

**Council**

**15 October 2024**



**Reading**  
Borough Council  
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<b>Title</b>	2021/22 and 2022/23 Draft Statement of Accounts
<b>Purpose of the report</b>	To make a decision
<b>Report status</b>	Public report
<b>Report author</b>	Mark Sanders, Chief Accountant
<b>Lead Councillor</b>	Councillor Emberson, Lead Councillor for Corporate Services and Resources
<b>Corporate priority</b>	Not applicable, but still requires a decision
<b>Recommendations</b>	1. That the Director of Finance be given delegated authority to finalise and approve the 2021/22 and 2022/23 Statement of Accounts.

## **1. Executive Summary**

- 1.1 This report provides an update on the process for concluding the Council's 2020/21 and 2021/22 Statements of Accounts. This report follows the Audit & Governance Committee's consideration of a similar report, at its meeting on 25 September 2024, at which it agreed to recommend to Council that delegated authority should be given to the Director of Finance to deal with the arrangements to finalise and approve the Council's 2020/21 and 2021/22 Statements of Accounts.
- 1.2 In doing so it should be noted that the accounts for these years **will not be audited as they would have been in the past**, and that this is part of the Government's agreed approach to enable the local government audit sector to recover from a significant national backlog in audit opinions which was forecast to exceed over 1,000 at one point. Reading's position in this regard is no different from many other councils.
- 1.3 The auditor's responsibilities to produce Value for Money assessments for each year is however retained, and there is a level of independent assurance that can still be obtained from that process. VFM reports for each year will be reported through the Audit & Governance committee in due course.
- 1.4 It should also be noted that the Audit & Governance Committee on 25 September 2024 considered the already published Draft 2023/24 Statement of Accounts and the Council's new auditors KPMG will be undertaking to audit the 'in year' transactions and begin to deal with the impact of having unaudited opening balances from the previous year 2022/23. For ease of reference, the draft 2023/24 accounts are available here:- <https://www.reading.gov.uk/the-council-and-democracy/finance-and-legal-information/statement-of-accounts/>

## 2. National Approach to recovery from the audit opinion backlog

- 1.5 Over the last couple of years, the Council has worked very hard with support from its external auditors EY, to make significant improvements in the final accounts process, coming from a period of significant delays and having qualified audit opinions to bring the accounts production process much more up to date with the last two sets of audited accounts (2019/20 and 2020/21) being given unqualified audit opinions.
- 1.6 The local ambition and achievement for recovery has been significant, however the timing of this has coincided with a number of factors at a national level that have impacted negatively on the quantity of audit staff available in the market which to some extent is replicated for Council finance teams, together with emerging issues around the need for enhanced financial reporting and the consequential approaches required to obtain audit assurance.
- 1.7 There has been debate around the added value of some of this activity given the context of a local authority balance sheet, but all relevant parties have been engaging as part of national consultations and think tanks to find a way to return the audit process to a sustainable and timely basis.
- 1.8 Designing a solution has involved Government changes to legislation supported by professional accounting and audit regulator guidance reviews with each interested party having their own slant on objectives. Agreement has been reached, but here is no short cut solution.
- 1.9 In essence, the Government will implement **a reset of the whole system by issuing a series of backstop dates by when audit opinions must be given**, enabling a line to be drawn on audits that have not been completed so to give a chance for the new reporting periods to be audited sooner.
- 1.10 For authorities that are already up to date with their audit opinions, it was important not to implement any new arrangements that adversely affected them. There was also the consideration that the audit resources available on the market were inevitably entwined between local government and NHS audit assignments. The Government made it clear that they expected this to be a local government issue and for NHS audits to retain a priority of activity.
- 1.11 The Council has received feedback from EY throughout this process to indicate their ability to respond and their approach to do so. For the Council's part, we maintained a watching brief whilst still progressing the preparation of 2023/24 accounts.
- 1.12 The **first backstop date is 13 December 2024 for all outstanding audit opinions up to and including 2022/23**. The Government anticipates that this will mean auditors are likely to issue hundreds of 'disclaimed' audit opinions and disclaimed opinions will likely continue for some authorities for a number of years.
- 1.13 To allow time for the process to fully catch up over future years, further backstop dates have been set as follows:-

**Table 1. Backstop Dates**

<b>Accounts</b>	<b>Backstop Date</b>
Financial years up-to-and-including 2022/23	13 December 2024
Financial year 2023/24	28 February 2025

Financial year 2024/25	27 February 2026
Financial year 2025/26	31 January 2027
Financial year 2026/27	30 November 2027
Financial year 2027/28	30 November 2028

1.14 Whilst auditors will be working to the above backstop dates with those authorities affected, they will still retain their responsibilities to issue annual Value for Money reports, make statutory recommendations and to issue Public Interest reports and these will continue to be prioritised.

