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| REPORT TO:      | <b>AUDIT COMMITTEE</b>                         |   |    |
| DATE:           | 17 April 2023                                  |   |    |
| TITLE:          | <b>Update on Audit of Accounts Progress</b>    |   |    |
| TYPE OF REPORT: | For Information                                |   |    |
| PORTFOLIO(S):   | Cllr A Dickinson, Portfolio Holder for Finance |   |    |
| REPORT AUTHOR:  | Michelle Drewery, Assistant Director Resources |   |    |
| OPEN/EXEMPT     | Open   | WILL BE SUBJECT TO A FUTURE CABINET REPORT: | No |

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| <b>PURPOSE OF REPORT/SUMMARY:</b>  |
| To update members on the External Audit of the Borough Council's Statement of Accounts and related activity. |
| <b>RECOMMENDATIONS:</b>  |
| That members of the Audit Committee note the contents of the report.   |
| <b>REASONS FOR RECOMMENDATIONS:</b>  |
| To ensure Audit Committee are informed on latest developments and progress with the External Audit Partner.  |

## 1. Introduction

- 1.1 This report provides an update to the outstanding audits of the Borough Council's statements of accounts since and including 2019/2020.
- 1.2 The Council finds itself in a position where the audit of its accounts has not been completed since 2019/2020. A report by the National Audit Office published in January 2023, reported that at 30 November 2022 there were 45 audits outstanding from 2019/2020.
- 1.3 The Accounts and Audit Regulations 2015 ("the 2015 Regulations") set out detailed requirements for local authorities in relation to its annual audit and accounting processes. From the outset of the pandemic in 2020 the Government have extended the deadlines for producing a draft set of Accounts and for those accounts to be audited. The Government have recently confirmed that the deadline for producing a draft set of accounts for publication of unaudited accounts by 31 May 2023 for the 2022/2023 financial year.
- 1.4 In June 2019 the then known Ministry of Housing, Communities and Local Government, commissioned a review of the effectiveness of local audit and the transparency of local authority financial reporting. The review, published in September 2020, is known as the [Redmond Review](#), more detail is provided in section 6. The timing of that review indicates that there were issues with the local audit market before the impact of the pandemic, namely the growing regulatory demands on audit partners for additional diligence in their review of all systems supporting the production of an

authority's accounts. The additional work placed upon authorities to respond to the pandemic and associated accounting and reporting requirements, further compounded issues that were already prevalent in audits of the local government sector.

## 2. The Accounts and Audit (Amendment) Regulations 2021

2.1 The Accounts and Audit Regulations 2015 ("the 2015 Regulations") set out detailed requirements for local authorities in relation to its annual audit and accounting processes. From the outset of the pandemic in 2020 the Government have extended the deadlines for producing a draft set of Accounts and for those accounts to be audited.

2.2 The deadline for publication of draft accounts for 2022/2023 has been recently consulted upon by DLUHC. The outcome from this was announced on 3 April 2023 and the deadline remains 31 May 2023. For recent years the deadlines can be summarised as follows:

|                  | <b>Draft Accounts</b> | <b>Audited Accounts</b> |
|------------------|-----------------------|-------------------------|
| <b>2018/2019</b> | 31-May                | 30-Sep                  |
| <b>2019/2020</b> | 31-Aug                | 30-Nov                  |
| <b>2020/2021</b> | 31-Jul                | 30-Sep                  |
| <b>2021/2022</b> | 31-Jul                | 30-Nov                  |
| <b>2022/2023</b> | 31-May                | 30-Nov                  |

The percentage of District and Borough authorities that met these publication date for draft accounts in 2021/2022 was 63% (72% in 2020/2021) from a total of 181.

2.3 The Table below shows recent data on (A) the number of audit opinions that remained outstanding and (B) the proportion of audits that were completed by the audit deadline.

|                  | <b>(A)<br/>Outstanding Audits as 30 November 2022</b> | <b>(B)<br/>Proportion completed by due date</b> |
|------------------|---|---|
| <b>2015/2016</b> | 1   | 97%   |
| <b>2016/2017</b> | 1   | 95%   |
| <b>2017/2018</b> | 3   | 87%   |
| <b>2018/2019</b> | 10  | 57%   |
| <b>2019/2020</b> | 45  | 45%   |
| <b>2020/2021</b> | 161   | 9%  |
| <b>2021/2022</b> | *N/A  | 12%   |

Despite the obvious difficulty for local authorities to meet the less stringent deadline of the past 3 years, the deadline has been reduced by 2 months for the financial year 2022/2023 to reinstate the original statutory deadline of 31 May.

2.4 The Council has received a letter from EY, that has been sent to its clients advising that it will not be able to meet the deadline for auditing 2022/2023 accounts. Instead,

they are focussing their resources on the backlog of audits.

