

Audit Committee – 25 October 2024

Final Annual Financial Report 2022/23 including Final Annual Governance Statement

Purpose	For Decision
Classification	Public
Executive Summary	This report lays out the requirements and reasoning for the request for delegated authority to be given for the approval of the final 2022/23 Annual Financial Report and recommend that the final Annual Governance Statement 2022/23 be approved.
Recommendation(s)	It is recommended that Audit Committee: 1. Agree that the Strategic Director Corporate Resources and Transformation (Section 151 Officer), in consultation with the Chairman of the Audit Committee, be given delegated authority to review and consider the 2022/23 Audit Completion Report from the Council’s external auditor. 2. Agree that further to the review, the Strategic Director Corporate Resources and Transformation (Section 151 Officer), in consultation with the Chairman of the Audit Committee, be given delegated authority to approve: a. the Annual Financial Report for 2022/23 and b. the 2022/23 letter of representation 3. Agree the Final Annual Governance Statement 2022/23 be approved by the Chief Executive and Leader of the Council.

Reasons for recommendation(s)	<p>The Council is required to prepare, and have externally audited, an Annual Financial Report for each year and to prepare an Annual Governance Statement.</p> <p>This report seeks delegated authority for the Strategic Director Corporate Resources and Transformation (Section 151 Officer) to approve the final Annual Financial Report for 2022/23 and the associated letter of representation, and additionally explains the reasons for the approach taken for this financial year's audit.</p> <p>It also provides a brief update on plans for the 2023/24 audit of the accounts.</p> <p>It is a requirement for the Final Annual Governance Statement to be approved.</p>
Ward(s)	All
Portfolio Holder(s)	Councillor Jeremy Heron – Finance and Corporate
Strategic Director(s)	Alan Bethune – Strategic Director Corporate Resources and Transformation (Section 151 Officer)
Officer Contact	<p>Paul Whittles</p> <p>Assistant Director – Finance</p> <p>02380 285766</p> <p>paul.whittles@nfdc.gov.uk</p>

Introduction and background

1. This report provides an update to the Audit Committee on the audit of the 2022/23 Annual Financial Report and set out recommendations for the conclusion of the audit process.
2. It sets out the context for why a full audit has not been undertaken and the implications related to the recommended course of action.
3. It also provides a brief update on the plans for the audit of the 2023/24 Annual Financial Report.

4. Previous reports to the Audit Committee have set out the background to the national backlog of local authority audits, related to the 2022/23 and prior financial years.
5. For New Forest District Council, all Annual Financial Reports up to and including the 2021/22 financial year, have been audited and approved.
6. Prior to the General Election in July 2024, it was expected that measures would be put in place to resolve all outstanding local authority audits by 30 September 2024. With the dissolution of Parliament, that was no longer possible.
7. The new government is committed to resolving the backlog together with a refresh of the way local authority audits are undertaken and seeking to review the capacity of the audit sector for this type of work.
8. The Minister of State for Housing, Communities & Local Government, Jim McMahon OBE, wrote to all local authorities and audit partners on 30 July to set out plans for new backstop dates by which time all audit opinions must be issued. This is either as a result of a completed audit with a full audit report or a disclaimed opinion following a limited audit engagement.
9. The new backstop date for 2022/23 audit reports to be issued is 13 December 2024. The backstop date for 2023/24 audits will be 28 February 2025. This report focuses on the 2022/23 Annual Financial Report.
10. There is insufficient time to undertake an audit of the 2022/23 Annual Financial Report and for a full opinion to be given on it. Even if there were capacity, it is questionable whether any meaningful results would be received so long after the year-end. It is inevitable that a disclaimed opinion will be required for this Annual Financial Report – and that is an eventuality that will be encountered by hundreds of councils across the country. A disclaimed opinion is not an assessment of weaknesses in controls or that the accounts contain material mis-statements.
11. The issuing of a disclaimed opinion in this context is new to both local authorities as well as our external auditors. Full details of exactly how the process will be resolved remain to be confirmed; however, there are certain actions that must be taken.
12. These steps include:
 - a. Approval of the Annual Financial Report for audit by the s151 Officer, this was completed on 31 May 2023.

- b. Publishing the Annual Financial Report, this was completed on 31 May 2023.
 - c. Holding a minimum 30-day public inspection period for the Annual Financial Report, this was undertaken between 1 June and 12 July 2023.
 - d. Providing updated assurances related to the year in question, this information has been sought from the Chairman of the Audit Committee, s151 Officer, Monitoring Officer and Internal Audit Manager. No issues were identified that require reporting.
 - e. Reviewing and providing comments on the external auditor's Audit Completion Report – this is required to be done prior to the approval of the accounts and by 29 November 2024 at the latest.
 - f. Approving a final Annual Financial Report, this is required by 29 November 2024 at the latest and is the subject of this report.
 - g. Considering the need to update and approve any open Annual Governance Statements in line with CIPFA Bulletin 16.
 - h. Signing a Letter of Representation, normal practice is to complete this at the time the audit is finalised. This will be signed by the Chairman of the Audit Committee and s151 Officer.
 - i. Publishing the final auditor's report and completion report with the final approved Annual Financial Report for 2022/23, this is required to be done by 13 December 2024.
13. To meet the expected backstop date, it is recommended that delegated authority be given to the Section 151 Officer, in consultation with the Chairman of the Audit Committee, to approve the Annual Financial Report for 2022/23 following receipt and review of the Audit Completion Report from Ernst & Young and to recommend that the Annual Governance Statement be signed by the Chief Executive and Leader of the Council.
14. Copies of the unaudited Annual Financial Report and Annual Governance Statement are attached as annexes to this report. Ernst & Young have confirmed that they are anticipating their opinion will be issued on the accounts as they are currently presented.
15. The substantive audit work in respect of the 2023/24 Annual Financial Report commenced in late August. At this stage, it is

anticipated that a full audit will be undertaken and concluded by the February 2025 deadline. Ernst & Young will present an update on the progress of this audit to the January 2025 Audit Committee meeting.

