

REPORT TO:	AUDIT COMMITTEE		
DATE:	18 September 2023		
TITLE:	Update on Audit of Accounts Progress		
TYPE OF REPORT:	For Information		
PORTFOLIO(S):	Cllr C Morley, Portfolio Holder for Finance		
REPORT AUTHOR:	Michelle Drewery, Assistant Director Resources		
OPEN/EXEMPT	Open	WILL BE SUBJECT TO A FUTURE CABINET REPORT:	No

PURPOSE OF REPORT/SUMMARY:
To update members on the External Audit of the Borough Council's Statements of Account and provide an update on action proposed by the Government Department for Levelling-up, Housing and Communities.
RECOMMENDATIONS:
That members of the Audit Committee note the contents of the report.
REASONS FOR RECOMMENDATIONS:
To ensure Audit Committee are informed on latest developments and progress with the External Audit Partner.

1. Introduction

- 1.1 This report provides context to the outstanding audits of the Borough Council's statements of accounts since and including 2019/2020. There is also an update from the Department for Levelling-up, Housing and Communities (DLUHC) at section 2.
- 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 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 following table sets out the date the council published draft accounts in comparison to the required date:

	Due date	Published date
2022/2023	31/05/2023	Pending
2021/2022	31/07/2022	01/08/2022
2020/2021	31/08/2022	05/11/2021
2019/2020	31/08/2022	16/10/2020
2018/2019	31/05/2019	18/06/2019
2017/2018	31/05/2018	31/05/2018
2016/2017	31/05/2017	31/05/2017

2.3 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:

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

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

2.4 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.

	(A) Outstanding Audits as 30 November 2022	(B) Proportion completed by due date
2015/2016	1	97%
2016/2017	1	95%
2017/2018	3	87%
2018/2019	10	57%
2019/2020	45	45%
2020/2021	161	9%
2021/2022	*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.

- 2.5 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. Update from DLUHC (July 2023)

- 3.1 Lee Rowley, the parliamentary under-secretary of state for local government and building safety, outlined proposals in a letter to Clive Betts, chair of the Levelling Up, Housing and Communities (LUHC) Committee inquiry into financial reporting and audit in local authorities. The proposals include setting statutory deadlines and issuing qualifications and disclaimers of opinion in the short term.

- 3.2 Working together, the National Audit Office (NAO) and DLUHC intend to set a series of statutory deadlines for accounts preparers and auditors to clear the backlog of delayed audits for financial years 2015/16 to present.

- 3.3 It should be noted that it has been highlighted that in order to achieve these deadlines, it may result in qualifications and disclaimers of opinion in the short term for a number of local bodies.

- 3.4 DLUHC confirm that the proposals have been agreed in principle with key partners across the local audit system. The National Audit Office (NAO) is considering whether to develop a replacement Code of Audit Practice to give effect to the changes. Legislative change may also be needed to address any knock-on effects of the proposals which may impact the audit of opening balances within the accounts for future years. Under these proposals, section 151 officers will be expected to work with Audit Committee members (or equivalent) to approve the final accounts by the statutory deadline in order for the audit opinion to be issued at the same time.

- 3.5 The proposed deadlines being considered for audit completion are set out as follows but it should be noted that these are not yet confirmed:

Financial Years	Deadline
2015/16 – 2019/20	31/12/2023
2020/21 – 2021/22	31/03/2024
2022/2023	30/09/2024
2023/2024	31/03/2025
2024/2025	30/09/2025

4. Statement of Accounts 2019/20 and Subsequent Years Update

- 4.1 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.

- 4.2 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.
- 4.3 The remaining work on the Audit of the Statement of Accounts for 2019/2020 has recommenced in April 2023 and continued over the summer of 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 had been brought forward two months.
- 4.4 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.
- 4.5 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.
- 4.6 The changing timescales for completion of the audit are regularly revised in the Audit Committee work programme which is reported separately to the Committee.
- 4.7 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.
- 4.8 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

[Secretary of State for Levelling-up Letter to Local Audit Inquiry July 2023](#)

[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](#)