

Slough Borough Council

Report To:	Audit and Corporate Governance Committee
Date:	20 th March 2024
Subject:	Reporting and Audit of Backlog Statements of Accounts 2019/20 to 2022/23
Chief Officer:	Adele Taylor, Executive Director, Finance & Commercial
Contact Officer:	Chris Holme, Interim Finance Director (Corporate and Strategic)
Ward(s):	All
Exempt:	No
Appendices:	Timetable for Completion, reporting and audit of backlog accounts 2019/20 to 2022/23 (to follow)

1. Summary and Recommendations

- 1.1 This report advises Committee of the recently published Accounts and Audit (Amendment) Regulations 2024 which set out a timetable for audit of outstanding local authority Statements of Accounts to 2022/23 and for 2023/24. It also highlights the implications for Slough BC and summarises the timeline officers are proposing to meet the statutory deadlines,

Recommendations:

Audit and Corporate Governance Committee is recommended to:

- a) *Note the requirements of the draft Backlog Audit Process as set out in paragraph 3 of this report*
- b) *Note the current Slough BC position and implications of the Backlog Audit process as set out in paragraph 4 the report.*
- c) *Agree the indicative timeline for presentation of backlog accounts to this Committee, their publication, and compliance with public inspection requirements for each of the financial years 2019/20, 2020/21, 2021/22 and 2022/23, as set out in para. 4.3 and Appendix 1 to this report*

Commissioner Review

The commissioners note the recommendations in this report, challenging timescale and additional resources that will be required from the Council and its external auditors to deliver these objectives.

2. Report

Introductory paragraph

- 2.1 The Secretary of State has now issued draft Accounts and Audit (Amendment) Regulations 2024, following consultation with the sector and other stakeholders, which sets out the requirements for publication of statement of accounts, annual

governance statement and narrative statement for local authorities - financial years 2015-2027. This report sets out the arrangements and implications for Slough BC along with arrangements the Council is putting in place to ensure compliance.

Options considered

Achievement of publication and audit requirements for backlog statements of accounts are regulations and so no other options are considered.

3. Background

- 3.1 The Secretary of State has, as of February 2024, issued draft Accounts and Audit (Amendment) Regulations 2024, following consultation with the sector and other stakeholders, which sets out the requirements for publication of statement of accounts, annual governance statement and narrative statement for local authorities - financial years 2015-2027. All local authorities are duty bound to comply with the regulations.
- 3.2 Timely and high-quality financial reporting and audit of local authorities is vital. Not only does it support good decision making by those authorities, by enabling them to plan effectively, make informed decisions and manage their services - it ensures transparency and accountability to local taxpayers.
- 3.3 The backlog in the publication of audited accounts of local bodies in England has grown to an unacceptable level and as of 31 December 2023, the backlog of outstanding audit opinions stood at 771. A number of factors have been cited that have contributed to this situation, including lack of resources in audit firms and in local authority finance teams.
- 3.4 In July 2023, the Minister for Local Government published a Cross-System Statement to Parliament setting out proposals to tackle this backlog. Since then, organisations involved in the regulation and oversight of local body financial reporting and audit ("system partners") have been working collectively to agree a proposed solution to clear the outstanding historical audit opinions and ensure that delays do not return.
- 3.5 This has resulted in consultations being issued by the Department for Levelling Up, Housing and Communities (DLUHC) and the National Audit Office (NAO), with one to follow shortly from CIPFA LASAAC on temporary changes to the Code of Practice on Local Authority Accounting for 2023/24 and 2024/25 to reduce burdens on finance teams and auditors.
- 3.6 To clear the backlog of historical accounts and 'reset' the system, DLUHC has now issued a date in law (the "backstop date") – 30 September 2024 – by which local authorities must publish audited accounts for all outstanding years up to and including 2022/23. The NAO is proposing changes to the Code of Audit Practice to require local auditors to comply with backstop dates by giving their opinions in time for audited accounts to be published, and to allow them to provide a single commentary on value for money (VFM) arrangements for local bodies for all outstanding years up to and including 2022/23.
- 3.7 To achieve a balance between restoring timely audit and returning to unmodified audit opinions for most local bodies, the government is also set out deadline dates for the 5 years covered by the latest round of audit appointments:

- Year ended 31 March 2024: 31 May 2025
- Year ended 31 March 2025: 31 March 2026
- Year ended 31 March 2026: 31 January 2027
- Year ended 31 March 2027: 30 November 2027
- Year ended 31 March 2028: 30 November 2028

- 3.8 This backstop date is likely to be a factor in local auditors issuing a modified or disclaimed opinion on outstanding accounts if they do not have enough time to complete all audit work before that date.
- 3.9 Recovering from modified and disclaimed audit opinions is likely to require significant additional work for those preparing accounts and their auditors. Where the audit opinion is modified or disclaimed, the auditor does not have assurance over all historical figures that carry forward into the subsequent year. Auditors will need to audit some of the opening balances in order to obtain assurance over the current year closing balances. They will need to perform sufficient testing on opening balances to rebuild assurance that enables them to issue unmodified opinions in the future.

