

DATE: 15 November 2024
MY REF: Audit & Corporate Governance Committee
YOUR REF:
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To Members of the Audit and Corporate Governance Committee

	Cllr. Mike Shirley (Chairman)	
	Cllr. Mark Jackson (Vice-Chairman)	
Cllr. Lee Breckon JP	Cllr. Richard Holdridge	Cllr. Roger Stead
Cllr. Alex DeWinter	Cllr. Dillan Shikotra	Helen King (Independent Member)

Dear Councillor,

A meeting of the **AUDIT AND CORPORATE GOVERNANCE COMMITTEE** will be held in the Council Chamber - Council Offices, Narborough on **MONDAY, 25 NOVEMBER 2024** at **5.30 p.m.** for the transaction of the following business and your attendance is requested.

Yours faithfully



Gemma Dennis
Corporate Services Group Manager and Monitoring Officer



AGENDA

1. Apologies for Absence

2. Disclosures of Interest

To receive disclosures of interests from Members (i.e. the existence and the nature of those interests in respect of items on this agenda).

3. Minutes (Pages 3 - 6)

To approve and sign the minutes of the meeting held on 9 October 2024 (enclosed).

4. Completion Report Financial Years 2020/21, 2021/22 and 2022/23 (Pages 7 - 8)

To consider the report of the Finance Group Manager (to follow).

5. Local Audit Backlog - Rebuilding Assurance (Pages 9 - 16)

To consider the report of the Finance Group Manager (enclosed).

6. Audit & Corporate Governance Committee Work Programme (Pages 17 - 20)

AUDIT AND CORPORATE GOVERNANCE COMMITTEE

Minutes of a meeting held at the Council Offices, Narborough

WEDNESDAY, 9 OCTOBER 2024

Present:-

Cllr. Mike Shirley (Chairman)
Cllr. Mark Jackson (Vice-Chairman)

Cllr. Richard Holdridge Cllr. Roger Stead

Officers present:-

Sarah Pennelli	- Executive Director - S.151 Officer
Katie Hollis	- Finance Group Manager
Kerry Beavis	- Shared Service Audit Manager
Rose Carrier	- Shared Service Auditor
Nicole Cramp	- Democratic & Scrutiny Services Officer
Isaac Thomas	- Democracy Support Officer

Also in attendance as observers:-

Cllr. Maggie Wright – Deputy Leader and Finance, People & Performance Portfolio Holder

Apologies:-

Cllr. Lee Breckon JP and Cllr. Dillan Shikotra and Helen King (Independent Member)

103. DISCLOSURES OF INTEREST

No disclosures were received.

104. MINUTES

The minutes of the meeting held on 30 July 2024, as circulated, were approved and signed as a correct record.

105. INTERNAL AUDIT PROGRESS REPORT 2024/25 Q2

Considered – Report of the Shared Service Audit Manager.

DECISION

That the Internal Audit Progress Report 2024/25 Q2 be noted.

Reason:

To keep the Audit and Corporate Governance Committee informed of progress and recent Internal Audit findings and recommendations, in line with the Public Sector Internal Audit Standards requirements.

106. UPDATE ON NATIONAL ACTION TO TACKLE AUDIT BACKLOG

Considered – Report of the Executive Director (Section 151 Officer).

The Chairman, Cllr. Mike Shirley stated that he is disappointed that Ernst & Young will not be able to provide a full audit opinion on the 2020/21 statements. The Chairman looks forward to receiving the approval of the 2022/23 accounts by Ernst & Young at the next Committee meeting in November.

DECISION

That the impact of the local audit delays; the communications received and how the audit backlogs are proposed to be addressed be noted.

Reason:

To ensure the Audit and Corporate Governance Committee is appraised of the latest position regarding the audit of the Council's Statement of Accounts.

107. AUDIT & CORPORATE GOVERNANCE COMMITTEE WORK PROGRAMME

Members accepted the items on the Audit & Corporate Governance Committee Work Programme.

The Chairman, Cllr. Mike Shirley expressed that appointing an additional Independent Member would be beneficial to the Committee to bring further knowledge and expertise.

108. RISK MANAGEMENT QUARTER 2 2024/25

The Chairman reminded members that Appendix B of the report would be considered during closed session.

Considered – Report of the Council Tax Income & Debt Manager, presented by the Finance Group Manager.

DECISION

That the latest information in respect of the Council's major corporate risks be accepted.

Reason:

The overview of the Council's risk management processes is a key responsibility of the Audit and Corporate Governance Committee. It is important that members are aware of the corporate risks and their potential impact on Council business, and that they review the control measures in place to mitigate risks.

109. EXCLUSION OF PRESS & PUBLIC

Considered – A proposed resolution to exclude the public from the meeting.