Corporate plan priorities

16. The Annual Financial Report is a public facing document that sets out a number of key financial figures related to the Council's financial performance and sustainability.
17. The external auditor's report provides assurance to stakeholders as to the effectiveness of the Council's internal control environment and its efficiency in securing value for money in the use of public funds.
18. It provides assurance on the financial standing of the Council and ensures that commitments to corporate plan can be delivered with adequate and sustainable financing.
19. Ensuring the council is being financial responsible, as evidenced by independent external audits, underpins all of our corporate plan themes (People, Place and Prosperity).

Options

20. The options in this report are:
21. Option 1: to give delegated authority to the Strategic Director Corporate Resources and Transformation (Section 151 Officer), in consultation with the Chairman of the Audit Committee, to review and consider the 2022/23 Audit Completion Report and to approve the 2022/23 Annual Financial Report and associated letter of representation; and for the Annual Governance Statement 2022/23 be approved by the Chief Executive and Leader of the Council in order to meet the statutory deadlines.
22. Option 2: to call an additional audit committee meeting in line with the backstop date, with the risk that matters would remain unresolved at this time thereby requiring either delegation to be approved or further committee meetings to be scheduled.
23. Option 3: not to give the delegated authority to the Strategic Director Corporate Resources and Transformation (Section 151 Officer), in consultation with the Chairman of the Audit Committee, to review and consider the 2022/23 Audit Completion Report and not to approve the 2022/23 Annual Financial Report and associated letter of representation, and not to approve the signing of the

Annual Governance Statement, which could lead to the council not complying with its statutory duties by the deadline.

Options appraisal

24. The Annual Financial Report was prepared in accordance with CIPFA guidance and the Accounting Policies that were approved by the Audit Committee. The processes used were the same as those that have produced robust accounts in previous years.
25. The lack of a thorough external audit inspection of the 2022/23 Annual Financial Report does increase the risk that a material misstatement may exist and has not been identified. However, officers are not aware of any changes that are needed and no changes have been requested by Ernst & Young from the work that they have undertaken, since the publication of the Annual Financial Report 2022/23 in July 2023 there have however been some changes as a result of the conclusion of the audit of the Annual Financial Report for 2021/22.
26. The government is putting in place plans that will require auditors to issue opinions for financial years 2022/23 and earlier by 13 December 2024. To be able to issue their disclaimed opinion, Ernst & Young require that the Council approves an Annual Financial Report on which that opinion can be made.
27. No substantive changes have been made to the Annual Governance Statement since it was presented on 31 May 2023.
28. The next meeting of the audit committee is not until after that deadline and Ernst & Young have confirmed that no further work on the 2022/23 figures will be undertaken.
29. Therefore, Option 1, to give delegated authority to the Strategic Director Corporate Resources and Transformation (Section 151 Officer), in consultation with the Chairman of the Audit Committee, to review and consider the 2022/23 Audit Completion Report and to approve the 2022/23 Annual Financial Report and associated letter of representation, and for approval of the Annual Governance Statement by the Chief Executive and Leader of the Council is the recommended option.
30. Any changes to the accounts undertaken using this authority, together with the issued opinion for the 2022/23 Annual Financial Report will be reported to the next meeting of the Committee.

Consultation undertaken

31. Consultation between the council and our external auditors and advisors has been continuous throughout as the situation has developed.
32. Audit committee has been appraised of the progress to date at each opportunity.

Financial and resource implications

33. The Annual Financial Report has been prepared by officers using existing resources.
34. It is anticipated that there will be a saving on the budgeted audit fee for the 2022/23 year as significantly less work was undertaken by Ernst & Young than was expected. This will be subject to a third party review by Public Sector Audit Appointments Ltd once all matters related to the accounts have been closed.

Legal implications

35. There are no legal implications arising as a result of the recommendations in this report.

Risk assessment

36. An evaluation of the risks indicates that the existing controls in place mean that no significant risks that been identified at this time.

Environmental / Climate and nature implications

37. There are no environmental or climate and nature implications as a result of this report.

Equalities implications

38. There are no equality matters arising as a result of this report.

Crime and disorder implications

39. There are no crime and disorder matters arising as a result of this report.

Data protection / Information governance / ICT implications

40. There are no data protection, information governance or ICT implications arising as a result of this report.

New Forest National Park / Cranborne Chase National Landscape implications

41. There are no matters which could affect the New Forest National Park or Cranbourne Chase National Landscape as a result of this report.

Conclusion

42. There has been a lot of publicity related to a national backlog in the completion of local authority audits for 2022/23 and prior financial years.
43. The recommendations of this report are to give delegated authority to the Strategic Director Corporate Resources and Transformation (Section 151 Officer), in consultation with the Chairman of the Audit Committee, to approve the Annual Financial Report for 2022/23 and associated letter of representation so that the Council's external auditors can complete their obligations to that year's Annual Financial Report by the backstop date by which time all audit opinions must be completed and for approval be given for the Annual Governance Statement 2022/23 to be signed by Chief Executive and Leader of the Council.
44. The situation will be monitored in respect of anticipated work on the 2023/24 Annual Financial Report. Officers will work closely with Ernst & Young to deliver the most effective audit possible with the resources that are available.

Appendices:

- 1) Annual Financial Report 2022/23 including Annual Governance Statement 2022/23
- 2) 2022/23 Letter of Representation

Background Papers:

None