

**BOLSOVER DISTRICT COUNCIL**

**Meeting of the Audit Committee on 22<sup>nd</sup> January 2025**

**Local audit delays - update**

**Report of the Director of Finance & Section 151 Officer**

<b>Classification</b>	This report is Public.
<b>Contact Officer</b>	Director of Finance & Section 151 Officer Theresa Fletcher

**PURPOSE/SUMMARY OF REPORT**

To update the Committee with the latest information on 'The Local Audit Backstop dates,' in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) document, published in December 2024.

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**REPORT DETAILS**

**1 Background**

- 1.1 At the Audit Committee on the 12<sup>th</sup> of March 2024, Members were presented with a report titled 'Local audit delays – consultation and proposals for the future.' This report gave the background to how the local audit system ended up with the significant backlog of audit opinions that currently exist and gave details on the government proposals to clear the backlog and embed timely audit, as well as the consultation on proposals to resolve the current situation.
- 1.2 This report today, gives an update to the previous report and gives revised key dates.

**Key Facts**

- 1.3 As a reminder for Members, below are the key facts:
  - The backstop dates are a nationwide measure to address the backlog of incomplete audits of financial statements across local government in England.
  - They have been introduced as a way to reset the system and assist a return to a regular process of timely audit and publication of financial statements.
  - How each authority is affected depends on how many financial years' statements are outstanding.

1.4 The key dates are as follows:

Financial year	Statutory backstop date
2022/23 and before	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

1.5 The opinion on our statement of accounts for the year 2023/24 is outstanding, as Forvis Mazars are still carrying out the audit they began in early October.

1.6 The CIPFA publication gives a number of areas for Members to be aware of to ensure the Audit Committee continues to be effective.

Understanding the current position

1.7 At Bolsover only the latest year, 2023/24 is affected. All years previous to that have already been signed off by the auditors.

1.8 The unaudited (draft) statements have been signed off by the Section 151 Officer and are currently being audited.

1.9 The audit of the statements is being severely impacted by not having the audited financial statements for Dragonfly, from their auditors. Forvis Mazars have been trying work around solutions to undertake work to gain audit assurance wherever they can, but unfortunately, it is unlikely to be sufficient.

1.10 Finance staff have made repeated attempts to obtain the draft and audited statements from the accountants of Dragonfly. At the time of writing this report (23/12/24), we have still not received the final version of the draft accounts, to be able to forward them onto Forvis Mazars for testing.

1.11 Not having the audited statements is also causing problems for the Dragonfly companies. The CEO of Dragonfly has had to apply to Companies House to request an extension to the filing deadline for both companies as at the moment it is not possible to file their accounts for 2023/24 and meet the deadline of 29 December 2024. An extension to the end of March 2025 has been obtained for both companies.

1.12 A further area causing some delay to the audit is work being undertaken on pensions. A revised report for 2022/23 was requested from the actuary Hymans Robertson, after new guidance was received by Forvis Mazars on IFRIC 14. There is a cost to this report of £1,200, and it was received from the actuary on the 18<sup>th</sup> of December. We are currently waiting for the auditors to seek advice from their technical team before we get confirmation that the query is now resolved.

### What do our finance team need to be doing?

- 1.13 The team have prepared financial statements to the required standard, and they were ready for audit on time. They are now supporting the audit by answering questions and providing evidence to the auditor and liaising between Forvis Mazars and the Dragonfly auditors.

### What do the auditors need to do?

- 1.14 The auditor has ensured there is resource available in Forvis Mazars to enable them to carry out our audit.
- 1.15 The aim of the auditor has been to work towards sign-off of the accounts before the backstop date of the 28<sup>th</sup> of February 2025. Unfortunately, issues outside of our control mean it is almost certain that the 2023/24 accounts will be disclaimed when we reach the backstop date.
- 1.16 We have called an extraordinary Audit Committee for the 20<sup>th</sup> of February, where the auditors will present their report to those charged with governance. This will be an opportunity for Members to review the accounts.

### What happens at the backstop date – 28 February 2025?

- 1.17 By this date at the latest, the accounts must be published with the opinion of the auditor. Ideally the audit will be completed, and an unmodified opinion provided, but if this cannot be achieved in time, the auditor will issue a modified opinion.