1.15 The Minister of State for Local Government and English Devolution, Jim McMahon, issued a statement on 31 July 24 which included the following:-

*“There will be extensive communications and engagement on these measures, to make clear the necessity of these steps and emphasise the context for modified or disclaimed opinions. Local bodies should not be unfairly judged based on disclaimed or modified opinions, caused by the introduction of backstop dates that are largely beyond their control. Auditors will be expected to provide clear reasons for the issuing of such opinions to mitigate the potential reputational risk that local bodies may face. We will work with partners to provide communications support to the system”*

1.16 Of particular note is the phrase ‘**local bodies should not be unfairly judged based on disclaimed or modified opinions**’ – it will be extremely helpful to have further independent commentary on this point from Government to support the Council to explain the context to interested third parties such as organisations that allocate grants where as part of their due diligence arrangements will seek evidence of recent audit accounts before allocations are made. There are many interest parties that would also benefit from such clarification.

1.17 Any further communications will be shared with Audit & Governance Committee members when it is received from the Government, however this is unavailable at time of drafting this report.

### **3. Impact on Reading Borough Councils 2021/22 and 2022/23 Draft Accounts**

3.1. The Audit & Governance Committee members had been made aware that both the 2021/22 and 2022/23 draft statements of accounts are published on the Council’s website and that the public inspection periods have been concluded. They have been available on the Councils website and ready for audit scrutiny since the following dates:-

- 2021/22 Draft Statement of Accounts – **Published 21 November 2023**
- 2022/23 Draft Statement of Accounts – **Published 28 February 2024**

3.2. It is the responsibility of the Council’s previous auditors EY to provide an opinion on these accounts, and they have previously confirmed that they intend to issue disclaimed opinions on both sets of accounts in compliance with the relevant backstop date.

3.3. It should also be noted that due to the rotation of external auditors, EY will disclaim these two sets of accounts and the Council’s new auditors KPMG (from 2023/24 accounts onwards) will be responsible for signing off their recovery through subsequent years audit fieldwork.

3.4. KPMG’s external audit plan will include consideration of how to audit disclaimed opening balances, taking on board professional audit guidance and working with the Council to gain appropriate assurances. This is an unprecedented situation, there is still much work to do on this approach and it is likely to take at least 1-2 years to fully resolve.

- 3.5. The Government has made it clear that it does not expect Councils to pay for audit work that has not happened, accordingly the audit fees for 2021/22 and 2022/23 will be reduced, by how much is not certain at this time. EY will still have to complete a number of tasks in order to issue a disclaimed opinion.

#### **4. Next steps for receiving the audit opinions by the 13 December 2024 backstop date**

- 4.1. The normal process of key Council officers and the chair of the Audit and Governance Committee providing relevant assurances and follow on discussions around issuing a Letter of Representation for each year will still be followed. All this will take place to support the issuing of a formal external audit opinion.
- 4.2. Whilst the Council is awaiting confirmation from EY of the actual date to conclude the process, it is expected to be before the 13 December 2024 backstop date.

#### **5. What might this mean for future years audit processes?**

- 5.1. At the beginning of September 2024, the National Audit Office has published a draft Code of Audit Practice and KPMG will consider this in their audit plans for 2023/24 and future years. It is likely to involve an iterative approach and the Council will work closely with KPMG on this process.

#### **6. Contribution to Strategic Aims**

- 6.1. The external audit process includes the approval of the annual Statement of Accounts results and the publication of accurate, transparent financial information which gives a true and fair view of Reading Borough Council's economic performance and financial stability.

#### **7. Environmental and Climate Implications**

- 7.1. None arising.

#### **8. Community Engagement**

- 8.1. The Public Inspection period has concluded and there are no implications to report.

#### **9. Equality Implications**

- 9.1. No equalities impact implications have been identified as arising from this report.

#### **10. Other Relevant Considerations**

- 10.1. There are none.

#### **11. Legal Implications**

- 11.1. Part Five of the Accounts and Audit Regulations 2015 requires authorities to allow the public to inspect the accounts for a single period of 30 working days and stipulates that this must include the first 10 working days of June of the financial year immediately following the financial year to which the accounts relate. The Council was unable to comply with this requirement in respect of the financial years 2017/18 to 2023/24 as the accounts were not ready for inspection.
- 11.2. At its meeting on 17 October 2023 (Minute 28 refers), Council revised the Audit & Governance Committee's terms of reference, which included removing its decision-making powers in relation to the approval of the annual financial statements, in

accordance with the CIPFA Practical Guidance for Local Authorities on Audit Committees. As a result, the decision to delegate authority to finalise and approve the 2021/22 and 2022/23 Statement of Accounts to the Director of Finance had to be referred to Council to determine.

## **12. Financial Implications**

12.1. The audit fees will be reported in due course.

## **13. Timetable for Implementation**

13.1. Not applicable

## **14. Background Papers**

14.1. There are none.

## **Appendices**

The Council's recent statements of accounts are available on Council's website here:-

<https://www.reading.gov.uk/the-council-and-democracy/finance-and-legal-information/statement-of-accounts/>

1. 2021/22 Draft Statement of Accounts
2. 2022/23 Draft Statement of Accounts