

OPEN

Audit and Governance Committee

24 February 2025

Audit of Accounts 2023/24

**Report of: Adele Taylor, Interim Executive Director of Resources
(s151 Officer)**

Report Reference No: AG/25/24-25

Ward(s) Affected: (All Wards);

Purpose of Report

- 1 The purpose of this report is to:
 - provide the latest draft 2023/24 Statement of Accounts for information. (Appendix B)
 - provide an update on the Audit of Accounts 2023/24
 - present the Interim Completion Report by Ernst & Young (EY), the Council's external auditors for information. The report (Appendix A) summarises the latest status of the 2023/24 Audit.
- 2 The report is provided for the Committee's responsibilities in reviewing and approving the annual statement of accounts and considering the external auditors report to those charged with governance on issues arising from the audit of accounts.

Executive Summary

- 3 2023/24 is the first year that EY have audited the Council's Statement of Accounts. Ordinarily, audit planning work would commence in February/March of that year, however the 2023/24 planning and fieldwork, which would usually cover a nine-month period has been condensed to four months as a consequence of the late appointment and the introduction of statutory 'backstop date' deadlines.
- 4 Work by Mazars on the 2022/23 accounts was still underway at the time EY began their fieldwork in September 2024, with the 2022/23 accounts

being signed off in December 2024. 2023/24 is the only outstanding year of accounts for Cheshire East Council. A number of local authorities have more than 2 years of accounts outstanding, up to 5 years for a smaller number.

- 5 EY reported as part of their Audit Plan to the December 2024 Audit and Governance Committee that there was a risk that 2023/24 backstop date would not be met and that the audit opinion on the 2023/24 statement of accounts may be disclaimed. This position was further discussed with officers in January 2025, with audit fieldwork stopping early in that month.
- 6 The Interim Audit Report from EY is attached at Appendix A. In summary, EY advise that they are not in a position to obtain sufficient evidence to be able to conclude that the financial statements of the Council are free from material and pervasive misstatement before the backstop date for the 2023/24 accounts and therefore anticipate issuing a disclaimed 2023/24 audit opinion.
- 7 However, since the meeting of the Audit and Governance Committee in December 2024, EY have accepted four objections from a local elector on the 2023/24 financial statements and until these objections have been considered, EY will not be in a position to issue the disclaimed opinion.
- 8 It is understood that once the necessary audit work in relation to the objection to the accounts is completed, that EY will be in a position to issue a disclaimed audit opinion. Officers have supported EY's enquiries in relation to the objection to the accounts and continue to do so.
- 9 Under arrangements which came into effect in September 2024, "backstop" dates were introduced to manage the backlog in local audit opinions. The backstop date for 2023/24 accounts is 28 February 2025. As the backstop date will not be met, the Interim Executive Director of Resources (S151) is required to publish an explanation and subject to finalisation of the audit work by EY, aim to publish audited accountability statements as soon as practicable. Management responses are being prepared for the issues raised by EY's interim report and these will be reported to the Committee at the next available opportunity.
- 10 Cheshire East Council's draft statement of accounts for 2023/24 was originally published on 18 July 2024. Updates have been made to these accounts, since those were published, in respect of an error recognized by the Cheshire Pension Fund actuary. Updated Statement of accounts are provided in Appendix B. There is no change to the bottom line reported.

RECOMMENDATIONS

The Audit and Governance Committee is recommended to:

1. Note the latest Draft Statement of Accounts for 2023/24 (Appendix B) – reflecting the revisions in relation to IAS19 Pensions (December 2024).
2. Note the Interim Audit Completion Report (Appendix A) for the year ending 31 March 2024.
3. Note that the management responses to the Interim Audit Completion Report will be reported to the Committee at the next available opportunity.
4. Note that the Interim Executive Director of Resources (S151) is required to publish a statement of explanation on the Council's website by the backstop date 28 February 2025.

Background

Audit of Accounts

- 11 The auditors are responsible for giving an opinion on:
- (a) Whether the accounts give a true and fair view of the financial position of the Council and the Group as at 31st March 2024 and of the Council's and the Group's expenditure and income for the years then ended;
 - (b) Whether they have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24;
 - (c) Whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

New External Auditor 2023/24 – Ernst & Young LLP (EY)

- 12 As the Committee will be aware, this is the first year that EY have audited the Council's Statement of Accounts. The EY team first made contact with the Finance Team in mid-September 2024 and work progressed in October through to the end of December. Ordinarily, the audit planning work would commence in February/March of that year, therefore the 2023/24 planning and fieldwork which would usually cover a nine month period has been condensed to four months as a

consequence of the late appointment and the introduction of statutory 'backstop date' deadlines.

