

To: Audit and Governance Committee

Date: 29th October 2024 **Item No:**

Report of: Head of Financial Services

Title of Report: Audit Backlog – Statement of Accounts for the Years Ending 31st March 2022, and 31st March 2023 and the Audit Certificate for Year Ending 31st March 2021.

Summary and Recommendations

Purpose of report: To submit the Council's Statements of Accounts and Letters of Representations for approval and authorisation.

Key Decision No

Cabinet lead member Councillor Ed Turner

Policy Framework: Efficient and Effective Council

Recommendation(s): That the Committee:

- a) Receive the Auditors Certificate for 2020/21
- b) Consider the contents Financial Reporting Council "Local Audit Backlog Rebuilding Assurance" Guide
- c) Approve the 2021/22 Statement of Accounts as agreed by the Head of Financial Services and authorise the Chair of the Committee to sign the Accounts incorporating any emerging non-material changes
- d) Approve the 2022/23 Statement of Accounts as agreed by the Head of Financial Services and authorise the Chair of the Committee to sign the Accounts incorporating any emerging non-material changes
- e) Approve the Letter of Representations for 2021/22 to enable it to be signed and dated on date of signing and to enable the opinion to be issued (paragraph 14)
- f) Approve the Letter of Representations for 2022/23 to enable it to be signed and dated on date of signing and to enable the opinion to be issued (paragraph 14)

Appendices

Appendix 1 – Auditors Certificate 2020/21

Appendix 2 – Financial Reporting Council “Local Audit Backlog Rebuilding Assurance” Guide

Appendix 3 – Statement of Accounts 2021/22

Appendix 4 – Statement of Accounts 2022/23

Appendix 5 – Letter of Representation 2021/22

Appendix 6 – Letter of Representation 2022/23

Background

1. The Local Authority sector nationally has had a widespread backlog in finalising audits which have, in most cases, built up over time. Often this is because of an issue in a particular year which has then had a knock-on effect to future audits. For some audits the backlog has built up due to a lack of capacity in a combination of the local authorities themselves and also the auditors operating in the market. The deadlines for completion of draft statements of accounts and for the audit have been shortened over the years leading to limited or no contingency in the timescale. At the same time, the requirements placed on auditors have increased and are continuing to increase with more stringent requirements for the 2024/25 audit in the latest International Standards on Auditing (ISA). ISAs are professional standards for the auditing of financial information issued by the International Auditing and Assurance Standards Board (IAASB).
2. For Oxford City Council the backlog started with the delay in the finalisation of the audit of the 2020/21 statements of accounts for various reasons with the key one being the evidence around grants; this was the Covid period and grants were issued by Government with little or no documentation to support the grant at audit. The administration of the grants also led to capacity issues within finance. There were then further delays in 2021/22 caused by some data issues arising from a computer system implementation. The delays in this audit had a knock-on effect on the 2022/23 closedown and then the audit was halted due to the national drive to implement an audit reset.
3. The Financial Reporting Council “Local Audit Backlog Rebuilding Assurance” Guide, attached at Appendix 2, contains a narrative about the measures being put in place to remove the backlog and put local authority audits back on track.

Auditors Certificate for 2020/21

4. The Council’s external auditors issued the audit opinion for the year ending 31st March 2021 on 20th May 2022 with one remaining issue outstanding. Due to issues arising over the accounting of infrastructure assets, although this didn’t directly affect this Council, the National Audit Office delayed processes related to Whole of Government Accounts. This meant that auditors did not totally finalise the processes for the 2020/21 financial year. Consequently the Audit Certificate for that year had not been issued. This is now attached at Appendix 1.

Clearance of the Audit Backlog

5. On 9th September 2024 the Government laid a statutory Instrument, “The Accounts and Audit (Amendment) Regulations 2024”, before Parliament and this came into force on 30th September 2024. Included in this instrument is a requirement for local authorities and auditors to complete the audit and sign off of the outstanding statements of account up to and including financial year 2022/23 by 13th December 2024.
6. Alongside this Statutory Instrument a revised Code of Audit Practice has been produced to allow auditors to undertake set procedures and to finalise the accounts. These procedures include ensuring the financial resilience of the authority and completing other measures necessary for a value for money opinion. This is a combined Opinion for all open financial years. Letters of assurance have also been requested from the monitoring officer, management and those charged with governance.
7. Following these processes, the statements of accounts, which must have been available for public scrutiny for the statutory period, can be signed off and a disclaimed audit opinion provided. The disclaimed audit opinion does not raise any adverse concerns about the state of the accounts, rather it is a means by which the sector can move on to current periods and start to bring them back into the normal process. Auditors have to provide disclaimed opinions because the normal audit of the accounts in question have not been completed and so the auditor has not been able to form a full opinion. This process applies to all local authorities with outstanding open audits and does not and is specifically not intended to reflect adversely on the financial position of those local authorities.
8. The clearance of old open audits is subject to a backstop date of 13th December 2024. Where local authorities are not able, for whatever reason, to meet that date, this will reflect on the local authorities concerned and it is possible that the government will publish the names of local authorities which did not comply with the backstop deadline.
9. Oxford City Council, for both of the financial years where audits have not been completed, has complied with all requirements including public inspection other than getting the accounts and letter of representation agreed by those charged with governance (the Audit and Governance Committee) and signed by the Council’s Section 151 Officer and the representative of those charged with governance (the Chair of Audit and Governance Committee). This stage can only be completed following the agreement of the Audit and Governance Committee in line with the Constitution. If the Council is to comply with the timeframes set by the external auditor for the signing process, it is necessary for the Audit and Governance Committee to approve the accounts and letters of representation and agree to delegate the signing of the accounts and letters to the Committee’s representative, the Chair of the Audit and Governance Committee.

