

AUDIT AND STANDARDS COMMITTEE

4 October 2023

Title: Update on external audit delivery	
Report of the Appointed Auditor, Lisa Blake	
Open Report	For Information
Wards Affected: All	Key Decision: No
Report Author: Lisa Blake, Partner, BDO	Contact Details: E-mail: Lisa.Blake@bdo.co.uk
Accountable Director: Jo Moore, Interim Chief Financial Officer (Section 151 Officer)	
Accountable Strategic Leadership Director: Fiona Taylor, Chief Executive	
Summary This report is to update the Committee on the status of the 2019/20 audit of the Council's Statement of Accounts and proposals regarding the delivery of the audits of the Statement of Accounts for the 2020/21, 2021/22 and 2022/23 financial years.	
Recommendation(s) The Audit and Standards Committee is recommended to note the report.	
Reason(s) It is a statutory obligation for the Council's Statement of Accounts to be produced and audited, and the Statement of Accounts and the Annual Governance Statement must be approved by a Committee of the Council.	

1. Introduction and Background

- 1.1 The 2019/20 audit commenced fully in February 2021, when the complete set of draft accounts for audit, including group accounts, were provided by the Council.
- 1.2 To date BDO has brought the following written reports to this Committee, outlining the status and findings of the audit work completed so far:
 - Interim Audit Completion Report (7 March 2022)
 - Audit Status Report (12 October 2022)
 - Audit progress report & indicative timeline for future audits (28 June 2023)
- 1.3 Key matters reported in March 2022 included:
 - Improvements in working papers provided for audit compared to previous years but, as in the previous year, there were significant delays in the Council providing auditable (complete and accurate) group accounts and supporting working papers for audit.

- Material misstatements in the draft Statement of Accounts received for audit in the areas of the valuation of land and buildings (£27.4m) and overstatement of recharges (£49.7m).
 - Non-compliance with the Code of Accounting Practice on Local Authority Accounting in respect of asset classification (HRA assets misclassified as assets under construction £7.9m) and impairment of receivables (NNDR provision £2m)
 - Nine in-year unadjusted non-trivial misstatements and ten adjusted non-trivial misstatements identified, in addition to the material misstatements noted above.
 - Six significant deficiencies in the Council's internal control environment, including in the internal quality review processes applied to the draft Statement of Accounts before publication.
- 1.4 In October 2022 we reported that a combination of continued difficulties in obtaining satisfactory evidence from the Council to support the audit, the unplanned long-term sickness and resignation of the Audit Manager and other BDO resourcing challenges had caused delays in progress over the summer. There had been no material change to the audit findings previously reported.
- 1.5 In addition, we reported that a technical issue had been identified that affected, nationally, all local authorities with material infrastructure assets on the balance sheet, of which the Council is one. This matter required engagement of audit suppliers, the National Audit Office (NAO), the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Financial Reporting Advisory Board to determine an accounting solution for local authorities to implement.
- 1.6 Our revised timeline for bringing the audit to a conclusion was given as January 2023 with a view to reporting to Committee in March 2023. This would be, in part, dependent upon an accounting solution for infrastructure assets being issued and the Council's working papers for implementing the solution being received and audited by the end of 2022. The infrastructure assets accounting solution (CIPFA Bulletin 12) was not issued until January 2023.
- 1.7 In June 2023, we confirmed that the audit had continued to progress but was not yet complete with the key matters outstanding being:
- Response to audit queries raised in May relating to property, plant and equipment
 - Manager review of the property, plant and equipment audit fieldwork once complete, and clearance of any review points raised
 - Clearance of review points on other completed audit fieldwork
 - Partner and Quality Assurance reviews of audit fieldwork and audit team clearance of any points raised
 - Receipt of the Council's working papers and revised Statement of Accounts in respect of the infrastructure assets accounting solution (CIPFA Bulletin 12 requirements), and
 - Subsequent audit of the infrastructure assets and review of that audit fieldwork.
- 1.8 On the assumption that we received the Council's infrastructure assets working papers before September (these were duly received in July), our June report proposed that the audit would re-commence in September, be finalised in October,

reported to management in November and the final audit results received by the Committee at its meeting scheduled for 26 January 2024.

