangements, through no fault of their own. The accounts have been produced in a professional manner and been signed of as representing a true and fair view by the S151 Officer. Government have also asked auditors to

	be clear about this in their reporting and that assurance on audits will be rebuilt over several future reporting cycles.
Human Rights, Public Sector Equality Duty and Community Cohesion	There are no direct implications of this decision on any of these areas.
Climate Change / Environmental	There are no direct implications of this decision on any of these areas.
Children and Young People Cared for by the Authority and Care Leavers	There are no direct implications of this decision on any of these areas.
Data Protection	There are no direct implications of this decision on Data Protection.

Appendices

1	Audited Statement of Accounts – 2021/22
2	Audited Statement of Accounts – 2022/23

Background papers

Body	Report title	Date
Corporate Affairs and Audit Committee	Draft Statement of Accounts – 2021/22	5 August 2022
Audit Committee	Update on Audit of Accounts 2021/22 progress report	5 October 2023
Audit Committee	Draft Statement of Accounts – 2022/23	11 February 2024
Audit Committee	Backstop progress on the 2021/22 and 2022/23 Statement of Accounts audit	3 October 2024

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