

# Briefing Note – Final Accounts Process

## Introduction

This report has been drafted to provide Audit Committee members with an understanding of the national issues affecting the Local Audit regime, the national arrangements to clear the backlog in English local authority audits, the position for Woking Borough Council and the length of time it will take to get to a full set of clean audited accounts.

The report is to be read alongside the ones drafted by the external auditors and officers.

## National Context

The failures in the audit of local authority accounts are well documented and have culminated in the National Audit Office (NAO) Comptroller and Auditor General issued a disclaimed audit opinion on the Whole of Government Accounts (WGA) 2022/23 for the first time, in November 2024. The accounts combine the accounts of over 10,000 public sector bodies including central government departments, the NHS, schools and local government. The reason for the disclaimer is the backlog in firms' audits of English Local Authorities (Local Audit). Just over 10% of England's 426 local authorities submitted reliable data. Of the near 90% of local authorities that failed to submit reliable data, 46% (196) submitted information that hasn't been audited, and 44% (187) did not submit any data.

The issues with Local Audit date back to 2010/11 and include:

- The 2011 Localism Act provided new freedoms and flexibilities for local government and introduced the General Power of Competence. This gave councils the freedom to be more creative and entrepreneurial and to work in new ways without the same concerns over acting beyond their legal powers.
- The impact of financial austerity which has seen a 40% reduction in local government spending power. This drove cuts to services, an increase in commercial activity to generate revenue, and a reduction in capacity in areas such as Finance.
- The abolition of the Audit Commission, which closed in 2015. This removed an effective check and balance to local authority activity and led to a fragmentation in the leadership of Local Audit. The previous responsibilities of the Audit Commission have been transferred as per the below:
  - Regulation of Local Audit - Financial Reporting Council, professional accountancy bodies and National Audit Office.
  - Commissioning of Local Audit – Public Sector Audit Appointments or PSAA (with a significant reduction in Audit Fees charged which has impacted Audit Firm capacity).
  - Provision of Local Audit – private sector Audit Firms.
  - Responsibility for preparing and issuing Codes of Audit Practice, guidance to auditors, and a power to carry out examinations into the economy, efficiency and effectiveness with which authorities have used their resources, passed to the Comptroller and Auditor General.

- The powers to carry out Best Value inspections transferred to the Secretary of State for Communities and Local Government.
- The failure of Carillion and the impact on their Auditor placed an increased focus on areas in the balance sheet where there are estimations and uncertainty, for local government valuations (including of community assets, highways and operational estate) and the Pension Scheme. This has led to delays and detracted from a more holistic view of the risks a local authority is facing.
- The fragmentation of leadership and the ability of the FRC to sanction Local Audit firms who do not carry out the work to sufficient standard, has driven more risk averse behaviour from Audit Firms. When queries do arise there have been long delays in agreeing a way forward. In the past five years national issues have caused significant delays regarding the treatment of accounting for infrastructure assets and the Local Government Pension Scheme.

These issues were identified in the Redmond Review into Local Audit with a series of recommendations around addressing market fragility and the absence of a single route for system leadership. These issues are yet to be fully addressed, although the pending Government White Paper on Local Audit is likely to suggest changes to the current audit regime.

The cumulative impact has been a significant backlog in the audit of local government accounts, which has grown to an unacceptable level, peaking on 30 September 2023 at 918.

Whilst the issues facing Woking Borough Council are complex and of the Council's own making, the Council has undoubtedly suffered from the national issues outlined above, which have prevented a timely and effective external audit response.

#### Measures to Clear the Local Audit Backlog

Clearing the backlog of Local Audits and ensuring an effective Local Audit Framework is in place is a policy priority for the current Government. The first steps now laid in statute are a series of pragmatic measures to enable the system to 'catch up'. The more fundamental reforms are due in the Local Audit White Paper, due to be published before Christmas.

The steps to catch up include a reset to clear the backlog of historical audit opinions up to and including financial year 2022/23 by 13 December 2024. Following the public inspection period the accounts have to be adopted with publication of the following by the backstop date:

- Statement of accounts together with opinion and any certificate
- Annual Governance Statement
- Narrative Statement

Where the Council has adopted the Accounts, in accordance with the 2015 Regulations the NAO Code requires the external auditor to issue their opinion in time for the backstop.