2. 2019/20 Audit Update

- 2.1. Since the last Committee meeting, we have received all outstanding working papers and audit query responses referred to above. We have also met with the Council's Finance team to discuss their infrastructure assets working papers, our audit approach and our experiences from work done in other local authorities in this area.
- 2.2. Delays in completion of NHS audits since the last Committee significantly reduced the capacity of the BDO Audit Manager and partner to oversee the re-commencement of the Council's audit in September, and the planned audit senior was retained on NHS audit work, delaying the re-commencement of the Council's audit.
- 2.3. We met with the Interim Strategic Director, Finance & Investments (S151 Officer) and the Chief Accountant on 21 September to discuss this further. At that time our resourcing team were working through the re-scheduling of our local government work across the BDO portfolio so it was not possible to provide new dates for audit.
- 2.4. We are mindful of the need to progress the infrastructure assets accounting audit work and outstanding property, plant and equipment audit work as quickly as possible and, ideally, before the end of October, with the aim of still being in a position to report the final audit results before the end of 2023.
- 2.5. Although, at the time of writing, it is not possible to confirm the full picture of the rescheduled audit dates, we can confirm that the infrastructure assets audit will begin in the week commencing 2 October 2023.
- 2.6. Senior audit team reviews will re-commence at the beginning of November.
- 2.7. We will share a fully revised timeline for audit completion as soon as it is available.

3. Delivery of the 2020/21, 2021/22 and 2022/23 Council and Pension Fund Audits

- 3.1 Our report to the last meeting of this Committee included an indicative timeline for the delivery of the remaining audits for which BDO is the Appointed Auditor. It showed that it would be 2025 before all 6 audits were completed, if all things remained the same.
- 3.2 On 18 July 2023 Lee Rowley MP, Parliamentary Under-Secretary of State for Local Government and Building Safety, issued a letter to all local authority Chief Executives, Chief Financial Officers and Leaders and local audit firm Partners. The Letter (Appendix 1) and its accompanying Cross-System Statement (Appendix 2) provided an update on work being done by Department of Levelling Up Housing and Communities (DLUHC) officials and the Financial Reporting Council (FRC) to *“address the significant backlog of local audits in England and develop a sustainable solution to the timeliness challenges which the sector has faced in recent years.”*
- 3.3 The proposals outlined within these documents, if implemented, will fundamentally change local audit delivery plans and supersede our previously communicated delivery plans. Amongst other things, there is a proposal to implement a series of statutory deadlines (commonly being referred to as ‘backstop dates’) for clearing

the delayed audits for financial years 2015/16 to present. When a backstop date is reached, the auditor would be required to provide as much audit assurances as possible from the work completed by that time for any incomplete audits, including any not yet started.

- 3.4 Where full assurance cannot be given by the backstop date, this will likely result in some form of qualification of the audit opinion, for example, a limitation of scope or disclaimer.
- 3.5 A number of working groups have been set up, in which BDO participates along with other audit firms, the NAO, CIPFA, FRC, PSAA and other stakeholders, to develop an agreed approach and supporting mechanisms that will facilitate DLUHC's aim to address the local audit backlog swiftly.
- 3.6 This work is still being done and backstop dates are just one aspect of the full suite of solutions being considered.
- 3.7 There has been no documented output on agreed solutions from the working groups to date, but DLUHC and the FRC communicated the following intended backstop dates in a seminar held on 1 August 2023:
- 31 December 2023 for audits prior to and including 2019/20
 - 31 March 2024 for 2020/21 and 2021/22 audits
 - 30 September 2024 for 2022/23 audits
- 3.8 While these dates have yet to be confirmed as the agreed backstop dates (there is not yet any legislation or auditing 'infrastructure' in place to facilitate this and dates cannot be confirmed until there is), we recognise the additional urgency this creates for the open 2019/20 audit to be completed before the end of the year and are factoring this in to our resource re-scheduling.

4. Financial Implications

Implications completed by: Lisa Blake, Partner, BDO

- 4.1 The audit of the infrastructure assets accounting solution is extended scope work that will result in additional fees. This cannot be determined until the work is complete but will be discussed with the Interim Strategic Director, Finance & Investments (S151 Officer) before submission to Public Sector Audit Appointments Limited as a proposed scale fee variation.

Public Background Papers Used in the Preparation of the Report: None

List of appendices:

Appendix 1: Minister Rowley Letter to the Sector regarding Local Audit (18 July 2023)

Appendix 2: Local Audit Delays Cross-System Statement