



**REPORT of
INTERIM CHIEF FINANCE OFFICER**

**to
PERFORMANCE, GOVERNANCE AND AUDIT COMMITTEE
18 JULY 2024**

EXTERNAL AUDIT PROGRESS REPORT

1. PURPOSE OF THE REPORT

- 1.1 To update members on the progress of external audit and audit fees.

2. RECOMMENDATION

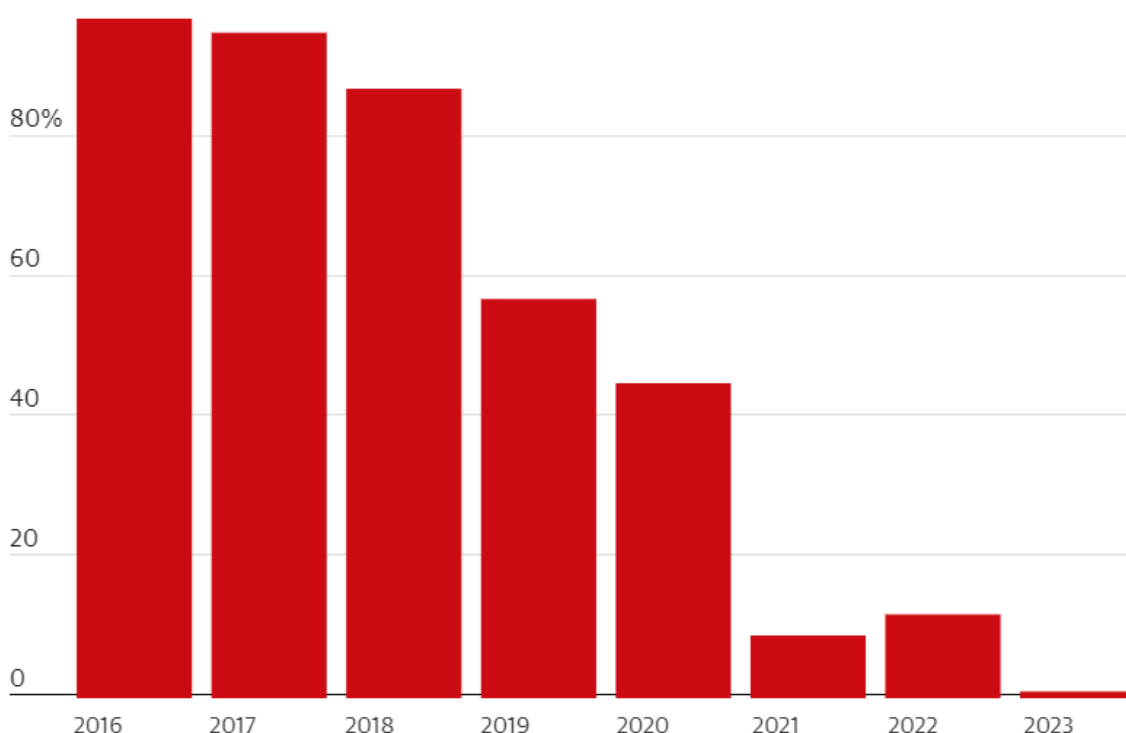
That Members consider the report and provide comment / challenge as appropriate.

3. SUMMARY OF KEY ISSUES

- 3.1 Nationally there are challenges around the timeliness of local audit, one of the key issues highlighted by Sir Tony Redmond in his independent review of local authority financial reporting and external audit. In 2017 / 18 the deadline for issuing audit opinions was brought forward from 30 September to 31 July. Since this point there has been a reduction in the number of local government audit opinions delivered on time, with significant reductions from 2018 / 19 onwards. This downward trend accelerated during the COVID-19 pandemic, with only 45% of 2019 / 20 audits completed by the extended deadline of 30 November 2020 and only 9% of 2020 / 21 audits completed by the extended deadline of 30 September 2021.
- 3.2 As the National Audit Office (NAO) outlined in its 2020 report 'Timeliness of local auditor reporting on local government in England', a variety of complex factors are contributing to audit delays. Audit firms are struggling with a net loss of qualified staff, with many qualified accountants choosing to leave the audit sector entirely. For auditors that are choosing to stay within the profession, alternative audit opportunities are often perceived as more attractive than local audit, which is contributing a high turnover of staff within firms.
- 3.3 In addition, increasing workload and regulatory pressure on auditors have contributed to further delays. The NAO found that the additional requirements of new International Financial Reporting Standards (IFRS), along with increased expectations from the Financial Reporting Council (FRC) following high-profile corporate failures such as Carillion and Patisserie Valerie, had combined to produce a significant increase in audit work, particularly on asset and pensions valuations.