### **3. Statement of Accounts 2019/20 and Subsequent Years Update**

- 3.1 Following the completion of the Statement of Accounts for 2018/19 in January 2021, there were a number of amendments required to the published draft Statement of Accounts for 2019/2020. This led to a delay in providing the auditors with the necessary information on which to progress the audit thereby leading to a pause in the audit timetable.
- 3.2 EY have been working with the finance team to progress the audit at various stages throughout the financial year but it is not yet concluded. It is fair to say there have been resourcing issues in terms of capacity as well as timing on both sides, resulting in difficult progress on both sides and a failure to align resources.
- 3.3 The remaining work on the Audit of the Statement of Accounts for 2019/2020 has recommenced in April 2023. A particularly difficult time for the Finance Team to accommodate additional demand from the 2019/2020 audit whilst resources should be allocated to the drafting of the 2022/2023 Statement of Accounts for which, as mentioned in paragraph 2.2, the deadline has been brought forward two months.
- 3.4 The auditors in early 2022 had outlined a timetable to commence the other audits in quarter 1 and quarter 2 of 2023/2024. They have since withdrawn any further commitment beyond the current planned activity around the 2019/2020 audit.
- 3.5 It should be noted that the ongoing nature of the audit process continues to significantly impact resources in the finance team as well as other teams across the council.
- 3.6 The changing timescales for completion of the audit are regularly revised in the Audit Committee work programme which is reported separately to the Committee.

### **4. Improvement actions and review**

- 4.1 In response to the Redmond Review the DLUHC has noted 4 major focal points that it believes will start to change the situation:
- **Measures relating to audit firms and timely completion of audit.** These include new paths to becoming a key audit partner, new audit diploma, a new technical advisory service and the need to persuade new entrants into the market. Auditors more generally would likely comment on the need to increase pay to ensure they can attract talent and develop new talent in the field more generally.
  - **Measures related to local bodies and quality of accounts preparation.** DLUHC will provide £45m over next spending review period to support local government to meet these costs and additional burdens of the appointment of independent members and other recommendations. The challenge from local government is that this would be woefully inadequate.
  - **Proposed measures related to accounting and audit requirements.** Delays and adjustments to timings of changes to audit and accounting regulations were proposed by Government. CIPFA/LASAAC are undertaking a project to review the accounting code of practice. The issue here remains the main critique from public sector practitioners and the industry regulator, ICAEW, that there is a need to simplify financial reporting and reduce onerous disclosure requirements.

- **Longer-term measures to help stabilise the market and address long term supply issues.** PSAA to progress procurement strategy while Government plans to have the Code of Audit Practice to apply for the entire reporting period. There is also intent for a sector-wide review of how local audit requirements could link to a sector wide workforce strategy.
- 4.2 A letter from DLUHC to Audit Partners and Local Authority Section 151 officers reiterates its actions through the Financial Reporting Council to establish an Audit, Reporting and Governance Authority (ARGA). The role of the ARGA as a system leader is to enhance coordination and collaboration amongst stakeholders and establish clear accountability for the functioning of the system. The letter also asks that auditors and authorities setting out a realistic project and delivery plan for delayed audits and the critical dependencies.
- 4.3 The Council's Statutory officers have written to the auditors outlining the concerns resulting from limited engagement and frequent changes in external audit personnel. The letter also asks the auditor to engage in the development of a plan to realistically address the backlog of audits.
- 4.4 The Council's Finance Team has been through a period of transition from a new Financial Management System and turnover in senior management. It is recognised that these circumstances bring opportunities for enhancing processes. Examples include:
- Review of Budget Monitoring and implementation of revised format for reporting and enhanced automation of output to budget managers.
  - Identification and maintenance of monthly reconciliation and controls checklist.
  - Review and classification of earmarked reserves.
  - Timetable for reporting to Officer and Member Major Project Boards.

## **5. Financial Implications**

- 5.1 There will be additional costs to the current audit as a result of the delays set out in the report. These costs are not known at this time. Further updates will be reported as information becomes available.
- 5.2 The review of effectiveness of External Audit and transparency in financial reporting in Local Authorities recommend a review of the current fee structure. New fees are expected to be approximately 150% greater than previous ones, as auditors face higher requirements placed upon them and to ensure all audit fees cover the full cost of a quality audit. The Government has responded to this by offering a Local Audit Grant to LA Bodies to help meet the anticipated rise in Audit fees. The Council has been allocated £20,359 of this grant for 2021/22.
- 5.3 As of April 2021, PSAA introduced a scale fee variation process. This is where PSAA sets the fee scale on an annual basis and publishes the scale fee for each individual audited body. If the auditor subsequently considers that additional work is required that is not provided for in the scale fee for an individual body, a fee variation proposal can be submitted to PSAA. This is set out in the legal framework for audit fees and variations, in the Local Audit (Appointing Person) Regulations 2015 ('the Regulations'). Regulation 17(2) provides for the auditor to propose to PSAA (as the Appointing Person) that fees should be varied where the work involved in a particular audit was substantially more or less than envisaged by the appropriate scale.

5.4 The latest scale fee as published by PSAA is for 2021/2022 and is £39,494. It is expected that a fee variation will be proposed in respect of 2019/2020 and subsequent years. Further updates will be reported as information becomes available.

**6. Any other Implications/Risks**

6.1 Other implications and risks are set out in the report.

**7. Equal Opportunity Considerations**

7.1 None

**8. Background Papers**

[The Accounts & Audit Regulations 2015](#)

[The Accounts & Audit Regulations \(Amendment\) 2021](#)

[NAO: Timeliness of Local Auditor Reporting](#)

[List of auditor appointments and scale fees – PSAA](#)

[PSAA fee variation process – PSAA](#)

[The Redmond Review: Oversight of Local Audit and the Transparency of Local Authority Financial Reporting](#)