

4 November 2024

To Chris Blundell
Thanet District Council

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Dear Chris

Thanet District Council: An update on the application of the local authority backstop

On 30 July 2024, the Minister of State for Local Government and English Devolution, Jim McMahon, provided the following written statement to Parliament [Written statements - Written questions, answers and statements - UK Parliament](#). This confirms the government has introduced a backstop date for English local authority audits up to 2022/23 of 13 December 2024. A backstop date for 2023/24 has been set as 28 February 2025.

In this letter, I set out more details of the approach Grant Thornton plans to take in respect of the backstop, and how this is likely to impact your authority. I should be happy to discuss this further including at the next Governance and Audit Committee.

Applying the backstop for years up to 2022/23

As you will be aware, we have not yet signed the audit for the years 2021/22 and 2022/23. As at the date of writing, we have largely completed our work on the 2021/22 financial statements and Value for Money conclusion and we are confident we will complete this work in advance of the backstop date and thus should not need to apply the backstop to 2021/22. We have also completed our risk assessment work for the 2022/23 financial statements and completed and reported on our Value for Money work for this year as well. However, we consider that there will not be sufficient time to conclude our financial statements work in advance of the 13 December 2024 backstop deadline. On that basis, our expectation is that we will apply the backstop for the 2022/23 year.

Given that a number of key audit areas remain outstanding, then our audit report will be issued as a disclaimer of opinion. Effectively this means that we will have been unable to gain the assurance necessary to give an audit opinion by the statutory backstop date.

In plain terms, a disclaimer means that we have been unable to form an opinion. In this instance, the reason for this will be the limitation of scope imposed by statute (not by the local authority). A disclaimer due to the backstop does not of itself indicate a local authority failing. Where however we consider that there have been weaknesses in local authority arrangements for accounts closedown, we will report these in the Audit Findings Report which we produce at the conclusion of the audit. Should we have identified any issues during the audit which ordinarily would have impacted our opinion, we will give consideration to how these should be reported in the disclaimer of opinion. For the avoidance of doubt, we have not identified any such issues as at the date of writing nor do we expect to given that the Authority has published both its 2022/23 and 2023/24 financial statements.

Before we issue a disclaimer of opinion, we will:

- Report to you on any significant findings arising from our work to date
- Report any other matters arising from the audit which we need to share with you under the auditing standards
- Share the wording of the draft disclaimer of opinion with you.

Chartered Accountants

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To help us meet the backstop requirements, please ensure that you have:

- adopted the financial statements in accordance with the requirements of the CIPFA Code and the Accounts and Audit Regulations
- met the requirements under legislation in terms of the rights of local electors to inspect the accounts
- set aside a date for an Governance and Audit Committee in advance of 13 December 2024. In practice, we recommend arranging this in November if possible.

Please also note that we will need a letter of representation from you in respect of the financial statements before we issue a disclaimer.

We appreciate that where a full audit has not been completed, an adjustment will be needed in terms of fees. PSAA will be making determinations on this in due course.

In line with the legislation, a disclaimed opinion can only be issued if requirements around objections to the accounts have been satisfied. At this date we have not received any objections in respect of the 2022-23 Accounts, however the period of public inspection is still in progress, and we will keep management and the Audit Committee updated should any objections appear during this period.

The recovery period – 2023/24 and onwards

The government has set out its intention that from 2023/24, auditors should work with local authorities to begin the process of recovery. A backstop date for 2023/24 has been agreed of 28 February 2025, and a date for 2024/25 audits of 27 February 2026.

As part of our commitment to supporting the recovery period we have already completed our risk assessment work for 2023/24 and agreed a start date for the final accounts visit in November 2024.

The fact that the 2022/23 financial statements will be disclaimed brings with it a number of challenges. Not least of these is the fact that we will not have assurance over the opening balances in the financial statements for 2023/24. In addition, there are risks that the allocation of funds between different reserves could be misstated, and also that prior year errors in areas such as the Minimum Revenue Provision could have gone undetected.

Our intention is that over time we will re-build assurance in respect of prior years. The NAO and FRC are currently working on guidance to support auditors and we will update you as and when this is received. In the meantime, recognising that the next backstop date is set for 28 February 2025, our intention is to prioritise (amongst other things) the following areas:

- Risk assessment and evaluation of the control environment for 2023/24 including ISA 315 assessment
- Audit of closing balances as at 31 March 2024
- Audit of income and expenditure and movements within financial year 2023/24 and associated cut off testing
- Testing of journals within 2023/24
- Testing of Movement of Reserves statements and other primary statements (within the constraints that we will not have opening balance assurance)
- Financial statements disclosure
- Recognising the sensitivity of cash, we propose to look at the opening cash position as at 1 April 2023.

Our current aim is to be able to complete the above work by the end of January 2025. We will provide an Audit Findings Report to those charged with governance setting out the findings from our work and any key outcomes. We will also conclude our Value for Money work by 31 December 2024.

At this stage, given the inherent challenges outlined above, we consider that it is unlikely to be possible to undertake sufficient audit work by 28 February 2025 that would enable us to regain full assurance on opening balances, or on prior year property valuations where a material amount of the 31 March 2024 closing balance was last valued as at 31 March 2023.

The consequence of this is that there is a strong possibility audit year 2023/24 will be disclaimed in respect of opening balances. We are working with the NAO and FRC to identify the best way to regain full assurance and return to a clean opinion as quickly as possible over the coming years. We have already begun work on the project to regain full assurance and have discussed with you in previous weeks. In short, following completion of our audit of 2023/24, we will carry out specific procedures to regain assurance on transactions that occurred in 2022/23 which have a lasting impact on reserves balance. Following the satisfactory completion of this work, it will enable us to potentially provide a clean opinion from 2025/26 which will be the first audit period where 31 March 2023 balances are not presented in the financial statements.

We will keep you updated on the progress of our work. Do please ensure that a suitable Governance and Audit Committee date is arranged in advance of the 2023/24 backstop date of 28 February 2025.

Looking ahead

We recognise these are unusual and difficult times for all authorities that will be subject to the backstop. We believe that public confidence is best enabled by returning to a position of timely audit reporting and clean opinions as soon as possible. We will work actively with you and others in the sector to do our best to achieve this.

Yours sincerely

Matt Dean

For Grant Thornton UK LLP

CC Cllr Scobie (Chair of the Governance and Audit Committee)