- 13 Despite significant work undertaken on the part of both the Cheshire East Team and EY, in mutual recognition of various factors, in early January 2025, EY met with the Officers and indicated that they will most likely be issuing a disclaimed opinion on the 2023/24 accounts. This position was also reported by EY at the Audit and Governance Committee on 5th December 2024.
- 14 In summary, the various factors leading to a likely disclaimed audit have been:
 - The Council's 2022/23 audit having not been concluded (at the date of the Audit and Governance Committee on 5 December 2024), subsequent sign off 12 December 2024.
 - the timing of EY's appointment by the Public Sector Audit Appointment Limited (PSAA Ltd) and later than usual commencement of the 2023/24 audit in October 2024 and resourcing;
 - limited resources within the Finance team being stretched whilst also focussing on in-year financial management and MTFS preparations and finalisation of 2023/23 Accounts as reported above.
- 15 Audit fieldwork on the 2023/24 audit of accounts was stopped in early January 2025. EY in discussion with the Council in January outlined proposed focus on early preparations for the 2024/25 audit of accounts which will enable a more effective and meaningful audit planning process with EY for the year ahead.

Local Audit Backstop Arrangements

- 16 On 20 September 2024, MHCLG wrote to all Local Authorities, providing an update on the action the Government is taking to tackle the significant local audit backlog in England. The new requirements mean that the external auditor will be required to produce timely audit opinions by the statutory 'backstop dates'.
- 17 A number of local authorities have more than 2 years of accounts outstanding, up to 5 years for a smaller number. 2023/24 is the only year for which Cheshire East Council does not have final audited accounts.
- 18 A backstop date of 13 December 2024 was introduced to clear the backlog of unaudited accounts up to and including the financial year

2022/23. The Council's 2022/23 Accounts were signed off on the 12th December 2024 and the audited Statements published on the website that same day.

- 19 Five further backstops relating to accounts for the financial years up to and including 2027/28 have also been introduced to allow the system to recover, these dates are shown below:

- 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

There has also been a change to the deadline for Council's to publish 'draft' (unaudited) accounts, from 31 May to 30 June, for the financial years 2024/25 to 2027/28.

- 20 To comply with the backstop date legislation, authorities must:

- Have published accountability statements on their website as per the backstop date; Statement of Accounts with opinion and certificate, AGS and the narrative statement.
- Those charged with governance need to approve the final audited accountability statements (per Section 9(2) and (3) of the Accounts and Audit Regulations 2015 (as amended)) before they are published.
- Authorities will need a report from the auditors including the audit opinion for discussion at the meeting when the accountability statements are approved

Cheshire East Council has published draft statement of accounts and received draft annual governance statements; the approval of the final audited accountability statements and the final audit opinion will be provided as soon as the objection to the accounts has been considered fully by EY.

- 21 If the auditors have not issued an opinion by the backstop date, the Local Authority is exempt from publishing accountability statements by the backstop date if any of the following apply:

a) where auditors are considering a material objection

b) where an objector has appealed or could still appeal the auditor's decision in relation to the objection

c) the auditor thinks that an item of account may be contrary to law and has made, or is considering making, an application to the court on that basis

d) or from 2023/24, where the auditor is not yet satisfied with the VfM arrangements.

- 22 Bodies that are exempt or have failed to comply with a backstop date will be required to publish an explanation and publish audited accountability statements as soon as practicable. The government intends to publish a list of bodies and auditors that do not meet the proposed backstop dates and are not exempt; those bodies will need to send a copy of the published explanation to the secretary of state.
- 23 Based on the exemption criteria set out in paragraph 21 above, the Council considers that it does have an exemption to publishing its accountability statements by the backstop date due to EY's ongoing consideration of an objection to the accounts and hence not being in a position to issue the disclaimed opinion. The Council will provide a copy of the Public Notice to MHCLG.

Disclaimed audit

- 24 A disclaimed opinion means that the auditor is unable to provide substantive assurance on parts of the financial statements. The external auditor should clearly explain the basis in their auditor report and distinguish between impacts in reaching a level of assurance due to meeting the backstop date versus other factors e.g. any material issues identified in the accounts. The Local authority should not be unfairly judged as a result of the timing constraints associated with the backstop dates.
- 25 There are implications or 'knock on effects' of a disclaimed opinion in that the audit period following a disclaimed opinion, the auditor will not have assurance over opening balances brought forward from the prior year or the comparative figures. Without this assurance, this will impact the likely audit opinion into the following year accounts. It is likely therefore that a disclaimed audit in year 2023/24 may not recover for a number of years to an unmodified opinion.