DECISION

That under Section 100(A)(4) of the Local Government Act, 1972, the public be excluded from the meeting for the following item, on the grounds that the item involves the likely disclosure of exempt information as defined in paragraph 1 of Part 1 of Schedule 12A of the said Act.

Agenda Item 8: Risk Management Q2 2024/25 (Appendix B)

Exemption Category: 3

Reason for Exemption: The report contains information relating to the financial or business affairs of any particular person (including the authority holding that information). Public Interest Test: The public interest test has been considered and, in all the circumstances of the case, the public interest in maintaining the exemption is considered to outweigh the public interest in disclosing the information

110. RISK MANAGEMENT QUARTER 2 2024/25 (APPENDIX B)

Considered – Report of the Council Tax Income & Debt Manager, presented by the Finance Group Manager.

THE MEETING CONCLUDED AT 6.23 P.M.

Blaby District Council

Audit & Corporate Governance Committee

Date of Meeting	25 November 2024
Title of Report	Completion Report Financial Years 2020/21, 2021/22 and 2022/23
Report Author	Finance Group Manager

1. What is this report about?

- 1.1 The report details the closedown of 2020/21, 2021/22 and 2022/23 Financial Accounts undertaken by Ernst & Young, including the value for money findings.

2. Recommendation(s)

- 2.1 To follow.

3. Reason for Decision(s) Recommended

- 3.1 To follow.

4. Matters to consider

- 4.1 Background

To follow.

- 4.3 Relevant Consultations

To follow.

5. What will it cost and are there opportunities for savings?

- 5.1 To follow

6. What are the risks and how can they be reduced?

6.1

Current Risk	Actions to reduce the risks
To follow	

7. Other options considered

7.1 To follow.

8. Appendix

8.1 Appendix A – To follow

10. Background paper(s)

10.1 To follow.

11. Report author's contact details

Katie Hollis	Finance Group Manager
Katie.hollis@blaby.gov.uk	0116 272 7739

Blaby District Council

Audit & Corporate Governance Committee

Date of Meeting	25 November 2024
Title of Report	Local Audit Backlog – Rebuilding Assurance
Report Author	Finance Group Manager

1. What is this report about?

- 1.1 The report enables the Council's external auditors, Azets, to present members with the background regarding the outstanding prior year audits, measures that are proposed to address the backlog and the process of rebuilding assurance.

2. Recommendation(s)

- 2.1 That Azets' Local Audit Backlog – Rebuilding Assurance report is noted.

3. Reason for Decision(s) Recommended

- 3.1 The Local Audit Backlog report provides members with the challenges being faced with the 2023/24 audit due to the outstanding Accounts, and the changes that are being required from the initial audit plan.

4. Matters to consider

4.1 Background

The Council has the draft Financial Statements for 2020/21, 2021/22 and 2022/23 outstanding. Backstop dates have been introduced for Auditors to have issued their Audit opinion on the outstanding accounts up to 2022/23 by 13th December 2024.

The Audit of the 2023/24 Accounts is currently being undertaken by Azets, however the Audit work that is being undertaken has been impacted by the prior year accounts being unaudited and the assurance that Azets are able to obtain from the opening balances of the accounts.

4.3 Relevant Consultations

None.

4.4 Significant Issues

None.

4.5 In preparing this report, the author has considered issues related to Human Rights, Legal Matters, Human Resources, Equalities, Public Health Inequalities and there are no areas of concern.

5. Environmental impact

No environmental impact.

6. What will it cost and are there opportunities for savings?

6.1 None directly arising from this report.

7. What are the risks and how can they be reduced?

7.1

Current Risk	Actions to reduce the risks
That the auditor will not be able to obtain sufficient evidence to conclude that they have reasonable assurance that the financial statements, as a whole, are free from material misstatement.	A recovery period has been designed to allow auditors to rebuild assurance over multiple years following a disclaimed audit opinion.

8. Other options considered

8.1 None.

9. Appendix

9.1 Appendix A – Local Audit Backlog–Rebuilding Assurance

10. Background paper(s)

10.1 None.

11. Report author's contact details

Katie Hollis Finance Group Manager
Katie.hollis@blaby.gov.uk 0116 272 7739

Local Audit Backlog – Rebuilding Assurance

Background

Local authorities and other local bodies, including police, fire, transport and waste authorities, as well as national parks, provide vital public services to local communities. Timely, high-quality financial reporting and audit is vital for supporting decision-making and accountability of those local public bodies. External assurance gives local taxpayers and elected representatives confidence in the financial management of their local public body.

On 31 July 2024 the Ministry of Housing, Communities and Local Government (MHCLG) issued a **Statement** that set out measures to be applied to clear the significant backlog of unsigned audit opinions of English local public bodies.