Where the auditor has obtained sufficient evidence to conclude that there is reasonable assurance the financial statements are free from material misstatement, auditors issue an unmodified (or 'clean') audit opinion to the body. Otherwise, auditors may issue a modified opinion, including a disclaimed opinion if they are unable to provide substantive assurance or a qualified opinion if they are able to provide assurance on parts of the accounts. The statutory backstop dates will mean significant numbers of modified or disclaimed opinions are issued as the time constraints will mean that auditors are unable to obtain sufficient evidence to state, in their opinion, the financial statements are properly put together and free from material error. Auditors are expected to issue hundreds of disclaimed opinions by the first backstop date of 13 December 2024, and these will likely continue for some bodies for a number of years.

Auditing standards require auditors to clearly explain the basis of their opinion in their auditor's report and they should distinguish between disclaimed or modified opinions caused by the backstop date and those caused by other factors such as weaknesses in financial reporting or specific material issues in the accounts. This explanation should be included as part of the statement of accounts published by a local body on its website by the relevant backstop date. Auditors' other statutory duties – including reporting on Value for Money (VfM) arrangements, making statutory recommendations and issuing Public Interest Reports – remain a high priority.

The only exemptions to the above are where Auditors are considering a material objection and/or the objector has appealed, the Auditor thinks that an item in the Accounts may be contrary to law and has made or is considering making an application to the Court on that basis, or from 2023/24, where the Auditor is not satisfied with the body's Value for Money arrangement. Where these exemptions apply the Council must publish an explanatory notice as soon as practicable after the backstop and the published audited accounts must be expedited as soon as possible.

The above does not detract from the local authority's responsibility to have arrangements in place for accurate and timely financial reporting as part of their internal system control. In order to achieve the backstop dates the draft unaudited accounts are published, confirmed as True and Fair by the S151 or Chief Finance Officer and subjected to a 30-day public inspection period which must end prior to the backstop date. If the Council does not comply with the backstop arrangements the Secretary of State must be notified.

The secondary legislation provides for an initial backstop date of 13 December 2024 for financial years (FYs) up to and including 2022/23 and five subsequent backstop dates:

- 2023/24 - 28 February 2025
- 2024/25 - 27 February 2026
- 2025/26 - 31 January 2027
- 2026/27 - 30 November 2027

- 2027/28 - 30 November 2028

These later dates recognise the amount of work that is likely to be required to audit a set of accounts that have been disclaimed and are designed to enable the system to get back to having fully audited Accounts within the statutory deadlines. It also reduces the likelihood of the backlog re-emerging by using backstop dates to allow assurance to be rebuilt over one or more audit cycles.

Auditors will also be required to carry out full scope audit of Value for Money (VFM) arrangements for 2023/24 onwards. From 2024/25 onwards, auditors will be required to issue their annual auditor's report containing the VFM commentary each year by 30 November. This has been designed to ensure that, even where the financial audit opinion is disclaimed, the audit still provides useful information to audit committees and other stakeholders about the financial management and financial sustainability of local bodies.

MHCLG have acknowledged in their recent letter from a recent letter from the Director General that "aspects of these proposals are uncomfortable, particularly around issuing modified or disclaimed audit opinions where audits cannot be completed by a backstop date. Given the scale of the backlog, however, and the absence of viable alternatives, the difficult decision was taken to proceed. Without these measures, audits would continue to be delayed, and the system will move even further away from timely assurance."

#### The Position for Woking Borough Council

Local Authorities are required to produce Statement of accounts together with the Annual Governance Statement and Narrative Statement to cover their activities. In addition, where there are commercial ventures within the direct ownership or control of the Local Authority, a set of group accounts, consolidating the activities of these ventures, must be produced. For the Council this would include Victoria Square Woking Ltd (VSWL), the Thameswey Group of Companies (TW), Kingsfield Leisure Centre (and therefore Woking Town Football Club) and the Brookwood Cemetary.

The overall position for the Council at the start of intervention was that no accounts had been prepared since 2019/20, which had been submitted for audit but not been to Audit Committee.

In addition, with the start of intervention and the issuing of the S114 notice, material concerns were identified with the accounting policies that the Council followed including but not limited to:

- Charges from the General Fund to the Housing Revenue Account [*HRA*] had been overstated resulting in the General Fund balances being overstated and HRA balances understated
- Insufficient amounts had historically been set aside for the repayment of capital debt (Minimum Revenue Provision [*MRP*] payments) in accordance with regulatory guidance relating to current and prior years.

- The effect of the above two adjustments would have resulted in negative levels of General Fund reserves.

Details of these issues are well publicised in the Non Statutory Review, the CIPFA Review and the Public Interest Report. The issues also led to the issuing of the S114 Notice published in Summer 2023.

The Council's approach to how its investments and associated debt are accounted for has now fundamentally changed, including a new MRP policy which was approved by Council as part of the budget process for 2024/25.

To reflect these changes in the historic accounts, the 2023/24 accounts need to be produced and then restated for the impact of the policy changes and the S114 Notice. The work to restate the MRP provision, correctly account for the Capital Financing Requirement, recalculate the level of historic reserves and other associated changes is complex. In discussion with Grant Thornton, who are the Council's incoming Auditors for the 2023/24 Accounts Audit, it has been agreed that the changes will be implemented in the 2023/24 Accounts to align with the issuing of the S114 notice and implementation the policy changes, and to provide an accurate baseline to restate previous accounts from and a firm basis for producing future sets of accounts.

There is a national shortage of skilled Accountants who are able to produce local authority financial statements and the Council are struggling to identify appropriate skilled individuals to carry out the work. It will also be costly and extremely complex to restate the historic accounts. This means that it will not be possible to restate all of the historic accounts. This is another reason for making the changes to the 2023/24 accounts, and potentially to restate for 2022/23 so the opening balances for the 2023/24 Accounts are correct. This enables the limited capacity to be focussed on having high quality accounts for 2023/24 and 2024/25, rather than work on historic accounts which will not be audited.

#### Responsibilities to Certify Accounts as 'True and Fair'

Legislation does not give the ability to provide any caveat to the accounts or give anything other than the S151 Officer certification that the accounts represent a true and fair view of the position. Given the concerns that have been raised as part of the Intervention and S114 Notice, a supporting statement was set out and published explaining the context to the Accounts. This was agreed with CIPFA and the External Auditors, BDO.

#### The Position on the Accounts

*2019/20 Accounts* - The 2019/20 accounts had already been submitted to BDO for audit and as such retain their original wording and refer to Leigh Clarke as the Finance Director at that time. These went to Audit Committee on 29 July 2024.

2020/21 and 2021/22 - Single entity accounts have been prepared (single entity accounts are for the Council only and exclude the wholly owned companies and joint ventures) under the policies and conventions in place during those years.

These accounts also went to Audit Committee in July and onto Full Council on 26 September 2024. The S151 Officer has signed that they represent a 'true and fair view' with the important caveats that they are based on the information available and the policies and conventions in place for those years. Whilst a step forward in transparency and addressing the backlog, for the reasons set out above, these have been prepared on the basis of policies that are now known to be flawed and need to be considered alongside the supporting statement which sets out their limitations. Council was asked to note the draft accounts and the supporting statement.

The public inspection date for 2020/21 and 2021/22 will complete to enable the accounts to be adopted along with the External Audit opinion at the Special Audit Committee meeting of 4 December. Given the sensitivities around adopting a set of Accounts prepared on historic accounting conventions it is preferred, that the Audit Committee will need to consider these alongside the Auditors report.

2022/23 - As above but the public inspection period for the 2022/23 Accounts completes later in December, meaning that these Accounts will need to go straight to the Council meeting on 12 December.

2023/24 - Single entity accounts for 2023/24 are due to be prepared and restated by the end of December (although the departure of the previous Deputy Director of Finance and the external resource who together were leading this work means that there is now a risk that this work will not be completed).

The group accounts for 2022/23 2023/24 are due to follow early in the New Year. The value of preparing the 2022/23 group accounts given the very limited capacity to either prepare or audit them is now in question.

The 2023/24 Accounts will be prepared and restated on the basis of the accounting policies and conventions (including the new MRP policy) that have been agreed after the issuing of the S114 notice.

### The Audit Position

The Auditors, BDO have been considering their position regarding the supporting statement and whether they can sign backstop disclaimers without the Group Accounts. They have requested that the Council take independent legal advice on the supporting statement. In addition, they still have significant concerns and more work to do on the 2019/20 Accounts. These issues include and are not limited to, concerns with the treatment of MRP and the loan to Greenfield School. BDO provided an update on their work to the last Audit Committee and are not prepared to attend the meeting on 4 December.

