



## Hinckley & Bosworth Borough Council

Forward timetable of consultation and decision making

Audit Committee

15 January 2024

Wards affected: ALL WARDS

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### AUDIT COMMITTEE – AUDIT COMPLETION REPORT FOR 2023/24

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#### Report of Head of Finance (Section 151 Officer)

#### 1. Purpose of report

- 1.1 To provide context to the first Audit Completion Report from Azets our new External Auditors.

#### 2. Recommendation

- 2.1 That the Audit Committee note the report and the actions in place to address the value for money conclusions and outcomes from the recent Corporate Peer Challenge.

#### 3. Background to the report

- 3.1 Azets were appointed via the agreement we have with Public Sector Audit Appointments (PSAA), who, amongst other things, appoint auditors to all relevant opted in authorities and set the scales of fees. Azets as part of this role have two main responsibilities under International Standards on Auditing (UK) and the National Audit Office (NAO) Code of Audit Practice 2024:

- to report an opinion on the financial statements and any issues found during their audit.
- to report on our Value for Money arrangements to secure economy, efficiency and effectiveness in its use of resources and conclude if there are any weaknesses that need to be addressed.

- 3.2 Azets Audit Completion Report covers some issues that are of particular note for the Audit Committee in carrying out its task of approving the Financial Statements and Annual Governance Report covered in the summary below.

### **Audit Backlog**

- 3.3 As reported previously, there is a national backlog in the delivery and sign off of Audited financial statements. This has been caused by many challenges facing the audit of local government nationally, which have been highlighted by the Local Government Association, the Redmond Review, the NAO, PSAA Ltd, External Audit firms and Parliament Committee hearing. The critical factors leading to these delays can be attributed to
- shortages in specialist audit resources,
  - increasing regulatory requirements, adding demands at a time of this shortage
  - emerging national accounting issues for Infrastructure Assets and more recently Pension Liability valuation matters placing more demands on audit firms, while staff shortages are in place.
  - In addition there have been, in some cases, but not for HBBC, a shortage of resources in finance teams across local authorities, and
  - specific governance or technical matters at some audited bodies,

All of these being further compounded by the impact of Covid.

- 3.4 On 9 September 2024, the Government laid in Parliament a Statutory Instrument, 'The Accounts and Audit (Amendment) Regulations 2024', to introduce backstop dates by which point local bodies must publish audited accounts. To achieve this the backlog must be dealt with and processes put in place to avoid it reoccurring.
- 3.5 The Government's approach to clear the backlog of local audits and embed timely audit consists of two parts:
- Reset measures involving clearing the backlog of historical audit opinions up to and including financial year 2022/23 by 13 December 2024.
  - Recovery period after the Reset Measures that reduces the likelihood of the backlog re-emerging by using backstop dates to allow assurance to be rebuilt over one or more audit cycles.
- 3.6 In summary this means that as well as 2020/21, 2021/22 and 2022/23 being disclaimed opinions as reported by our outgoing auditors Ernst and Young, with no assurance given, the following is now going to occur as our incoming new External Auditors have to deal with the issues left behind in the last three years.

### **Financial statements – the 2023/24 audit**

- 3.7 Unfortunately the lack of assurance given by Ernst and Young (EY) over opening balances resulting from the disclaimers of their opinions issued in the prior years, together with the imminent statutory backstop date for 2023/24 of

28 February 2025, has impacted on the ability of Azets to complete the audit procedures needed to gain assurance on the Council's 2023/24 financial statements. The Government decision to set a backstop date means the opinion cannot be delayed giving the time needed, nor would there be sufficient audit resources available to complete the work in that period. Any delay would risk creating the same backlog seen previously. Therefore Azets will be issuing a disclaimer of opinion on the Council's 2023/24 accounts.

- 3.8 The following table gives the most best case scenario impact over the next two years created by the Backlog position, although we will be working with Azets to develop a realistic and achievable recovery plan as part of the 2024/25 audit.

