

External Audit Update - 2021/22

Audit & Scrutiny Committee Tuesday, 26th September 2023

Report of: Chief Finance Officer (Section 151)

Purpose: Information

Publication status: Unrestricted

Wards affected: All wards

Executive summary:

This report updates the Committee on the progress of the external audit of the 2021/22 statement of accounts.

The report also sets out progress to-date in addressing audit fees with Deloitte for the financial years 2019/20, 2020/21 and 2021/22.

This report supports the Council's priority of: Building a better Council.

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Recommendation to Committee:

- A) That Committee notes the 2021/22 external audit progress.
 - B) That Committee notes the publication of the 2021/22 statement of accounts on the Council's website and the start of the public inspection period.
 - C) That Committee notes progress on addressing audit fee proposals.
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Reason for recommendation:

Local authorities are required to prepare an annual statement of accounts, publish such accounts and have those accounts audited. Audit and Scrutiny Committee is responsible for approving the final audited statements.

Overview

1. On 27th June 2023, the Council's External Auditors, Deloitte, set out their final audit plan for 2021/22. Deloitte presented the plan to Committee, setting out their approach and highlighting the principal matters that the audit will focus on.
2. Since the last Committee meeting Deloitte have begun their audit work. The start of the audit was delayed by a discussion on the level of audit fees (set out in section 12) and commenced in July 2023. Regular meetings are held between the Finance team and Deloitte to discuss and progress the audit. An audit project plan was drawn up with the view to completing the 2021/22 audit by the end of October 2023, however there is a significant risk that this will slip, as set out below. The project plan includes commitments from both sides on providing the information required to complete the audit within the agreed timeframe. The project plan will continue to be closely monitored and reviewed in line with progress made in the bi-weekly meetings.
3. This is a very challenging timetable in the current audit climate and in light of the need to balance priorities in the Finance team and across the Council. The National Audit Office announced this year that audit firms have given opinions on only 12% of local government bodies within the statutory deadline of November 2022 (this figure was even less – 9% - for 2020/21). Council activities have become more complex in nature, particularly given the level of grant funding and other activity related to Covid-19 and cost of living support. There is a much greater focus on audit quality and risk and this has increased the work required in some areas. Resource issues in both local authority teams and firms servicing the local audit sector continue to make it difficult for audits to be signed off in a timely manner.
4. The current timetable is very challenging for the Finance team as well as other areas of the Council such Housing, Exchequer, HR/Payroll, Legal, IT and Assets who collectively bear the majority of audit work and audit queries. In Finance, many of the same staff are working on budget monitoring and budget setting issues as well as supporting budget holders. Deloitte have set a very tight timetable in order to complete the audit by the end of October in an attempt to catch up with the 2021/22 and 2022/23 audits by the end of the current financial year. Whilst both the Council and the auditors are making every effort to adhere to the plan, there is a high risk of slippage. The Council is in discussions with Deloitte on this matter at the time of writing.

Statement of Accounts 2021/22

5. Tandridge District Council's draft statement of accounts for 2021/22 will be published on 20 September 2023. The Council is also required to publish a notice of the inspection period for the accounts. The statements and the inspection notice can both be viewed on the website at this location: [Financial statements - Tandridge District Council](#).

6. From the date of publication the draft accounts are subject to a 30 working day public inspection period, during which time any person interested may on reasonable notice inspect the accounts and supporting documents, except where the latter includes commercially sensitive or personal information. The public inspection period will run from 20th September through to 31st October 2023. Electors are also able to make objections to the external auditor in writing specifying the facts and grounds for the objection during this period under the Local audit and accountability act 2014.

