

**Extract from the minutes of the meeting of Governance and Audit Committee meeting of 18 June 2024**

**430. External Audit Progress – Verbal Report**

The Committee received a verbal update from the Council's S151 Officer on the progress of the external audit process.

Andrew Small, S151 Officer, attended the meeting to present the update and assist the Committee with its enquiries. The Committee heard that the external audits for the financial years 2021/2022 and 2022/2023 were still incomplete. The organisation Public Sector Audit Appointments (PSAA) had reported that as at May 2024 there were 634 local authority audits which were outstanding across the country. An update had been received from the Council's external auditors, BDO, who were close to completing the outstanding 2020/2021 audit, but who had no ability or intention to complete the audits which were outstanding for the financial years 2021/2022 or 2022/2023. Accordingly, it was expected that a disclaimed opinion would be provided in respect of these audits later in the year. The back stop date which had been proposed for the completion of outstanding audits of 30 September 2024 was now uncertain as the calling of a general election had meant that the necessary legislation to introduce this date had not been enacted.

Emma Larkin attended the meeting and at the invitation of the Chair and addressed the Committee. She was the Director of KPMG who had been appointed as the Council's new external auditors, and the Committee was assured that appropriate resources would be available to deliver completed audits. Initial discussions had taken place between KPMG and the Council and planning work was anticipated to commence in July 2024, with the expectation that the 2023/2024 audit would hopefully be completed in early December 2024. It was, however, important for the Committee to note that KPMG would be in the position of commencing work on the Council's audit when an audit opinion would not have been provided for the preceding 2 years, although significant consideration had already been given as to how best to address and approach this position. The audit for 2023/2024 would be based on an un-audited opening position and there would be a period of time during which assurance would be rebuilt before a clean audit opinion would be possible.

In response to questions posed by the Committee, the Director, KPMG, explained that the current understanding of the position was the Council would have a disclaimed opening balance set of accounts at the start of the 2023/2024 audit, and KPMG would not carry out a full opening balance audit. The opening balance in the 2023/2024 accounts would therefore not have been audited, meaning that the audit opinion for 2023/2024 would not be disclaimed, but would be a modified opinion which identified the fact that the opening balance had been disclaimed. It would take a number of years for the opening balance disclaimer to fall away, and for the issue

of a clean audit opinion to be possible, and this was true of all local authorities and private sector companies who had been in receipt of a disclaimed audit. Although guidance was awaited, it was suggested that KPMG would adopt a process of risk assessment to enable a judgement on whether the opening balance was materially wrong to be taken. By way of clarification, the Committee heard it was hoped that an audit plan could be presented to it by September 2024 with the vast majority of the 2023/2024 in-year audit work completed by December 2024.

In response to a question from the Committee, the S151 Officer confirmed that he believed that there would be a process to reconcile the fees which would be payable to the Council's current auditor BDO, in the light of the fact that it appeared that they may not fulfil the terms of their contract, and based on the amount of work which had been undertaken.

In discussion, the Committee recalled that at its meeting of 9 April 2024 it had made a recommendation to Cabinet that the consequences of disclaimed accounts be investigated and prepared for, when might an advisory report be available to update the Committee on the progress of this work? The S151 Officer advised the Committee that the fact that necessary legislation had been delayed made the position with regard to disclaimed accounts much less clear, and at the current time further clarification and guidance was awaited. Although the Committee accepted this, it was suggested that some work was able to be carried out now as some of the consequences of disclaimed accounts were already known, such as the lack of an opening balance for the audit of the accounts for 2023/2024. It was clarified to the Committee by the S151 Officer that the terms of any disclaimer issued would ultimately be up to BDO to determine as it would be their disclaimer to issue, however, it was expected that government would issue guidance to provide some commonality to the disclaimers which would be issued across the country.

A Committee member had raised concerns in the past that the Council was not trying to do all within its power gain some value from the audit work which had been undertaken to date, and suggested that a written report should be sought from BDO setting out the work they had undertaken, which areas of the Council's accounts were satisfactory, and which had caused any concerns.

