

**AUDIT COMMITTEE  
25 NOVEMBER 2024**

**ITEM NO**

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**AUDIT OF ACCOUNTS 2022/23**

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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 2023.

**Summary**

2. In accordance with the Accounts and Audit (Amendment) Regulations 2023, all Local Authorities were required to produce the draft annual Statement of Accounts by 31<sup>st</sup> May 2023 and an audited set published by 30 September 2023.
  3. As previously outlined to this Committee due to national issues which led to a delay in finalising the 2021/22 accounts and the subsequent delay in commencing the 2022/23 accounts our external auditors EY (Ernst & Young) were not in a position to deliver the audit by the statutory deadline.
  4. This was not an isolated situation. The backlog in the publication of audited accounts has reached an unacceptable level with the number of outstanding opinions as at 30<sup>th</sup> September 2023 standing at 918.
  5. This backlog undermines accountability in the local government sector and reduces information available to the users of the accounts. In a bid to provide a solution the Accounts and Audit (Amendment) Regulations 2024 provide for statutory 'backstop' dates to help clear the backlog of audits and rebuild assurance.
  6. The first statutory 'backstop' date is the 13<sup>th</sup> December and applies to all outstanding audits up to and including the 2022/23 accounts.
  7. Following the completion of the 2021/22 accounts in April 2024 the Council offered their full support and additional resources in order to try and fully complete the 2022/23 audit before the backstop date, however, EY have not had the capacity or the resources available in order for them to schedule the 2022/23 audit.
  8. EY have therefore not been able to complete a full audit, this has led to EY issuing a Disclaimer of opinion for the 2022/23 accounts.
  9. A Disclaimer of opinion means that EY have not been able to gain sufficient audit evidence by the backstop date to provide an opinion for the reasons outlined above.
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10. 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.
11. The significant findings consist of misstatements identified in the audit of the 2021/22 financial statements which were not corrected by management and remain uncorrected in the 2022/23 accounts.
12. Members are required to consider items that are classified as unadjusted audit differences, which officers propose not to adjust in the accounts.
13. EY are also required to report to management and the Audit Committee any significant deficiencies in internal control identified during their audit.
14. EY are expected to:
  - Give a Disclaimed opinion on the Council's 2022/23 accounts.
  - Report that they have not identified any significant weaknesses in 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.
15. EY's report is attached at **Annex 1** and will be presented by a representative from EY.

### **Recommendation**

16. It is recommended that:-
  - a) The Auditor's Completion Report for Those Charged With Governance for the Council's 2022/23 financial statements be noted.
  - b) Members note and approve the Letter of Representation in Appendix A of the Completion Report for Those Charged With Governance.
  - 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 (and subsequently approve when the audit is complete) the attached IFRS compliant Statement of Accounts at **Annex 2** for the 2022/23 financial year.

### **Reasons**

17. The recommendation is supported as it comprises part of the Council's corporate governance arrangements

**Elizabeth Davison**  
**Executive Director – Resources and Governance**

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Council Plan	The Council's financial statements contribute to all priorities outlined within the Council Plan.
Addressing inequalities	This report presents the auditors opinion of the Council's financial statements for 2022/23. There is therefore no impact as a result of this report.
Tackling Climate Change	This report presents the auditors opinion of the Council's financial statements for 2022/23. There is therefore no impact as a result of this report.
Efficient and effective use of resources	This report includes the auditors findings on our arrangements to secure Valur For Money.
Health and Wellbeing	This report presents the auditors opinion of the Council's financial statements for 2022/23. There is therefore no impact as a result of this report
S17 Crime and Disorder	This report has no implications for crime and disorder
Wards Affected	No specific impact on an individual area as a result of this report
Groups Affected	No specific impact on an individual area as a result of this report
Budget and Policy Framework	This report does not recommend a change to the Council's budget or policy framework
Key Decision	This is not a key decision
Urgent Decision	This is not an urgent decision
Impact on Looked After Children and Care Leavers	This report has no impact on Looked After Children or Care Leavers

### Background Papers

- (i) Council's accounts 2022-23
- (ii) EY Audit Results Report 2022-23

Judith Murray: Extension 5204

### MAIN REPORT

18. The external auditors are required by the Public Sector Audit Appointments Ltd (PSAA) to report to Members issues arising from the accounts audit. The Completion Report for Those Charged With Governance details the significant findings from the audit by EY.
  19. As previously outlined to this Committee there have been a number of national issues resulting in a delay in finalising the 2021/22 accounts. The 2021/22 accounts were finalised in April 2024.
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20. Due to this delay EY were not in a position to deliver the 2022/23 audit by the statutory deadline of September 2023.
  21. Darlington were not alone in this position. The number of outstanding audit opinions as at 30<sup>th</sup> September 2023 stood at 918 and this included prior year audits.
  22. The backlog of unaudited accounts has reached an unacceptable level which led to the Department for Levelling-up, Housing and Communities (DLUHC) introducing measures to address these local audit delays.
  23. The Accounts and Audit (Amendment) Regulations 2024 came into force on 30<sup>th</sup> September 2024 and provided for statutory 'backstop' in three phases to help clear the backlog of audits and rebuild assurance.
  24. The first phase which has a backstop date of 13<sup>th</sup> December 2024 involves clearing the backlog of historic opinions up to and including the financial year 2022/23. Phase 2 uses various backstop dates to allow assurance to be rebuilt over a number of years so as not to cause a recurrence of backlog issues and Phase 3 involves reforming the local audit system to address the challenges and ensure timely financial reporting and audit.
  25. The Council committed to providing additional resources to progress with a full audit of the 2022/23 accounts by the backstop date, however, due to the amount of audit delays needing completion and the finite resources available, EY have not had the capacity to be able to undertake a full audit of the 2022/23 accounts by the backstop date.
  26. As a result of this EY have determined that they are unable to complete all the necessary procedures to obtain sufficient evidence to provide an opinion on the 2022/23 accounts and have therefore issued Disclaimed opinion.
  27. The basis of this Disclaimer of opinion can be found in the Completion Report for Those Charged With Governance. This states that the backstop date and the wider requirements of the local audit system reset meant that they did not have the required resources available to complete the detailed audit procedures that would be needed to obtain sufficient appropriate audit evidence to issue an unmodified audit report on the 2022/23 financial statements.
  28. The Audit Results and Findings section highlights misstatements identified in the audit of the 2021/22 financial statements which were not corrected by management with notes to those misstatements that have been corrected.
  29. Members are specifically required to consider items that are classified as unadjusted differences that officers propose not to adjust in the accounts.
  30. The misstatements identified in the audit of the 2021/22 accounts were highlighted in the Audit of Accounts 2021/22 report presented to Audit Committee on 8<sup>th</sup> April 2024. Reasons were given for these misstatements and why they were not adjusted. Given the impending 'backstop' arrangements it was recognised that many of these misstatements,
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particularly those involving asset valuations' would not be adjusted in 2022/23 and would be addressed as part of the normal course of valuations in future accounting periods.

31. 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 not identified any significant deficiencies in internal control.
32. EY are expected to:
  - Give a Disclaimed opinion on the Council's 2022/23 accounts.
  - Report that they have not identified any significant weaknesses in 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.
33. EY's report is attached at **Annex 1** and will be presented by a representative from EY.

#### **Outcome of Consultation**

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