### What does a modified opinion mean?

Audit opinion	Description
Unmodified	This is the best possible outcome. It means the auditor obtains sufficient evidence to support a view that the financial statements are materially accurate and fairly represent the audited body's financial situation.
Qualified	This is problematic. The auditor has material concerns either because of not being able to gather sufficient evidence or finding evidence that suggests material error. However, the effect on the financial statements is contained in specific areas and is not widespread.
Disclaimer of opinion	This is more problematic than being qualified, reflecting a larger-scale lack of evidence – for example, due to time constraints imposed by the backstop dates – which means that the auditor cannot provide an opinion. The possible effects on the financial statements of undetected misstatements could be both material and widespread.
Adverse opinion	Normally considered the worst-case scenario. The auditor does have sufficient evidence, but it suggests that material misstatements exist that undermine the reliability of the financial statements as a whole.

- 1.18 Discussions have already been held with Forvis Mazars around possible consequences for not receiving the audited financial statements of Dragonfly in time for sufficient audit work to be carried out on them. At a meeting on the 23<sup>rd</sup> of December 2024, we were informed it was almost certain that the Council's statement of accounts for 2023/24 would be disclaimed. This is due to us not receiving the Dragonfly audited statements from their auditors. The group accounts part of the Council's financial statements must consist of the information from the Dragonfly audited financial statements plus the Council's single entity statements.
- 1.19 If a modified opinion is issued, the auditor must provide an explanation for why the opinion is modified.

How do we explain to the public or our stakeholders why we have received a modified opinion?

- 1.20 A local authority is accountable to its local community and its stakeholders, so it is right that it takes steps to explain how it is affected by the backstop and why.
- 1.21 Audit Committees should encourage clear accountability and communications.
- 1.22 Authorities should explain the national position but also be clear about any local issues that have contributed. The auditor's report should clearly explain the reasons – this provides some independent assurance to the public.

What does a modified opinion mean for the audit of 2024/25 financial statements?

- 1.23 The Audit Committee should ask the auditor to explain the work they will be doing during the recovery and what steps the finance team can take to play their part.
- 1.24 We will be meeting with Forvis Mazars in early January 2025, to plan how we are best to proceed with the audit and to discuss the implications of a disclaimer on our 2024/25 accounts.
- 1.25 There will be an increase in the cost of the 2023/24 audit, how much is currently unknown, as a result of the extra group accounts work.
- 1.26 Work is already under way with the Dragonfly companies to make improvements in their financial statement audit process for the 2024/25 financial year.

Does a modified opinion mean that we have less assurance over the robustness of our financial systems and the management of our finances?

- 1.27 The audit opinion is an important source of assurance. It is issued in accordance with professional standards and is independent, so a modified opinion does provide less assurance. However, the audit report should highlight causes of concern to Members. Auditors are also recommended to issue recommendations at an early stage, so if they find weaknesses in the financial system, they must highlight these to the Committee.
- 1.28 Members also have other sources of assurance, including:

- Internal audit provide assurance over financial systems.
- BDC complies with CIPFA's Financial Management Code.
- Assurance is provided by the Section 151 Officer in the narrative report, within the Council's statement of accounts document.

Given this is a national problem, what is being done to sort it out?

- 1.29 Nationally, the Public Accounts Committee is monitoring the situation and has already issued reports. They hold the Ministry of Housing, Communities and Local Government (MHCLG) to account and have heard evidence from the Financial Reporting Council (FRC), Public Sector Audit Appointments (PSAA), the National Audit Office, CIPFA, the Local Government Association (LGA), and local audit firms.
- 1.30 The FRC will monitor the work of the audit firms as part of their audit quality role. They may censure firms who are not working appropriately to restore assurance and a return to normal.
- 1.31 The system partners are also taking steps to reform the local audit system. CIPFA has developed a Diploma in Local Audit to support the training of auditors in local audit. Other work is underway by the FRC as system leader to encourage firms to expand their local audit workforce and address the shortfall in auditors.
- 1.32 MHCLG will also be monitoring whether both firms and authorities meet the backstop requirements and will publish any concerns. They have indicated they will post a list of any authorities that have not complied with these backstops, and which are not eligible for the limited list of exemptions.

What implications does this have for our authority?

- 1.33 While the finance team are working on the statements and liaising with auditors, their resources are tightly stretched while undertaking work such as budget preparation and monitoring, and working with service teams, so this issue needs to be resolved for everyone's benefit.
- 1.34 Until the audit of the 2023/24 financial statements is complete, there will be an additional draw on the finance team's resources, and expected assurance from the financial statements will not be in place.