Audit Fees

2019/20 and 2020/21

7. At the most recent Audit and Scrutiny Committee meeting on 27th June 2023, Committee approved recommendations to "reject the proposed fee variations for 2019/20 and 2020/21" and "note that officers have begun the process to challenge the fees and will report back to Committee as this work progresses." The variations proposed across the two financial years were as follows:
 - 2019/20: £136k
 - 2020/21: £209k
 - **Total: £345k**
8. For context, the standard scale fee for 2019/20 and 2020/21 was £36k per year. The proposal from Deloitte represents a 479% increase. The variation represents 3% of the Council's annual budget.
9. Following that meeting, advice was sought from Public Sector Audit Appointments LTD (PSAA) who advised that the Council should look to resolve the matter with Deloitte in the first instance and then refer back to PSAA if resolution could not be reached.
10. Following consultation with the Head of Legal Services, the Chair and Vice Chair of Audit and Scrutiny Committee and the Chair and Vice Chair of Strategy & Resources Committee, a letter was sent to Deloitte on the 31st August rejecting the proposed fees and setting out why the Council does not deem that they represent value for money.
11. Following further discussion with Deloitte it was concluded on the 13th September that no jointly agreed position could be reached and on the same day, the Section 151 officer referred the matter formally to PSAA with Deloitte in copy. At time of writing this report, no response has been received from PSAA.

2021/22 and future years

12. On the 11th July 2023, the Council received a cost estimate for the 2021/22 audit of £151k, before any additional costs that may come to light during the course of the audit. The Chairs and Vice Chairs of A&S and S&R were informed of this on the 13th July 2023 and the S151 officer advised Members that Deloitte would be told that they could continue with the audit at their own risk

and that the Council would not commit to the proposed fees. Following discussions with Members, this was communicated to Deloitte on the 17th July 2023.

13. On the 21st July 2023, Deloitte provided a revised estimate of fees of £66k in total (£30k in excess of the scale fee). This figure is provisional and further amendments may be proposed. Similarly the Council will continue to challenge any proposed fees if it does not deem them to offer value for money.
14. Committee approval will be sought for any fees paid in respect of 2019/20, 2020/21 and 2021/22 and Committee will be updated with any progress following discussions with PSAA.
15. All Councils are expecting a significant increase in the scale fee for 2023/24 audits. The Council is awaiting formal communication of the proposed fee for Tandridge, however an example on the PSAA website shows a typical audit fee of £52k increasing to £182k. With a £36k current fee, following the example, the Council could expect a £90k uplift. This is purely by way of illustration of the scale of likely increase and the Committee will be updated when Officers know more. The Council will lobby Government to provide funding to cover the additional cost however it is likely that it will need to be included as a budget pressure in the 2024/25 Draft Budget.

Other options considered

The completion of the audit is a statutory requirement, however the FRC, DLUHC and other stakeholders are discussing the introduction of statutory cut-off dates at which point no further audit work will be undertaken. The most recent proposals are for cut off dates of 31 March 2024 for the 2021/22 and 30th September 2024 for the 2022/23 audit. The Council is working closely with the auditors on the best way to balance achievement of a completed audit against providing Value for Money for residents and businesses in Tandridge.

Consultation

Not required.

Key implications

Comments of the Chief Finance Officer

The financial implications of the report are set out above. The external auditor has pointed out that it is likely that fee variations will be required. The Chief Finance Officer will advise Deloitte that, in accordance with PSAA requirements, the fee implications should be discussed with management at the earliest opportunity and will be subject to Committee approval.

Comments of the Head of Legal Services

In relation to the Council's Constitution and the specific role and responsibilities of this Committee the Constitution provides that the overall purpose of the Committee is *'to be responsible for the review and scrutiny of the decisions and performance of the Council, audit arrangements and providing opportunities for other organisations to present / explain key aspects of their local services'*. In particular, the Committee is responsible for overseeing both internal and external audit helping to ensure that efficient and effective assurance arrangements are in place.

To discharge its functions effectively, the Committee is required to operate within their agreed Terms of Reference. The external auditor's plan is designed to ensure that.

Equality

There are no Equalities implications directly arising from the statutory audit of the financial statements.

Climate change

There are no Climate Change implications directly arising from the statutory audit of the financial statements.

Appendices

None

Background papers

None

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