This announcement came after only 1% of local public bodies published audited accounts on time for 2022/23. Without decisive action, it was widely acknowledged that the backlog would

continue to grow and undermine local accountability and governance.

In September 2024, the Financial Reporting Council (FRC) published a briefing: **Local Audit Backlog Rebuilding Assurance**. The briefing explains how the recovery period may operate in practice for local public bodies that receive disclaimed audit opinions primarily because of statutorily imposed backstop dates limiting the scope of the audit. It has been prepared so that finance teams, elected members and other interested parties can understand what the recovery period may look like in practice.

This paper summarises the main messages from the FRC's briefing.

The overarching objective of the measures is to clear the backlog of outstanding audit opinions and reduce the likelihood of this position returning.

Measures to address the backlog

The Government’s approach to clear the backlog of local audits and embed timely audit comprises two parts:

- **Reset measures** - clearing the backlog of historical audit opinions up to and including financial year 2022/23.
- **Recovery period** - a period that reduces the likelihood of the backlog re-emerging through the implementation of backstop dates.

The measures have been developed collaboratively by all organisations involved in regulation and oversight of local public body financial reporting and audit (‘system partners’) to clear the backlog of outstanding audit opinions.

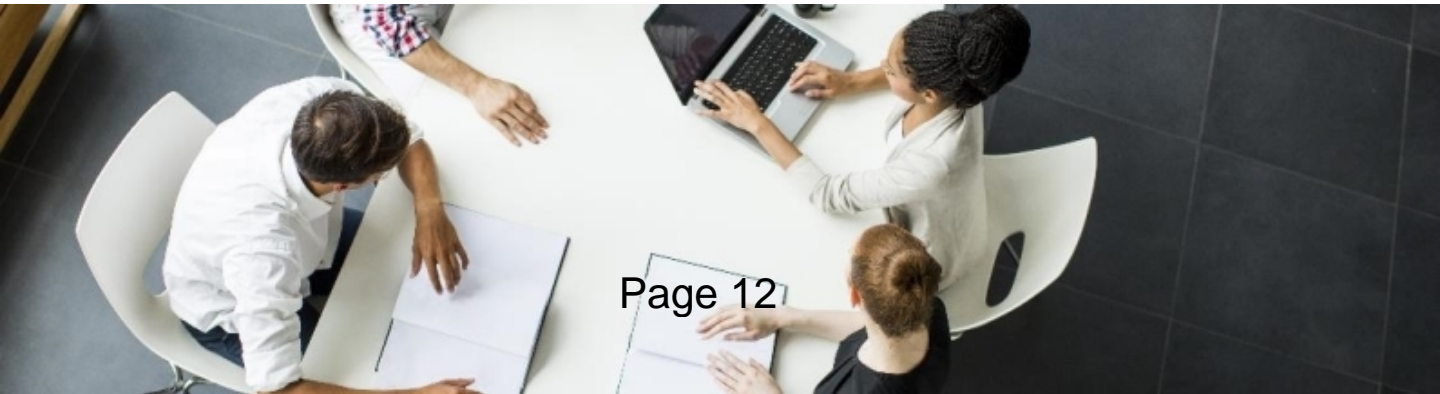
On 30 September 2024 The Accounts and Audit Regulations 2015 (which set out the approval and publication requirements for LG audits in England) were amended via The Accounts and Audit (Amendment) Regulations 2024, to introduce backstop dates by which point local public bodies must publish audited accounts.

Exhibit 1: Backstop dates

- For years up to and including 2022/23 – 13 December 2024
- 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

A new draft **Code of Audit Practice** (the Code) has also been published¹ by the National Audit Office (NAO) that requires auditors to give their opinion in time to enable local public bodies to comply with the backstop date. The Code will apply to audits which have not been certified complete at the time it comes into effect, and to the audits of local public bodies from 2024/25, until it is replaced after five years. The Code also requires auditors to carry out full scope audit of Value for Money (VFM) arrangements for 2023/24 onwards.

¹The new draft Code of Audit Practice was laid in Parliament on 9 September 2024 and will take immediate effect once it has received Parliamentary approval.



Rebuilding assurance

The backstop dates enable auditors to rebuild assurance over multiple years rather than performing all work in a single year. Auditors will make prioritisation decisions to issue audit opinions ahead of backstop dates and, as a result, they may not be able to obtain evidence over all balances. This means it could take several years for disclaimed opinions to be lifted.

A local public body's financial statements include the following:

- Opening balances brought forward from the prior year, including, for example, cash, general fund and ringfenced reserves, property valuation and pension liability / asset valuations;
- Closing balances;
- In-year expenditure, income, reserves and cash-flow movements
- Comparative figures from the prior year; and
- Explanatory notes to the financial statements.

The objective of the auditor is to obtain sufficient evidence to conclude that they have reasonable assurance that the financial statements, as a whole, are free from material misstatement.

