

MIDDLESBROUGH COUNCIL

Report of:	Director of Finance and Transformation (S151 Officer)
Submitted to:	Audit Committee
Date:	20 February 2025
Title:	Approval of the Audited Statement of Accounts – 2023/24
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.

The purpose of this report is to approve the audited accounts for 2023/24 following audit and to note the audit opinions given in relation to the Council financial statements, those of the Teesside Pension Fund, and the value for money assessment.

As previously outlined to this Committee, due to a longer than normal audit on the 2020/21 Statement of Accounts, national issues which have led to the audit backlog, and the subsequent delay in both publishing and commencing the 2021/22 and 2022/23 accounts audits. Our previous external auditor, Ernst & Young, was not 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, prior to government intervention.

The position on unaudited local government accounts 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 of the 13 December 2024 was set to catch up on legacy audits. The Committee considered the Council and Auditors reports on 5 December 2024.

The second back stop date, for the 2023/24 financial year, is 28 February 2025. As a result of the work carried out so far by the external auditor and of them not being able to deliver the audits in time for the backstop date given the historical issues, Forvis Mazars are issuing a Disclaimer of audit opinion for the 2023/24 accounts. This means that they have not been able to gain sufficient evidence in the time available to form an audit opinion and can only give a disclaimed or 'no assurance' conclusion on the audit of the financial statements for the Council and the Teesside Pension Fund for the financial year.

Forvis Mazars also have responsibilities under their audit contract to deliver an opinion on the value for money arrangements within the Council. This work has been completed and their conclusions on their Value for Money assessment for the Council have been reported to this Committee on 12 December 2024.

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 their overall 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 2023/24. The latest versions of these are attached at **Appendix 1** to this report.

1. Purpose

- 1.1 To approve the Audited Statement of Accounts for the Council for the 2023/24 financial year, prior to the statutory date of 28 February 2025, following external audit.
- 1.2 The Committee should note the disclaimed audit opinions given by Forvis Mazars (FM) on both the Council and Pension Fund financial statements at the 31 March 2024.
- 1.3 The Committee should also note that the work of FM in relation to the value for money arrangements and commentary, around the Council's activities during this financial year, which has already been reported to this Committee.

2. Recommendations

2.1 That the Audit Committee

- Approve the Statement of Accounts for the financial year 2023/24, as set out at Appendix 1, taking into the external auditor's audit completion 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 the financial year 2023/24, and these accounts are now closed. The latest open audit will now be for the

current 2024/25 financial year for the Council. Progress on this audit has already been discussed with Members and is on track/ongoing. The back stop date for this audit is 27 February 2026.

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 and value for money audit on an annual basis under the Accounts and Audit Regulations. The Audit Completion Report for Those Charged with Governance details the significant findings from the audit by Forvis Mazars. The individual audit completion reports for the Council and the Teesside Pension Fund are on the agenda for Members to discuss and comment on.

External Audit processes

3.2 As previously outlined to this Committee in various reports, there have been several national and local issues resulting in delays in commencing the audit for the 2023/24 accounts. There has also been a change of external auditor between Ernst & Young and Forvis Mazars. The audit of the statement of accounts was started during December 2024 following publication by the Director of Finance during late September. Initial testing and review of the accounts has been undertaken. Unfortunately, there has not been enough time for the external auditors to test and collect the appropriate evidence to give a true and fair view on this set of accounts for the Council. Some of this is historic and as a result of the disclaimed opinions that were issued on previous year's accounts.

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 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 was done on 2021/22 accounts bar some review of the collection fund provision adjustments since March 2023. Only basic work were undertaken on the 2022/23 accounts due to the delay in the previous year's audit and the Council accounts were disclaimed as a result.

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 had a backstop date of 13th December 2024 involved clearing the backlog of historic opinions up to and including the financial year 2022/23. Phase 2 (including the 2023/24 audit) 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 2023/24 audits for Middlesbrough Council and the Teesside Pension Fund, and the work required to complete this, the external auditors have determined that they are unable to complete all the necessary procedures to obtain sufficient evidence to provide an opinion on the statement of accounts for the Council and Pension Fund and they have therefore issued a Disclaimed opinion in respect of both for the relevant financial year.
- 3.10 The basis of the Disclaimer of opinion can be found in the Audit Completion Report for Those Charged With Governance on the Council, for both sets of financial statements. This states that the backstop date and the wider requirements of the local audit system reset mean that Forvis Mazars have not have the required resources or time 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 due to the historic delays and this is made clear within the Audit Completion Report.
- 3.12 The value for money commentary, including several weaknesses, was presented to Audit Committee on 12 December 2024. The findings on this are repeated in the Council's audit completion report for completeness. Members will be aware that due to the governance improvement plan has been in place to address since statutory

recommendations were issued and the commentary from Forvis Mazars indicates a recognition of the positive direction in travel, although still recognising several weaknesses.

3.13 For the pension fund accounts, these are presented in a separate audit completion report. Although these are part of the Council's statement of accounts, given our administering body status, they are subject to a separate audit process and audit opinion.

3.14 The Audit Completion Reports for the Council and Pension Fund will be presented to the Committee before this report 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).
- Forvis Mazars are also required to report to management and the Audit Committee any significant deficiencies in internal control identified during their audit.

3.15 Members will note the change in overall opinion on the Pension Fund account from unqualified under EY in 2021/22 and 2022/23, to a disclaimer of opinion for 2023/24. The report sets out the main reasons for this and the changes that have been incorporated into the Pension Fund accounts since the draft versions were issued in September. Some of the change relates to historic issues from previous year's accounts. Others relate to in-year changes around accounting policy and practice. The auditors will discuss this in more detail as part of their completion report.

3.16 Upon consideration of the Auditors Completion Report, Members should then review the letters of representation. These are key assurances needed by the external auditor, 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 & Transformation, as the lead officer with financial management responsibilities for the Council and Pension Fund, and the Chair of the Audit Committee, on behalf of those charged with governance.

3.17 There are two letters of representation required by the auditors for this set of approvals. One for the Council and one for the Pension Fund, representing the financial year (2023/24) where the audit process has not been completed due to the impending back stop date.

3.18 The audited accounts for 2023/24, for both the Council and Pension Fund, can then be approved by the Committee and this will mark the end of accounting process for the

financial year concerned. The audited accounts will be published on the website by the backstop date.

3.19 As mentioned earlier, it is likely to take a couple of 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 2024/25 financial year is 27 February 2026 and we will keep Members informed about progress on the audit once the accounts have been prepared.

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 28 February 2025.

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 September 2024 (for 2023/24 accounts). Due to the national audit backlog, the regulations were amended to introduce a statutory backstop date by which this financial year audit must be completed by. For these accounts, this is 28 February 2025. 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 (Middlesbrough Council and Teesside Pension Fund) – 2023/24.
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Background papers

Body	Report title	Date
Audit Committee	Backstop progress on the 2021/22 and 2022/23 Statement of Accounts audit.	3 October 2024
Audit Committee	Forvis Mazars – Progress Report 2023/24.	3 October 2024
Audit Committee	Draft Statement of Accounts and the Annual Governance Statement 2023/24.	3 October 2024
Audit Committee	Approval of the 2021/22 and 2022/23 audited Statement of Accounts.	5 December 2024

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