



Report to:	Governance and Audit Committee
Date:	20 January 2025
Subject:	External Audit Update
Director:	Damon Lawrenson, Interim Director of Finance and Commercial Services
Author:	Gary Dowson, Head of Strategic and Corporate Finance

Is this a key decision?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for call-in by Scrutiny?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information or appendices?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
If the report does contain exempt information, what is the reason for exemption: <i>(indicate in the adjacent box the relevant paragraph of Schedule 12A, Local Government Act 1972, Part 1 – see Access to Information Rules)</i>	

1. Purpose of this Report

- 1.1 To provide an update on external audit matters that have occurred since the last meeting.
- 1.2 To present the External Auditors opinion on, and approve, the annual accounts for 2023/24.

2. Recommendations

2.1	That the Committee notes the position with regard to external audit work.
2.2	That the Committee receives the External Auditors opinion on the 2023/24 annual accounts.
2.3	That the Committee approves the annual accounts for 2023/24.

3. Information

- 3.1 Members will recall from previous meetings that the Ministry of Housing, Communities and Local Government (MHCLG) has, with the aim of restoring timely, high-quality financial reporting and audit, introduced mandatory 'backstop' dates, by which each year's audit work would have to be concluded, irrespective of whether the audit work had been completed.

- 3.2 The revised Code of Audit Practice gives effect to these backstop arrangements set out in the Accounts and Audit Regulations, which introduce for each financial year a date before which auditors would be required to give their opinion.
- 3.3 Where the audit work has not been completed, then the auditors will issue a disclaimer opinion.
- 3.4 The key elements of the backstop arrangements are:
- 3.4.1 A statutory backstop date of 13 December 2024 to clear the backlog of unaudited accounts up to and including financial year 2022/23.
- 3.4.2 Five further backstops for financial years up to and including 2027/28 to allow the system to recover:
- 3.4.2.1 2023/24: 28 February 2025
- 3.4.2.2 2024/25: 27 February 2026
- 3.4.2.3 2025/26: 31 January 2027
- 3.4.2.4 2026/27: 30 November 2027
- 3.4.2.5 2027/28: 30 November 2028
- 3.4.3 Change to the deadline for publication of draft (unaudited) accounts from 31 May to 30 June for financial years 2024/25 to 2027/28.

Statement of Accounts 2022/23 and Auditors Opinion

- 3.5 At the 4 December 2024 meeting of the Committee, Forvis Mazars presented their disclaimed opinion on the 2022/23 statement of accounts, following which the accounts were approved by the Committee.
- 3.6 The approved 2022/23 Statement of Accounts are published on the Authority's website and are available at [annual-statement-of-accounts-2022-23-final.pdf](#) .

Statement of Accounts 2023/24 and Auditors Opinion

- 3.7 The key element of the backstop arrangements in relation to financial year 2023/24 is a statutory backstop date of 28 February 2025.
- 3.8 Forvis Mazar reported to the Committee on 4 December 2024 that, as the annual accounts for 2023/24 have not been, and will not be, audited, the auditor's opinion will necessarily be disclaimed. The Authority is one of hundreds of bodies that will be issued with a disclaimed opinion in respect of the 2023/24 statement of accounts.

- 3.9 The annual accounts for 2023/24 were prepared in line with all relevant legislation and were approved for audit by the Director Finance and Commercial Services.
- 3.10 Auditor's reports and wider communications will make clear that local bodies should not be unfairly judged due to modified or disclaimed opinions resulting from the backstops, and that continued and effective collaboration across the system is vital to ensure the best possible outcomes.
- 3.11 A proportionate approach to rebuilding assurance is required and all system partners, including Financial Reporting Council (FRC), National Audit Office (NAO) and auditors, are aware this is the Government's objective. Forvis Mazars continue to seek guidance on what rebuilding assurance might look like
- 3.12 The annual accounts for 2023/24 are at [Statement of accounts 2023-24 final draft.pdf](#) and the results for the year have previously been considered. The Letter of Representation and Audit Completion Report, along with the Auditors disclaimer opinion on the 2023/24 annual accounts, will be circulated to members in advance of the meeting. Forvis Mazars will attend this meeting to present their audit opinion and the completion report.

Fee Scale for Audits

- 3.13 As previously reported, the 2023/24 audit fee for the Combined Authority of £95,792 has been set by Public Sector Audit Appointments (PSAA) and can now only be changed through the audit fee variation process.
- 3.14 It was previously reported to the Committee that PSAA proposals for audit fees for 2024/25 were for an increase of 9.5% on the 2023/24 fees, due to both the size and complexity of the Authority and increased audit code requirements.
- 3.15 The actual scale fee proposed by PSAA for 2024/25 is £237,072, an increase of £141,280 (147%) on the 2023/24 fee. The increase is the largest in both £ and % terms across all public bodies opted in to PSAA arrangements. Among Combined Authorities, the next largest increases are £27,201 and 23%, across different Authorities. The level of increase has been raised with PSAA and further details will be brought to the Committee in due course.

Fee Variations for Disclaimed Audit Opinions

- 3.16 In January 2025, PSAA will start their next cycle of processing fee variation proposals. Many of the proposals will include work that relates to the production of a disclaimed opinion, alongside standard ones.
- 3.17 There is not a standard approach to the work Auditors need to undertake to produce a disclaimed audit opinion. This work is driven by their respective professional judgement in these unprecedented circumstances, and as a result their costs vary.

- 3.18 PSAA have committed to continuing consideration of how best to deal with these cost variations and are working with MHCLG to further understand the financial impact and consequent action. Until that process is complete, their intention is to review all fee variation proposals that they receive from the audit firms but will only determine those which are not related to the production of a disclaimed opinion.
- 3.19 The Authority may, therefore, receive interim fee variation statements for an audit year, or for a later audit year before those for an earlier audit year. PSAA recognise that both of these scenarios are less than ideal.
- 3.20 To provide clarity, PSAA intend to issue a fees statement to each organisation that receives a backstop disclaimed opinion for audits up to 2022/23, which will cover the period from the first disclaimed audit year through to 2022/23. During this period, the Authority received a disclaimed opinion for 2022/23 only.
- 3.21 They will apply the same approach to those 2023/24 audit opinions where the only work completed is to issue the disclaimed opinion (other than the VFM arrangements and additional powers work). Again, the Authority falls into this category.
- 3.22 The proximity of the backstop dates for the up to 2022/23 and 2023/24 audits means that PSAA expect to receive fee variation proposals for around 700 audits in early 2025 and expect that it will take several months to process them.
- 3.23 The Authority continues to raise concerns about fees for disclaimed audits. Further updates will be brought to the Committee in due course.

4. Risks and Mitigations

- 4.1 There are no risks directly arising from this report.

5. Tackling the Climate Emergency Implications

- 5.1 There are no climate emergency implications directly arising from this report.

6. Inclusive Growth Implications

- 6.1 There are no inclusive growth implications directly arising from this report.

7. Equity and Diversity Implications

- 7.1 There are no equity and diversity implications directly arising from this report.

8. Financial Implications

- 8.1 The increase in audit fees for the financial year 2024/25 will have to be reflected in future budgets.

9. Legal Implications

9.1 There are no legal implications directly arising from this report.

10. External Consultees

10.1 No external consultations have been undertaken in the preparation of this report.

11. Background Documents

11.1 There are no background documents referenced in this report.

12. Appendices

12.1 There are no appendices to this report.