Interim Audit Report 2023/24

- 26 The Interim Audit Report by EY, the Council's external auditors, summarises the findings of the 2023/24 Audit Report and is appended to the paper – Appendix A and is provided for information only.
- 27 In summary, the Interim Report identifies that for the reasons set out in paragraph 14, EY are therefore not in a position to obtain sufficient evidence to be able to conclude that the financial statements of the Council are free from material and pervasive misstatement before the 28 February backstop date and therefore anticipated issuing a disclaimed 2023/24 audit opinion.
- 28 Since the meeting of the Audit and Governance Committee in December 2024, EY have accepted four objections, from a local elector, on the 2023/24 financial statements and until these objections have been considered, EY will not be in a position to issue a disclaimed opinion (see paragraphs 27-28).
- 29 As the Council's appointed auditors, representatives of EY will attend the Committee to report their findings directly to Members.
- 30 It is understood that once the necessary audit work in relation to the objection to the accounts is completed, that EY will be in a position to issue a disclaimed audit opinion.
- 31 Paragraphs 20-21 set out the requirements to be able to comply with the backstop date and in what circumstances an exemption to the reporting of accountability statements by backstop dates apply if the auditor has not provided an opinion by the backstop date. Audited Bodies and auditors who haven't met the backstop date and are not exempt will be included on a list to be published by the government.
- 32 As the backstop date will not be met, the Interim Executive Director of Resources (S151) is required to publish an explanation and subject to finalisation of the audit work by EY, aim to publish audited accountability statements as soon as practicable.
- 33 Having received the EY Interim report on the 19 February 2025, Management responses are being prepared and these will be reported to the Committee at the next available opportunity

Statement of Accounts 2023/24

- 34 During the 2023/24 audit fieldwork period: October - January 2024, the Council was also finalising the 2022/23 Statement of Accounts with Mazars, the Council's external auditors up to the 2022/23 Accounts.

- 35 In late November 2024, the Council were made aware via the Cheshire Pension Fund that the Actuary, Hymans Robertson, had identified an error which had occurred in the Council's IAS19 report for March 2022. The error had been identified as part of preparations by the Actuary ahead of the 2025 valuation.
- 36 The system error has been corrected by the Actuary and necessary steps are in place to reduce the possibility of this happening again. To rectify the misstatement, the Actuary prepared revised IAS19 accounting reports for the Council as at 31 March 2022, allowing for the corrected valuation positions and subsequent updated reports for 31 March 2023 and 31 March 2024.
- 37 As a consequence, the Council received revised IAS19 pension reports in December 2024 and restated the 2021/22 prior year comparative statements and the associated notes through the Statement of Accounts. The Financial Statements for the period ended 31 March 2023 were approved on 12 December 2024 and published on the Council's website:
- 38 In addition, the Council were also required to revise the draft Statement of Accounts for the year ended 31 March 2024. The revised IAS19 pension reports and the effects on the Statement of Accounts for 2022/23 and 2023/24 have been shared with EY.
- 39 For information the updated Statement of Accounts for 2023/24 are attached at Appendix B and a list of changes made to the accounts at Appendix C. There has been no change to the bottom line figures reported.

Consultation and Engagement

- 40 In accordance with Regulation 15(2) (b) of the Accounts and Audit Regulations 2015, the draft accounts were made available for public inspection between 18th July 2024 to 29th August 2024.

Reasons for Recommendations

- 41 The appointed auditors are required to report to those charged with governance. The Audit Completion Report presents the findings, conclusions and recommendations from audit work undertaken relating to the financial year 2023/24.

Other Options Considered

- 42 Not applicable.

Implications and Comments

Monitoring Officer/Legal

- 43 The Accounts and Audit (Amendment) Regulations 2024 came into force on 30 September 2024 and set the timescales for the publication of the accountability statements.
- 44 For the financial year beginning in 2023, after approving the statement of accounts, the authority should publish its accountability statements on or before the 28 February 2025. As the accountability statements will not be published by the backstop date, the Council will publish an explanation and subject to finalisation of the audit work by EY, aim to publish audited accountability statements as soon as practicable.

Section 151 Officer/Finance

- 45 As covered in the report.

Policy

- 46 There are no policy implications identified.

Equality, Diversity and Inclusion

- 47 There are no equality implications identified.

Human Resources

- 48 There are no human resources implications identified.

Risk Management

- 49 The audit has been conducted in accordance with International Standards of Auditing (UK) and means the auditors focus on audit risks that have been assessed as resulting in a higher risk of material misstatement.

Rural Communities

- 50 There are no direct implications for rural communities.

Children and Young People including Cared for Children, care leavers and Children with special educational needs and disabilities (SEND)

- 51 There are no direct implications for children and young people.

Public Health

- 52 There are no direct implications for public health.

Climate Change

53 There are no direct implications for climate change.

Access to Information	
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Appendices:	Appendix A – Ernst & Young Audit Completion Report Appendix B – Draft Statement of Accounts 2023/24 Appendix C – List of Changes to the 2023/24 Draft Statement of Accounts
Background Papers:	Statement of Accounts and Annual Governance Statement 2023-24 CIPFA-Bulletin-18-Local-audit-backlog-in-England (2)