

External Audit Update - 2021/22

Audit & Scrutiny Committee Tuesday, 28th November 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 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. The Committee were informed at the September meeting that the 2021/22 audit had started in July 2023. An audit project plan had been drawn up with the aim of completing the audit by the end of October 2023. It was reported to the committee that there was a significant risk that this deadline would not be met due to conflicting priorities which had delayed the provision of information to the external auditors. The Deloitte progress report and a draft Audit Findings report have been attached to this report as Appendix A.
3. The audit of the 2021/22 statements is progressing. As detailed in the progress report some areas of the audit have been substantially completed in terms of testing. Whilst both the Council and Deloitte made every effort to adhere to the plan other areas remain still in progress. The Finance team continue to have regular meetings with Deloitte to discuss and progress the audit. The project plan will continue to be closely monitored and reviewed in line with progress made in the bi-weekly meetings.
4. As reported to the committee in September in an attempt to catch up with the 2021/22 and 2022/23 audits the proposed timetable was very challenging for both Tandridge officers and Deloitte. To progress the audit Deloitte plan to focus resources on their work to support the audit opinion towards the end of November with a view to complete audit testing by the end of 2023, with audit sign off early 2024. This plan will continue to be closely monitored and reviewed in line with progress made in the bi-weekly meetings.

Audit Fees

2019/20 and 2020/21

5. As previously reported the fee proposals from Deloitte are as follows:

- 2019/20: £136k
- 2020/21: £209k
- **Total: £345k**

This can be compared to the standard scale fee of £36k per year for both 2019/20 and 2020/21. It represents a 479% increase and 3% of the Council's annual budget.

6. As reported to committee in September the Section 151 officer, having not been able to resolve the matter with Deloitte, referred the matter formally to PSAA for resolution.

7. The section 151 officer met with Public Sector Audit Appointments (PSAA) in early October to discuss the fee proposals. As advised by the PSAA the next step in the process was to send through evidence of our fee challenge setting out the difficulties we had faced during the audits and the reasoning behind why we do not feel the additional charges were justified.
8. This evidence has now been sent to PSAA and we are awaiting their response.

2021/22 Audit fees

9. The scale fee set by PSAA for the 2021/22 audit is £36k (the same as the previous two years). Deloitte have stated in their report attached (page 25) that they have proposed an increase to the audit fee to £66k with a further £63k of fees due to delay in providing information. 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.
10. The Council has not agreed to pay any additional audit fees and Committee approval will be sought for any fees paid in respect of 2019/20, 2020/21 and 2021/22.

Addressing the Local Audit backlog

11. The Department for Levelling Up, Housing and Communities (DLUHC) has been working with the Financial Reporting Council (FRC) on proposals to address the significant backlog of local government audits. Working together the National Audit Office (NAO) and DLUHC) intend to set a series of statutory deadline for account preparers and auditors to clear the backlog of delayed audits for financial years 2015/16 to present.
12. Auditors would provide as much assurance as possible for the outstanding years reporting significant concerns they may have. Reporting on Value for Money will remain a high priority. The principles have been agreed in principle with key partners.
13. The cut off dates have not been formally announced although 31 March 2024 has been discussed. This deadline may result in qualifications and disclaimers of opinion in the short term for a number of local bodies.
14. The NAO has established a dedicated programme board, supported by at least three working groups, to develop the potential changes and related technical questions with stakeholders. The changes will be implemented following further engagement and we will report back to committee when more details are available.

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

Appendix A – Deloitte's draft report to the Audit & Scrutiny Committee on the 2021/22 audit.

Background papers

None

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