10. Alongside this, the Council's external auditor will be able to issue a disclaimed audit opinion for both of these financial years.

Disclaimed Audit Opinions

11. An auditor, during an audit process, seeks to obtain evidence, normally using a risk based approach and including sampling transactions, to enable them to conclude that they have reasonable assurance that the financial statements as a whole are free from material misstatement. If an auditor is unable to gain enough evidence or is unable to reach this conclusion based on the evidence gathered, they are required to issue a modified opinion. A disclaimed audit opinion is a type of modified audit opinion. Auditors will disclaim their opinion where they lack the evidence to support an unqualified opinion i.e. they are unable to obtain sufficient evidence to conclude on whether the financial statements are materially misstated. The opinion does not mean that they are mis-stated; it is a reference to the lack of evidence.

12. In normal circumstances lack of evidence is often due to poor systems for record keeping or because the organisation, in some way or another, prevented the audit team from performing the work necessary to form an audit opinion. In the case of the local audit backlog, the reason that the auditor has not been able to obtain sufficient evidence is because auditors have ceased the audits (as is the case for Oxford's 2021/22 accounts) or, in some cases, have not undertaken an audit (as is the case for Oxford's 2022/23 accounts).

13. There is no real impact on the Council but there could potentially be an impact on the Council's companies if they have to rely on the parent for any assurance on contracts. The reasons for disclaimers being issued in the local government sector have been well documented and publicised so it would be expected that an explanation of the position and the demonstration that this is a sector-wide issue which is not due to the specific failings of individual authorities would mitigate the risk to an extent.

Letters of Representation

14. A standard requirement of an audit of a statement of accounts is the production and signing of a letter of representation. The letter must be signed on the same day as the statement of accounts. A letter of representation is a letter prepared by the auditor to cover all matters for which they require confirmation to support their opinion. The letter is required to be signed by a member of senior management and the representative of those charged with governance (the Chair of the Audit and Governance Committee). In the letter, the signatories confirm the accuracy and completeness of the information provided to the auditors for their analysis. The letter confirms that management understands and has performed their responsibilities. It can also provide information that is material to the financial statements but for which the auditor cannot obtain independent evidence. Letters of representation for the 2021/22 and 2022/23 financial year are attached at Appendices 5 and 6.

Future Years

15. In a normal audit, the external auditor will rely on the prior year audit for both comparative figures and opening balances. This means that procedures are, in the main, limited to the closing balances of the period being audited and the in-year transactions. However where the prior year did not receive a clean opinion, as will be the case in respect of 2023/24 due to the disclaimed opinion for 2022/23, additional work will need to be undertaken by both the auditor and by the local authority through supporting the audit and providing evidence. In order to try to prevent the backlog from recurring, auditors are being expected to rebuild their assurance over more than one year. This means that although there will be additional effort required for 2023/24, some of the additional work will be deferred to the 2024/25 audit. The Audit and Governance Committee should therefore expect further disclaimers for 2023/24 and 2024/25 with a limited qualification in 2025/26. The first year that an unmodified opinion should be expected is 2026/27. This expected timeline is dependant on the work that is able to be completed by the backstop dates for each year and therefore is subject to change.

Financial Implications

16. These are covered within the main body of the report.

Legal Implications

17. In accordance with the Accounts and Audit Regulations 2024, the accounts for 2021/22 and 2022/23 must be audited, approved and published by 13th December 2024.

Risk Implications

18. If the accounts for 2021/22 and 2022/23 and associated letters of representation are not approved and delegations provided for signing, the Council will not be able to comply with backstop date for those years and would risk being named as a non-compliant council.

19. A potential risk relating to the Council's companies is identified in paragraph 13.

Communication

20. The Council's accounts for 2021/22 and 2022/23 have been available for public inspection and details of how a local government elector for the area of the Council or their representative may make an appointment to ask the auditor questions about the accounts have been published. In addition the elector or representative may object to the Council's accounts, asking that the auditor issue a report in the public interest or which is contrary to law (under section 28 of the Local Audit and Accountability Act 2014). Written notice of a proposed objection and the grounds on which it is made must be sent to the auditor at the address provided on the Council's website.

21. There were no objections lodged.

22. The Statement of Accounts for 2021/22 and 2022/23 will be published on the Council's website after approval along with a notice confirming the conclusion of the audit and alongside the Annual Governance Statement for the years.

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Background papers: None

Version number: