

**AUDIT COMMITTEE**  
**8 APRIL 2024**

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**AUDIT OF ACCOUNTS 2021-22**

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**SUMMARY REPORT**

**Purpose of Report**

1. To present a report by the Council's external auditors, Ernst and Young LLP (EY), on the audit for the year ended 31 March 2022.

**Summary**

2. In accordance with the Accounts and Audit (Amendment) Regulations 2022, all Local Authorities were required to produce the draft annual Statement of Accounts by 31 July 2022 and an audited set published by 30 November 2022. These regulations have temporarily relaxed the previous deadlines for producing the draft accounts and completion of final audited accounts.
  3. As previously outlined to this Committee due to national issues which led to a delay in finalising the 2020-21 accounts and the subsequent delay in commencing the 2021-22 accounts until late August 2023, our external auditors EY (Ernst & Young) were not in a position to deliver the audit by the statutory deadline, however EY have now substantially completed the audit, subject to the completion of their final audit procedures.
  4. The external auditors are required by the Public Sector Audit Appointments Ltd (PSAA) to report to Members issues arising from the accounts audit. The Audit Results Report details the significant findings from the audit by EY following their audit approach outlined in their audit plan presented to this committee in September 2022 (previously distributed).
  5. Due to the delay in commencing the 2021-22 audit, the audit has been ongoing for almost 24 months after the 2021-22 financial year end and there have been staffing changes in both the Council's finance team and the external audit team during that period.
  6. The draft 2021-22 Statement of Accounts were prepared and published in July 2022. The delay in the audit process and changes in the finance and external audit teams have subsequently led to some issues in relation to sourcing data which was used in the preparation of the draft financial statements. This would not have been the case had there been no delay with the audit process.
  7. As highlighted by the Department for Levelling Up, Housing and Communities (DLUHC), the backlog in local government audits has increased drastically. In July 2023 the Minister for Local Government published a statement to Parliament setting out proposals to tackle this backlog. To clear this backlog and 'reset' the system DLUHC proposes putting a date in law (the backstop date) of 30<sup>th</sup> September 2024, by which point local bodies would publish
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audited accounts for all outstanding years up to and including 2022-23. The Council has taken this backstop date into consideration when responding to 2021-22 audit findings and to conclude the audit.

8. Members are required to consider items that are classified as unadjusted audit differences, which officers propose not to adjust in the accounts.
9. EY are also required to report to management and the Audit Committee any significant deficiencies in internal control identified during their audit.
10. EY are expected to:
  - Give an unqualified opinion on the Council's 2021-22 accounts.
  - Conclude that the Council have put in place proper arrangements to secure value for money in its use of resources.
  - Confirm that the Council's Annual Governance Statement is not misleading or inconsistent with other information known to them.
11. EY's report is attached at **Annex 1** and will be presented by a representative from EY.

### **Recommendation**

12. It is recommended that:-

- a) The Auditor's Audit Results Report on the Council's 2021-22 financial statements be noted.
- b) Members note the Letter of Representation in Appendix D of the Audit Results Report
- c) The Audit Committee agrees not to amend the unadjusted audit differences as they are not material.
- d) The Audit Committee is requested to note the attached IFRS compliant Statement of Accounts at **Annex 2** for the 2021-22 financial year and:

following the completion of the audit, that the Chair or Vice Chair of this Committee and the Council's Section 151 Officer (The Group Director of Operations) be given delegated power to sign off the Statement of Accounts for 2021-22 on behalf of the Committee and report back thereon to the next ordinary meeting.

### **Reasons**

13. The recommendation is supported as it comprises part of the Council's corporate governance arrangements.
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14. To expediate the process, to give the best possible chance of completing the 2022-23 audit by the backstop date.

**Elizabeth Davison**  
**Group Director of Operations**

**Background Papers**

- (i) Council's accounts 2021-22
- (ii) EY Audit Results Report 2021-22

Judith Murray: Extension 5204

S17 Crime and Disorder	There are no specific issues which relate to crime and disorder.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact	There is no specific carbon impact
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
Council Plan	There is no specific relevance to the Council Plan beyond the report comprising part of the Council's governance arrangements.
Efficiency	There is no specific efficiency impact.
Impact on Looked After Children and Care Leavers	The report does not impact upon Looked After Children or Care Leavers.

**MAIN REPORT**

15. The external auditors are required by the Public Sector Audit Appointments Ltd (PSAA) to report to Members issues arising from the accounts audit. The Audit Results Report details the significant findings from the audit by EY following their audit approach outlined in their audit plan presented to this committee in September 2022 (previously distributed).
  16. Due to the delay in commencing the 2021-22 audit, the audit has been ongoing for almost 24 months after the 2021-22 financial year end and there have been staffing changes in both the Council's finance team and the external audit team during that period.
  17. The draft 2021-22 Statement of Accounts were prepared and published in July 2022. The delay in the audit process and changes in the finance and external audit teams have subsequently led to some issues in relation to sourcing data which was used in the preparation of the draft financial statements. This would not have been the case had there been no delay with the audit process.
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18. As highlighted by the Department for Levelling Up, Housing and Communities (DLUHC), the backlog in local government audits has increased drastically. In July 2023 the Minister for Local Government published a statement to Parliament setting out proposals to tackle this backlog. To clear this backlog and 'reset' the system DLUHC proposes putting a date in law (the backstop date) of 30<sup>th</sup> September 2024, by which point local bodies would publish audited accounts for all outstanding years up to and including 2022-23. The Council has taken this backstop date into consideration when responding to 2021-22 audit findings and to conclude the audit.
  19. The Council retains documents relating to banking transactions for 12 months, after which they are put into storage. This is a common and reasonable timescale to retain the numerous documents that relate to banking transactions. Due to the elongated period over which the audit has been conducted it has not been possible to provide sufficient and appropriate evidence easily or timely for submission to the external audit team on some occasions.
  20. Members are specifically required to consider items that are classified as unadjusted audit differences, which officers propose not to adjust in the accounts. Due to the backstop proposals deadline and to draw a line on the 2021-22 accounts, the Council has made the decision not to adjust certain audit differences which were deemed by management not to be material to the accounts and where the unadjusted items would not mislead or impair the user of the accounts. There are 10 such unadjusted audit differences, and they are explained below:
    - (a) Private Finance Initiative (PFI) historic difference. This was reported last year in the Audit Results report and will continue to be included until the end of the PFI scheme in 2030. The 'difference' was at its maximum in 2019-20 and will now continue to reduce until the end of the PFI scheme, so as its not material management have previously chosen not to adjust.
    - (b) Learning and Skills Management costs are spread across expenditure and funded from ESFA grant funding. Revenue grants unapplied should be debited with the amount of expenditure funded from the grant, however a debtor was recognised. This has resulted in the overstatement of the L&S Management Team Debtor and revenue grants unapplied account by £0.36m. As this is not material and given management's decision to draw a line on the 2021-22 accounts this will be corrected in the 2023-24 accounts.
    - (c) Share of Joint Venture 2018-19 profits amounting to £0.34m were incorrectly recognised as a debtor in the single entity accounts. This has not been adjusted as it was adjusted in the 2022-23 accounts.
    - (d) Overstatement of housing benefit debtor XX26 as there was a difference of £0.28m between the sub-ledger and the debtor. As this is not material and the decision to draw a line under the 2021-22 accounts this will be corrected in the 2023-24 accounts.
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- (e) Discrepancy noted for the valuation of Rise Carr college between management's specialist valuation report and the value recognised in the fixed asset register. This has resulted in an understatement of £0.30m in PPE. This will be corrected at the next valuation.
  - (f) Evidence to support the Dolphin Centre Income amounting to £0.29m was inaccessible due to these documents being placed into storage. This was due to the lengthy delay in the audit and is not material therefore management have chosen not to adjust.
  - (g) Overstatement of payments made in advance of £0.25m and understatement of expenditure of £0.25m due to incorrect treatment. Management again have chosen not to adjust this as it is not material, and to draw a line under the 2021-22 accounts.
  - (h) Judgemental misstatement resulting in the understatement of the valuation of Honeypot Lane amounting to £1.66m due to inappropriate valuation technique and outdated valuation information (2009 when further developments had been made by 2021). Management have considered the impact of this misstatement and the changes which would be required to adjust the statements and given the proposed backstop arrangements have decided that as it is not material, not to adjust.
  - (i) From a sample of creditors as part of our creditors testing, we have identified Short Term Creditors pertaining to the 2022/23 financial year that have been incorrectly assumed as income in advance in 2021/22. The contra entry was a debit to debtors. This has resulted in a projected overstatement of income in advance and debtors by £1.66m. This is a projected misstatement it cannot be adjusted in the accounts.
  - (j) From a sample of debtors as part of our debtors testing, we have identified cash refunds to debtors were credited to creditors instead of reducing the debtors. This has resulted in a projected overstatement of debtors and creditors by £1.71m. Again, as this is a projected misstatement it cannot be adjusted in the accounts.
21. EY are also required to report to management and the Audit Committee any significant deficiencies in internal control identified during their audit. In this regard EY have identified the following deficiencies in internal control. It should also be noted however, that the root cause for these deficiencies are mainly due to the elongated period lapse between the 31 March 2022 year end and the finalisation of the financial statements two years later.
- (a) Record keeping procedures over grant income. We recommend that management also regularly updates its grant register with information that is complete and documents the basis of accounting relating to all types of grants (revenue and capital), terms and conditions of grants, clawback clauses, expenditure funded by the grant and the permissibility to roll forward grants. Management notes this recommendation and will look at ways on how we can enhance the grant register to include the information suggested.
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- (b) Review and approval of manual journals and adjustments. We recommend that management ensures that all manual journals and adjustments are reviewed and approved when posted onto the system. This will enhance the prevention and detection of potential errors and postings. Management have already implemented this control for 2023-24.
- (c) Records management. We recognise the challenge faced by management in the retrieval of sufficient appropriate evidence for timely submission to the audit team, however we recommend that management enhances its controls around the safe keeping of supporting evidence to allow for easy retrieval of relevant appropriate information as required. Management note this recommendation and are always looking to improve how we provide sufficiently timely evidence for the audit team, however, had the audit not been so prolonged the retrieval of appropriate evidence for timely submission would not have been an issue (para 19).

22. EY are expected to:

- Give an unqualified opinion on the Council's 2021-22 accounts.
- Conclude that the Council have put in place proper arrangements to secure value for money in its use of resources.
- Confirm that the Council's Annual Governance Statement is not misleading or inconsistent with other information known to them.

23. EY's report is attached at **Annex 1** and will be presented by a representative from EY.

### **Outcome of Consultation**

24. The content of this report was not subject to consultation.

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