Where an auditor is unable to gain enough evidence or is unable to reach this conclusion based on the evidence gathered, they will issue a disclaimed opinion, or a disclaimed opinion where the issues are pervasive.

Where the opinion on the prior year audit has been disclaimed, the auditor will not have assurance over:

- Opening balances brought forward from the prior year (the prior year closing balance); and
- Comparative figures.

It is also unlikely that the auditor will be able to obtain sufficient evidence to conclude they have reasonable assurance over the in-year expenditure, income, reserves and cash flow movements without assurance over the opening balances, as illustrated in the example below:

If a body has £100 at the end of the year but the auditor does not know whether the body had £50 or £10 at the start of the year, the auditor will not know whether the body has gained £50 or £90 during the year.

This may also impact on subsequent years. Where the auditor does not have assurance over in-year movements, they will also not have assurance over those figures when they are shown as comparatives in the following year.

In normal circumstances, in the year after a disclaimed opinion is issued, an auditor would perform work to assure all the opening balances and prior year comparatives in a single year.

The recovery period has been designed to allow auditors to recover from disclaimed opinions in a way that does not cause timeliness issues to recur. The backstop arrangements may create time constraints that impede the auditor from completing all the necessary audit procedures, in a single year, to support their opinion. There may also be several years prior to the current year for which the auditor has issued a disclaimed opinion. In these circumstances, significant challenges exist in both the preparation and auditing of opening balances.

When designing approaches to rebuild assurance over multiple years, auditors will need to decide which balances to prioritise each year to deliver the optimal pathway to returning, as soon as possible, to a position where they are able to complete audits in full and the opinion is not influenced by backstop dates. The testing may be different from normal as the auditors may need different evidence to conclude that they have reasonable assurance over the balances.

To help auditors meet their requirements under the Local Audit and Accountability

Act 2014 and the Code of Audit Practice, the National Audit Office (NAO) has published a package of guidance: **Local Audit Reset and Recovery Implementation Guidance** (LARRIGs). LARRIGs are prepared and published with the endorsement of the Financial Reporting Council (FRC) and are intended to support the reset and recovery of local audit in England.

Local public bodies should not be unfairly judged for modified or disclaimed opinions beyond their control.

The measures have been designed to enable any limitation of scope of the audit to be caused by the system-imposed backstop and not by the actions of management, as the latter may lead to significant consequences for a local public body. In circumstances where the local public body has significantly delayed the publication of their statement of accounts or withheld audit evidence, the auditor may use their judgement to determine that management's failure to meet the backstop date represents a management-imposed limitation of scope.



Key to success is effective communication between the auditor and the audited body, including those charged with governance.

All audit engagements are different, and local circumstances will influence the scale of work needed for auditors to make a timely return removing disclaimed opinions.

Proposals on the audit approach and timeline for returning to unmodified opinions will be presented to those charged with governance. The development of this audit approach is likely to be an iterative process and refined over successive audit cycles.

Recovery from the backlog is a shared endeavour between auditors and local public bodies. Accounts preparers have a vital part to play, providing good quality draft financial statements supported by comprehensive working papers and supporting evidence to auditors. The success of these proposals relies on both auditors and accounts preparers working closely together to agree jointly-owned delivery plans for each year's audit. Audit Committees should ensure that they are planning and able to play their full part in the process.



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Audit & Corporate Governance Committee Work Programme

Issue	Report Author
30 July 2024	
Quarterly update	Shared Service Audit Manager
CIPFA Position Statement update including training needs assessment	Shared Service Audit Manager
Annual Internal Audit Report	Shared Service Audit Manager
Risk Management Q1 2024/25	Interim Finance Group Manager
Unaudited Statement of Accounts 2023/24	Interim Finance Group Manager
9 October 2024	
Quarterly update, Audit Charter review.	Shared Service Audit Manager
Audit Charter review	Shared Service Audit Manager
Risk Management Q2 2024/25	Interim Finance Group Manager
Approval of 2022/23 Accounts (EY – Tentative)	Interim Finance Group Manager
Grant Certification 2022/23 (EY Tentative)	Interim Finance Group Manager
Approval of 2023/24 Accounts (Azets)	Interim Finance Group Manager

Issue	Report Author
EXTRAORDINARY MEETING - 25 November 2024	
Local Audit Backlog – Rebuilding Assurance - Azets	Finance Group Manager
Completion Report Financial Years 2020/21, 2021/22 and 2022/23 – Ernst & Young	Finance Group Manager
6 February 2025	
Quarterly update	Shared Service Audit Manager
28 April 2025	
Audit Charter	Shared Service Audit Manager
Quarterly update	Shared Service Audit Manager
Annual Audit Plan	Shared Service Audit Manager

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