

External Audit Update - 2021/22 and 2022/23

Audit & Scrutiny Committee - Tuesday, 6th February 2024

Report of: Director of Resources (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 alongside an update on related matters.

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 in finalising the 2022/23 Statement of Accounts.
 - C) The Committee notes the letter from the Minister for Local Government re the proposed audit backstop (Appendix A).
 - D) 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.

2021/22 External audit

1. On 28th November 2023, the Audit and Scrutiny Committee received a report relating to the progress of the external audit of the 2021/22 Statement of Accounts and the discussions relating to audit fees.
2. Members were informed that all areas of the audit had commenced, with 76% of the initial field work completed.
3. The audit of the 2021/22 statements is progressing. There have been delays over Christmas and New Year due to auditors' annual leave. Meetings are progressing between Officers and Deloitte to complete the final audit work and checks to enable the statements to be signed. Deloitte are in the process of preparing a more detailed progress report which will be shared with Members when available.
4. The project plan is being monitored on a weekly basis so that progress towards 100% completion of outstanding audit areas can be tracked. The aim is for all outstanding audit work to be completed by the end of February 2024. The intention is for the final Audit Findings Report and the Statement of Accounts for 2021/22 to be presented to the 11th April 2024 Committee meeting.
5. It has also been agreed that Deloitte and Council Officers should meet with the Chair and Vice Chair of the Committee on a monthly basis to provide updates on the progression of the audits between Committee meetings. These meetings are being scheduled.

Audit Fees

2019/20 and 2020/21

6. 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.

7. As reported to Committee in November both the Council and Deloitte had submitted evidence in respect of the fees incurred to Public Sector Audit Appointments (PSAA) and a decision was expected in due course.
8. Officers have been in contact with PSAA. PSAA have stated that they are still working on the fee variations issue. They are continuing to have meetings with Deloitte and are looking at various parts of the audit file. Whilst all parties are keen to resolve the situation as quickly as possible, PSAA are aiming to

ensure that the correct outcome is reached and do not wish to compromise the process.

9. Once PSAA have completed their work they will write to the Council setting out their determination. They are aiming that this will be in either late January or early February. The Council will challenge this if it is not satisfied by the outcome.

Future Audit Fees

10. As reported to previous Committee meetings, the scale fee set by PSAA for the 2021/22 audit is £36k (the same as the previous two years). Deloitte reported to the November Audit and Scrutiny Committee that they proposed to increase the audit fee for 2021/22 to £66k as a result of additional work required to assess Value for Money (VFM), increased use of specialist expertise and changes to various International Auditing Standards. Deloitte also reported that they have incurred additional costs of £63k due to a delay in providing information. These figures are 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.
11. The audit of 2022/23 is referred to separately, below, however the £36k standard scale fee applies as in previous years.
12. The 2023/24 external audit will be undertaken by Grant Thornton. PSAA has published the 2023/24 audit scale fee following a consultation. The new fees have been set at a time of significant change in the local audit system and the scale fees have attempted to replace the need for future fee variations. Under the new regime the scale fee is £151k.
13. The increased fees highlighted in paragraph 12 above have been built into the Council's proposed 2024/25 budget.

2022/23 Statement of Accounts and External Audit

14. The Statement of Accounts for 2022/23 is in the process of being finalised and will shortly be published in draft form on the Council's website. The intention is that it will be published by the end of February 2024. From the date of publication, the draft accounts will be 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.

Addressing the Local Audit backlog

15. Throughout 2023 the Government have been consulting with the sector on a range of proposals designed to address the backlog of local audits in England.

The proposals included enforcing statutory deadlines and issuing qualifications and disclaimers of opinion in the short term.

16. The Levelling Up, Housing and Communities Committee published a report in November 2023 acknowledging that a resetting of the system through a limited series of statutory deadlines was necessary as a first step to resolve the audit backlog.
17. The Department for Levelling Up, Housing and Communities (DLUHC) has continued to work with the Financial Reporting Council (FRC). The Minister has written to the Committee to follow up its report on financial reporting and audit in local authorities. This letter, dated 9 January 2024, explicitly mentions the proposed date of 30 September 2024 as the first statutory deadline for all outstanding local audits in England up to and including the financial year 2022/23. It also announces that the department and the NAO will commence consultation shortly on proposals to implement changes to facilitate the system re-set and recovery. The letter is attached as Appendix A.
18. These proposals are subject to consultation. The letter makes it clear that whilst consultations take place, councils and auditors should continue undertaking existing work to produce and audit local authority financial statements to ensure that the system is in the best place possible to implement and final package of measures.
19. Officers are discussing the implications of this with Deloitte, and Committee will be updated and consulted as those discussions progress.

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 Director of Resources will continue to 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.

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 - Local Audit letter - Minister Hoare to Clive Betts

Background papers

None

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