Councillor Cory, Portfolio Holder for Resources, attended the meeting remotely, and, at the invitation of the Chair, addressed the Committee. He confirmed that the Council's Officers were doing everything within their power to advance the outstanding audits and agreed that the Council should attempt to wring as much value as possible from the limited work which had been carried out by BDO to date. He was happy to do what he could personally in this regard. He was pleased to note the work which had been undertaken internally to prepare for the audit of the Council's accounts for 2023/2024.

*RESOLVED* that: the verbal update be noted.

*RECOMMENDED to Cabinet that: in the light of the recommendation which had been made to Cabinet by the Governance and Audit Committee at its meeting of 9 April 2024, and which had been accepted by Cabinet at its meeting of 5 June 2024, an update report on the work which had been carried out to investigate and plan for the consequences of disclaimed accounts be provided to the Governance and Committee at its meeting on 10 September 2024.*

*For ease of reference the relevant minute of the Cabinet meeting of 5 June 2024 is below*

#### **864. Draft Statement of Accounts 2022/2023**

*Cabinet considered the recommendation from the Governance and Audit Committee in draft minute 424 of the Governance and Audit Committee meeting of 9 April 2024.*

*Councillor Naylor attended and with the consent of the Chair addressed Cabinet. She was a member of the Governance and Audit Committee when it made the recommendation. The Conservative members of the Committee had voted against noting the draft statement of accounts for 2022/23 which was a reflection of the deep concern they felt about the draft statement of accounts. Cabinet should act on the recommendation made that the consequences of disclaimed accounts be investigated and planned for. This would be in the best interests of council taxpayers who would bear the burden if this was not adequately addressed. It was understood that the target of the accounts being audited by 30 April had not been met. Concern was also raised about the continued appointment of Cabinet members to the Governance and Audit Committee.*

*Councillor King, Leader of the Council and Portfolio Holder for Strategy, emphasised that the position on the accounts did not reflect a lack of professionalism on behalf of the section 151 officer and his team. This was a consequence of a national problem with capacity in the audit sector.*

*Councillor Jay, Portfolio Holder for Economic Growth and Transformation, thanked members of the Governance and Audit for their attention to this matter and for the robust debate. There were statutory provisions around the auditing of accounts and a limited number of firms authorised to do so. There was a lack of capacity in the sector, not within the Council. The current auditors intention was that the audit would be completed by September 2024 and could be subject to a disclaimer. This would not be ideal but in view of time constraints and the fact the Council was now looking at the 23-24 accounts may be necessary. The Council would ensure compliance with guidance and accounting codes from the LGA and CIPFA. The section 151 officer had provided reassurance that if a disclaimed audit opinion was recommended as necessary there would be professional and national guidelines to follow and they would only be signed off with an assurance those guidelines had been followed. It was a decision over which the Council had little control, but it*

*would allow matters to move forward. The administration was confident in the draft accounts. Historically there had been little movement in the accounts once drafted. The recommendation from Governance and Audit Committee would be accepted.*

*Councillor Dundas attended and with the consent of the Chair addressed Cabinet to highlight the meaning of disclaimed accounts. It meant a third party had not been able to obtain sufficient evidence to provide an opinion or assurance that the financial statements were correct. There would also be an opinion explaining why they were disclaimed. It was possible that the auditors may put an entirely different explanation for the disclaimer than was expected. Nothing should be taken for granted until that disclaimed opinion had been received.*

*Councillor King thanked Councillor Dundas for his comments. The Council had a history of being prepared for the accounting process and of audit not raising very significant issues or material differences. This should give some confidence. The administration would follow best practice and CIPFA and LGA guidance.*

*RESOLVED that the consequences of disclaimed accounts be investigated and planned for.*

#### **REASONS**

*In view of the importance of the auditing of accounts and the challenges faced by capacity in the audit sector, Cabinet understood the need for consequences of disclosed accounts to be investigated and planned for.*

#### **ALTERNATIVE OPTIONS**

*It was open to the Cabinet not to approve the recommendation from the Governance and Audit Committee.*