Audit Year	Opinion
<b>2024/25</b>	Disclaimer The auditor does not have assurance over brought forward balances that were deprioritised on the 2023/24 audit. This means they do not have assurance over all in-year movements. They also do not have assurance over the comparative prior year movements.
<b>2025/26</b>	Qualified (Except for) - The auditor does not have assurance over the comparative figures. The auditor judges that this means there could be material but not pervasive misstatement and will need to qualify their opinion for 2025/26 by limiting its scope to not provide assurance over the comparative figures.
<b>2026/27</b>	Unmodified

*Note: Azets, our auditors for 2023/24 onwards update the Audit Committee as needed*

## Annual Governance Statement

- 3.9 Members will notice that for the first time, we have a weakness declared in our Annual Governance Statement in relation to the risk overview function of the Audit Committee. To some extent this should not come as a surprise to the members of the Audit Committee as they have been closely involved in an on-going self-assessment process that highlighted the need for further involvement in the risk management process in accordance with its terms of reference. Furthermore, they will be aware that there is an action plan in place to address this area to meet the updated CIPFA standards. Audit Committee Members agreed to complete the self-assessment following a report on this issue to the committee in January 2024. This plan is being progressed and includes changes to the risk review process, including how the Audit Committee plays a key part of this overall review process. The action plan also covers a new fraud strategy document to be presented to the Audit Committee as part of its work plan.
- 3.10 Azets have noted as part of their work that these areas need to be strengthened and have reported this in their VFM conclusion. This was an obvious area for consideration given this had been picked up in the Committee's self-assessment process earlier in 2024. Interestingly, our

previous Auditors (EY) did not raise any issues for any of the three years VFM work completed and report in December 2024.

- 3.11 Furthermore it should be noted that the Council's recent Corporate Peer Challenge concluded we have an overall sound system of Risk Governance but indicated that there was room for improvement in the role of members in the risk management process, which will be accomplished via implementation of the Audit Committee action plan already in place.
- 3.12 In response to the issues Azets raised in their VFM conclusion, members will note the management response to the findings highlight that the concerns are covered already in the Audit Committee's Action plan, which will address the recommendation raised, these include:
- ensuring a review of the Audit Committee's Terms of Reference in relation to the Council's governance arrangements (Jan 25).
  - producing an annual work plan to allow them to effectively discharge their duties as Those Charged with Governance (Mar 25), and
  - producing an Audit Committee annual report so the Council can monitor the committee's performance against its delegated responsibilities (Feb 25).
- 3.13 Azets Full report is attached to this covering report, and they will present the details for members to consider.

#### **4. Exemptions in accordance with the Access to Information procedure rules**

- 4.1 Report is taken in an open session.

#### **5. Financial implications [IB]**

- 5.1 None directly from this report

#### **6. Legal implications**

- 6.1 None directly from this report

#### **7. Corporate Plan implications**

- 7.1 Adoption of the proposal in this paper will contribute to the achievement of the following Corporate Aim of Empowering communities.

#### **8. Consultation**

- 8.1 None

## **9. Risk implications**

9.1 It is the council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives.

9.2 It is not possible to eliminate or manage all risks all the time and risks will remain which have not been identified. However, it is the officer's opinion based on the information available, that the significant risks associated with this decision / project have been identified, assessed and that controls are in place to manage them effectively.

9.3 There is no immediate risk to the Council.

## **10. Knowing your community – equality and rural implications**

10.1 The Financial Statements and the audit process will allow local communities and groups to review the financial performance and stewardship of the Council.

## **11. Climate implications**

11.1 None directly from this report.

## **12. Corporate implications**

12.1 By submitting this report, the report author has taken the following into account:

- Community safety implications
- Environmental implications
- ICT implications
- Asset management implications
- Procurement implications
- Human resources implications
- Planning implications
- Data protection implications
- Voluntary sector

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Background papers: None  
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