In order to meet the backstop arrangements, it is a requirement that the Audit Committee and Council 'Adopt' or in other words approve the Accounts along with the Annual Governance Statement and Narrative Report. The Accounts need to be adopted before the Auditors Report can be approved. There is now a chicken and egg situation with the Auditor now requiring the Accounts to be adopted before their opinion is issued.

### The Journey to Achieving a Clean Set of Audited Accounts

Given the challenging history it is a priority for the Council to get to the position where there is a full set of Audited Accounts with a clean audit which provides assurance to all stakeholders, including residents. It is important that Audit Committee members understand the process to reach a clean set of accounts and the time that will be required to get there. This part of the report sets out the timeline.

A local body's financial statements include the following (in addition to explanatory disclosure notes):

- the opening balances brought forward from the prior year and the closing balances
- the in-year expenditure, income, reserves, and cash flow movements and the comparative figures from the prior year.

The auditor requires sufficient evidence to conclude that they have reasonable assurance that the financial statements as a whole are free from material misstatement. To do this they need full assurance on the opening balances from the prior year.

Under the national process the first year any local authority can have a 'clean' set of unmodified accounts is likely to be 2026/27. The reasons for this are set out in the table below, which has been taken directly from the recently published FRC *Local Authority Backlog: Rebuilding Assurance* document.

Audit Year Opinion	Reason
2023/24 Disclaimer	The auditor has begun limited work to rebuild assurance ahead of the 2023/24 backstop date. They have not obtained sufficient evidence to have reasonable assurance over closing balances. The auditor does not have assurance over the brought forward balances from 2022/23 (the opening balances). This means they do not have assurance over the in-year movements. They also do not have assurance over the comparative prior year movements. The auditor judges the lack of evidence over these movements and balances means they cannot conclude that the accounts are free from material and pervasive misstatement of the financial statements. Therefore, they disclaim their audit opinion.
2024/25 Disclaimer	The auditor has obtained sufficient evidence to have assurance over closing balances in 2024/25. The auditor does not have assurance over brought forward balances that were deprioritised on the 2023/24 audit. This means they do not have assurance over all in-year movements. They also do not have assurance over the comparative prior year movements. The auditor

	judges the lack of evidence over these movements and balances means they cannot conclude that the accounts are free from material and pervasive misstatement of the financial statements. Therefore, they disclaim their audit opinion.
2025/26 Qualified (Except for)	The auditor has assurance over the opening and closing balances plus in-year movements. The auditor does not have assurance over the comparative figures. The auditor judges that this means there could be material but not pervasive misstatement and will need to qualify their opinion for 2025/26 by limiting its scope to not provide assurance over the comparative figures.
2026/27 Unmodified	The auditor has assurance over opening balances, closing balances, in-year movements and prior year comparatives. The auditor can therefore issue an unmodified opinion.

Relevant factors in achieving the 'clean' unmodified accounts include the:

- Audit opinion for 2022/23 and earlier years.
- Nature and complexity of the audited bodies' transaction streams and balances.
- The auditor's previous experience of the audited body.
- Ability of the audited body to provide high quality audit evidence.
- Firm-wide audit methodology.

#### Woking Council Position

The earliest the Council can achieve a clean or unmodified set of Accounts is now likely to be 2027/28 as summarised in the table below.

2019/20	Accounts likely to be disclaimed due to material concerns.
2020/21	Accounts should be disclaimed due to lack of time to complete the audit.
2021/22	Group Accounts have not been produced.
2022/23	
2023/24	Accounts not yet produced. Some audit work will be carried out which should provide some assurance on key parts of the accounts. There is a risk the backstop date requirements will not be achieved. The Accounts will either be disclaimed due to lack of time to complete the audit or will not be in receipt of a full audit.
2024/25	Accounts will be disclaimed due to lack of full assurance over opening balances and in year movements.
2025/26	Accounts will be disclaimed due to the lack of assurance on opening balances.
2026/27	If the audits for 2024/25 and 2025/26 have been successfully completed for Council Entity and Group Accounts, the auditor should have assurance over the opening and closing balances plus in-year movements. However, the auditor does not have assurance over the comparative figures so the Accounts will be Qualified, (Except for).
2027/28	The auditor should have assurance over opening balances, closing balances, in-year movements and prior year comparatives. The auditor can therefore issue an unmodified opinion.



Whilst less than ideal it will be important that the Officers, External Auditors, Commissioners and Audit Committee can work constructively together to reach a position where there is an unmodified opinion as soon as practicably possible.

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