
REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE	AGENDA ITEM: 10
DATE OF MEETING:	9 FEBRUARY 2023	CATEGORY: DELEGATED
REPORT FROM:	STRATEGIC DIRECTOR (CORPORATE RESOURCES)	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) Kevin.stackhouse@south-derbys.gov.uk	DOC: h/KS/live files/audit committee/audit appointments/final accounts audit governance
SUBJECT:	AUDIT OF ACCOUNTS AND FINANCIAL STATEMENTS	
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 09

1.0 Recommendations

- 1.1 That the position regarding the external audit of the Council's Accounts and Financial Statements is considered.

2.0 Purpose of the Report

- 2.1 To report back on a matter considered by the Audit Sub-Committee regarding the potential effect on Governance brought about by the delay in the signing of the Council's Accounts and Financial Statements.

3.0 Detail

- 3.1 The Committee will be aware that there were significant delays in the auditing and signing of the Council's Accounts for 2020/21. This was primarily due to resourcing issues in the external audit sector, which will also mean a delay for the 2021/22 Accounts and possibly future years as it currently stands.
- 3.2 The Council's External Auditors (Ernst and Young – EY) completed their work and signed off the Council's Accounts for 2020/21 in December 2022, 1 ³/₄ years after the end of that financial year. At present, EY have not commenced their audit for the 2021/22 Accounts, nearly 12 months after that financial year ended
- 3.3 A vast majority of authorities are also experiencing significant delays in auditing, which delays the publication of the statutory financial statements. As at December 2022, approximately 160 local authorities were still waiting for audit opinions on both their 2020/21 and 2021/22 accounts.
- 3.4 Although the Council's accounts and financial position each year-end, in the form of Budget Out-turn reports, are reported to the Committee annually in July, these are not the statutory accounts, which are required to satisfy stewardship and accountability for public resources.
- 3.5 The statutory document is a more technical and detailed document produced in accordance with International Financial Reporting Standards.

- 3.6 The statutory document has to be produced by the Council in draft form by 31 May following the end of the financial year in March, although this was relaxed during Covid and extended to July. However, the document cannot be officially published until it has been audited and the Auditor have given their opinion on the Accounts for that year.
- 3.7 Normally, auditors are required to complete their audit and issue an opinion by 30 September, six months after the year-end, although this date was temporarily extended by two months to 30 November (2022) for the 2021/22 accounts.
- 3.8 In addition to auditing the accounts, external audit are also required to conduct an overview on how councils use their resources, achieve value for money, together with assessing a council's Governance framework and how it makes decisions.
- 3.9 Although there is no opinion provided on these matters, auditors are required to raise any issues they find as part of their work and then recommend action to be taken where necessary to address any weaknesses.

Potential Implications

- 3.10 Clearly, there is concern amongst finance professionals, together with the Local Government Association and Accountancy bodies, who have also highlighted potential risks. It is considered that the main risk potentially, is councils are making decisions, managing financial challenges and planning for the future with limited assurance about their underlying financial position.
- 3.11 This position could be exacerbated where authorities have more complicated arrangements in place to deliver services, such as wholly owned companies and commercial investments, etc.
- 3.12 Auditors are required to scrutinise reserve levels, contingencies and provisions, etc. together with verifying that assets and liabilities have been accounted for in accordance with proper practice. If this is not completed in a timely manner, then it potentially undermines the credibility of a local authority's financial position and sustainability.

Future Audits

- 3.13 Generally, it is considered that there are no short-term solutions to the current situation. The main problem appears to be the lack of resources in audit firms. Auditing local authorities is a specialist area with long lead-in times for training and development of new staff.
- 3.14 In addition, International Financial Reporting Standards which have not previously applied to local authorities, have increasingly been adopted and this places an additional burden on auditors to ensure councils comply.
- 3.15 The Redmond Review commissioned by the Government, which reported in September 2020, made several recommendations for improvement. As part of this, the Financial Reporting Council recently appointed a new Director of Local Audit, whose remit is to drive forward improvement.

- 3.16 In addition, the format and detail of the statutory document is being reviewed by the Chartered Institute of Public Finance. They are seeking to make recommendations to streamline the statutory document in order to reduce the amount of audit resource required.

4.0 Financial Implications

- 4.1 In the meantime, the external audit sector is facing significant recruitment and retention issues. The current audit contracts, which were awarded to cover the financial years 2018/19 to 2022/23 following a national procurement exercise, led to audit fees being substantially reduced.
- 4.2 Following the abolition of the Audit Commission on 31 March 2015, responsibility for overseeing local audit arrangements, transferred to the Public Sector Auditing Appointments (PSAA) a Government Agency. This was designed to provide greater competition into awarding audits to private accountancy firms and was seen as being a more efficient way of delivering local audits.
- 4.3 The national procurement exercise in 2017, saw the Council's audit fees falling from approximately £80,000 at that time, to a current level of £37,000 per year. Although there is no definitive evidence, it is generally considered that the reduction in fees, coupled with increasing standards, has led to an unsustainable sector with a detrimental effect on recruitment and retention.
- 4.4 If these issues are to be addressed, it is considered inevitable that audit fees will need to increase, The PSAA has recently conducted a procurement exercise for the next round of contracts which will cover the financial years 2023/24 to 2027/28.
- 4.5 Although the Council is awaiting an indication of its fee level, market estimates have suggested that fees will need to increase substantially in order to support the sector's recovery. Provision has been made in the Council's Medium-Term Financial Plan.
- 4.6 In addition, there is also a likelihood that fees will increase in the interim period. The final fee for 2020/21 has still to be approved by the PSAA. This is due to audit firms submitting schedules of additional costs being incurred,
- 4.7 Following completion of the 2019/20 Audit, the Council were required to pay a variation fee of approximately £18,000, although this was funded by the Government in recognition of the on-going issues. Any variation fees for 2020/21, 2021/22 and 2022/23 are still to be determined and make take several years to settle.

5.0 Corporate Implications

Risks

- 5.1 As detailed in the report.

Legal Implications

- 5.2 None directly at this stage.

6.0 Community Implications

- 6.1 The delay in audit opinions means that residents and other stakeholders are not being provided with timely assurance of the Council's financial position and broad governance arrangements.

7.0 Background Papers

- 7.1 None