4. Current Position

- 4.1 The Council last published Statement of Accounts for 2018/19 and they have yet to receive a formal audit opinion, but as the Committee is aware it will be a disclaimed audit opinion. Whilst progress has been made on preparation of the 2019/20 and 2020/21 statements, further work is required before they are ready for publication. As for 2021/22 and 2022/23 statements, significant work is required to be undertaken before these will be ready for publication.
- 4.2 A dedicated project team, led by the Finance Director – Corporate and Strategy, has been set up and a detailed plan prepared, with support from external partners. To ensure compliance with the requirements, there is a staggered timetable for consideration by Audit and Corporate Governance Committee, publication and public inspection of the accounts.
- 4.3 We anticipate the 2019/20 accounts to be presented to an extraordinary meeting of this Committee during April. There is likely to be a requirement for further extraordinary meetings to enable us to manage the process – given that four sets of accounts need to be prepared, published and audited within six months. A 30-working day public inspection is then a statutory requirement for each set of accounts and we are consulting with our external auditors as to the timeline for 2020/21 and subsequent accounts to enable a practicable completion. Appendix 1 (*to follow*) sets out the proposed timetable, following discussions with external auditors. Audit and Governance Committee is asked to review and approve the timetable.
- 4.4 The situation in Slough is further complicated by the Berkshire Pension Fund being administered by the Royal Borough of Windsor and Maidenhead (RBWM) on behalf of all Berkshire authorities. Until RBWM's accounts for each year are fully signed off by its external auditor, the other authorities' accounts are inevitably held up, due to the materiality of pensions transactions and the reliance placed on RBWM's audit opinion by other audit firms.

4.5 Training will be provided to Committee members on responsibilities and interpretation of local authority accounts to enhance the corporate governance arrangements and provide effective scrutiny.

5.1 *Financial implications*

5.1.1 Delivery of the detailed programme of works has required the setting up of a dedicated finance project team, made up primarily of officers, for which some limited back-filling is required, with limited external support where specific technical skills are required. The costs are reflected in the 2024/25 budget as approved by Full Council on the 7th March 2024. There will be additional opportunity costs as preparing the statements of accounts requires specific tasks to be undertaken by nominated officers across the Council.

5.1.2 Costs of external audit fees, including those for 2023/24 and years 2019/20 to 2022/23 are factored into the 2024/25 budget.

5.2 *Legal implications*

5.2.1 The legal obligations in relation to statements of accounts are set out in the main body of this report. The draft 2024 Regulations, once enacted, will amend the Accounts and Audit Regulations 2015 by adding in a new regulation 9A setting a new deadline for future accounts to be published. In relation to historic financial years, the deadline is 30 September 2024.

5.2.2 The Council has a duty of best value under the Local Government Act 1999. It has been found to have breached this duty by the Secretary of State for Levelling Up, Housing and Communities and is currently under statutory intervention. A significant reason for this intervention related to financial governance. DLUHC has issued draft best value guidance and highlighted use of resources as a key best value theme. This confirms that local authorities should have in place and properly deploy an effective internal control environment to safeguard the use of resources and clear and effective processes to secure value for money. This ensures having appropriate systems in place and the skills and capacity to manage the complexity of its finances, using specialist expertise where required. Any financial management and reporting needs to be supported by robust financial systems, record keeping and quality assurance. The Committee will be aware of the report by Grant Thornton presented to its last meeting, which highlighted significant areas of learning arising from the audit of the 2018/19 accounts. The Committee should seek appropriate assurance that this learning has been considered and responded to avoid similar issues with other statements of accounts.

5.3 *Risk management implications*

5.3.1 Compliance with the requirement to prepare, publicise and audit four years accounts within a limited six-month period is fraught with risks and will require the appropriate level of both technical and programme management skills to manage. Failure to achieve the deadlines for completion of audited 2019/20 to 2022/23 accounts by the end of September, and subsequent 2023/24 accounts by May 2025 risk significant further reputational damage to the Council and could result in penalties or additional interventions. Progress on all workstreams will be reported monthly to Finance Board.

5.3.1 Details of individual programme risks are set out in the detailed project plan.

5.4 *Environmental implications*

5.4.1 There are no specific environmental implications of the recommendations.

5.5 *Equality implications*

5.5.1 There are no specific equalities and inclusion implications of the recommendations.

5.6 *Procurement implications*

5.6.1 Any additional external support required should be commissioned in accordance with both the Public Contracts Regulations and the Council's procurement rules. Any exception to the latter should only be for emergency requirements, following review by officers through the Expenditure Control Board, and will be reported to the following Audit and Governance Committee.

5.7 *Workforce implications*

5.7.1 What is planned is a very intensive programme of works, both to achieve the end of September amended statutory requirements and the subsequent May 2025 statutory deadline for completion of audited 2023/24 accounts. The backlog audit work programme will require allocation must be undertaken in conjunction with the normal business activities of the Council. A dedicated project team within Finance and Commercial Services has been set up which will require some limited temporary backfilling but will also require support from other key areas across the Council with a risk of additional pressures. Where any additional external resources are engaged it is vital that the appropriate level of internal capacity building is included within the contractual arrangement. From a duty of care perspective, it is essential that adequate resources are identified to fulfil essential requirements.

6. Background Papers

None