## **2 Reasons for Recommendation**

- 2.1 To update the Audit Committee with the latest information on 'The Local Audit Backstop dates,' in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) document, published in December 2024.

## **3 Alternative Options and Reasons for Rejection**

- 3.1 There are no alternative options for consideration, this report is for information.
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## **RECOMMENDATION(S)**

That the Committee notes the report.

Approved by Councillor Clive Moesby, Portfolio Holder for Resources

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## **IMPLICATIONS:**

<b><u>Finance and Risk</u></b> Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>		
<b>Details:</b>		
There are no financial implications arising from this report.		
On behalf of the Section 151 Officer		
<b><u>Legal (including Data Protection)</u></b> Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>		
<b>Details:</b>		
The Council has to prepare a statement of accounts in accordance with the statutory framework established for England by the Accounts and Audit Regulations 2015. The audit of those accounts is undertaken in accordance with the statutory framework established by Sections 3 and 20 of the Local audit and Accountability Act 2014 for England.		
On behalf of the Solicitor to the Council		
<b><u>Staffing</u></b> Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>		
<b>Details:</b>		
There are no human resource issues arising directly out of this report.		
On behalf of the Head of Paid Service		
<b><u>Equality and Diversity Impact and Consultation</u></b> Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>		
<b>Details:</b>		
Not applicable to this report.		
On behalf of the Information, Engagement and Performance Manager		
<b><u>Environment</u></b> Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>		
Please identify (if applicable) how this proposal/report will help the Authority meet its carbon neutral target or enhance the environment. <i>(Please speak to Richard Winter, Climate Change Officer, for advice)</i>		
<b>Details:</b>		
Not applicable to this report.		

**DECISION INFORMATION:**

<p><input checked="" type="checkbox"/> <b>Please indicate which threshold applies:</b></p> <p><b>Is the decision a Key Decision?</b> A Key Decision is an Executive decision which has a significant impact on two or more wards in the District or which results in income or expenditure to the Council above the following thresholds:</p> <p><b>Revenue (a)</b> Results in the Council making Revenue Savings of £75,000 or more or <b>(b)</b> Results in the Council incurring Revenue Expenditure of £75,000 or more.</p> <p><b>Capital (a)</b> Results in the Council making Capital Income of £150,000 or more or <b>(b)</b> Results in the Council incurring Capital Expenditure of £150,000 or more.</p> <p><b>District Wards Significantly Affected:</b> <i>(to be significant in terms of its effects on communities living or working in an area comprising two or more wards in the District)</i> Please state below which wards are affected or tick <b>All</b> if all wards are affected:</p> <p><b>Is the decision subject to Call-In?</b> <i>(Only Key Decisions are subject to Call-In)</i></p> <p>If No, is the call-in period to be waived in respect of the decision(s) proposed within this report? <i>(decisions may only be classified as exempt from call-in with the agreement of the Monitoring Officer)</i></p> <p><b>Consultation carried out:</b> <i>(this is any consultation carried out prior to the report being presented for approval)</i></p> <p>Leader <input type="checkbox"/> Deputy Leader <input type="checkbox"/> Executive <input type="checkbox"/> SLT <input type="checkbox"/>          Relevant Service Manager <input type="checkbox"/> Members <input type="checkbox"/> Public <input type="checkbox"/>          Other <input checked="" type="checkbox"/></p>	<p>Yes <input type="checkbox"/> No <input checked="" type="checkbox"/></p> <p>(a) <input type="checkbox"/> (b) <input type="checkbox"/></p> <p>(a) <input type="checkbox"/> (b) <input type="checkbox"/></p> <p>All <input checked="" type="checkbox"/></p> <p>Yes <input type="checkbox"/> No <input checked="" type="checkbox"/></p> <p>Yes <input type="checkbox"/> No <input checked="" type="checkbox"/></p> <p>Yes <input checked="" type="checkbox"/> No <input type="checkbox"/></p>
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<p><b>Links to Council Ambition: Customers, Economy, Environment, Housing</b></p>

**DOCUMENT INFORMATION:**

Appendix No	Title

<b>Background Papers</b>
<i>(These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Executive, you must provide copies of the background papers).</i>