% of local bodies publishing audited financial accounts by the statutory deadline

Accounts for financial year ending



Guardian graphic. Sources: National Audit Office, Public Sector Audit Appointments

[Just 1% of English councils published audited accounts by deadline | Local government | The Guardian](#)

- 3.4 Due to these factors, Councils were advised to expect an increase in their audit fees above those originally agreed (known as the scale fee) for the remainder of the audit appointment period up to the 2022 / 23 audit year. Maldon District Council's (MDC's) new auditor from 2023 / 24 will be KPMG, with a revised scale fee of £143,768.
- 3.5 Earlier this year the Department for Levelling Up, Housing and Communities (DLUHC) sought views on changes to the Accounts and Audit Regulations 2015 to introduce 'backstop dates' for the publication of audited accounts. A consultation ran to 7 March 2024 asking for views on the following proposed changes:
- **Phase 1:**
 - Reset involves amendments to the Accounts and Audit Regulations, and changes to the Code of Audit Practice, clearing the backlog of historical audit opinions up to and including financial year 2022 / 23 by 30 September 2024.
 - This reflects the need to ensure sufficient time for auditors to issue opinions, including modified or disclaimed opinions due to the backstop, and for bodies to publish accounts containing those audit opinions once the legislation has come into force.
 - **Phase 2:**
 - Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles:

- Year ending 31 March 2024: 31 May 2025
 - Year ending 31 March 2025: 31 March 2026
 - Year ending 31 March 2026: 31 January 2027
 - Year ending 31 March 2027: 30 November 2027
 - Year ending 31 March 2028: 30 November 2028
 - These dates are intended to achieve a balance between restoring timely audit and returning to unmodified audit opinions over time. They have also been designed, to the extent possible, to limit the impact on other public sector audits, including NHS audits.
 - It is proposed that the Code of Audit Practice will set a requirement that from 2023 / 24 the Auditors' Annual Report will be issued in draft to those charged with governance by 30 November each year, irrespective of the position on the audit, to enable auditors to report regularly on most of the Value For Money (VFM) arrangements work in a more timely and predictable way.
- 3.6 Following the announcement of the general election on 4 July 2024, it is now not clear if / when the proposed changes may be introduced by government. The Council will therefore await further updates once a new government is formed.

4. 2020 / 21 ACCOUNTS AUDIT

- 4.1 The accounts for the 2020 / 21 financial year have been finalised and audited as reported to Committee on 16 November 2023. The final schedule of fees is set out below and has been approved by Public Sector Audit Appointments (PSAA).

2020-2021 Scale Fee £37,942

Fee Variations

Approved on Category Value

06/02/2024 COVID-19 £7,695
 06/02/2024 PPAs £6,701
 06/02/2024 PPE valuation £12,145
 06/02/2024 Quality or preparation issues £10,897
 06/02/2024 Technical Accounting issues £14,115
 21/05/2024 VFM commentary £10,009

Total Fee Variations £61,562

2020-2021 total fee including this variation £99,504

5. 2021 / 22 ACCOUNTS AUDIT

- 5.1 For 2021 / 22 draft accounts were required to be published by 31 July 2022 and audited by 30 November 2022. The Council published its draft accounts by the deadline; however audit work did not commence until December 2023, due to the 2020 / 21 accounts only being finalised in November 2023. 2021 / 22 audit work was paused in January 2024 due to sickness and planned leave in the Finance team during January / February 2024, and has not resumed since as Deloitte has been

unable to resource further local authority audit work before July 2024 due to NHS commitments.

- 5.2 In accordance with 'The Accounts and Audit Regulation 2015' the Council published an explanation of why the audited accounts were not available at 30 November 2022 on its website.
- 5.3 Nationally for 2021 / 22 accounts only 12% of audit opinions were issued by 30 November 2022.
- 5.4 Deloitte has indicated that it intends to finalise the audit of the 2021 / 22 accounts in July / August 2024, ahead of an indicative September 2024 backstop date. However as noted at paragraph 3.6 above this will be dependent on a new government implementing the legislative changes required.
- 5.5 The scale fee for 2021 / 22 is £37,942 but it is likely the final fee will be similar to 2020 / 21 due to additional work undertaken.

6. 2022 / 23 ACCOUNTS AUDIT

- 6.1 For 2022 / 23 draft accounts were required to be published by 31 May 2023 and accounts audited by 30 September 2023. The Council published its draft accounts by the deadline, but the audit is yet to commence due to the delay in the 2020 / 21 and 2021 / 22 audits. In accordance with 'The Accounts and Audit Regulation 2015' the Council published an explanation of why the audited accounts were not available at 30 September 2023 on its website.
- 6.2 Nationally for 2022 / 23 only 1% of audit opinions were issued by 30 September 2023 and less than 10% had been audited by end December 2023.
- 6.3 Deloitte has indicated that in light of an anticipated backstop of September 2024 it is not intending to carry out a full audit process of the 2022 / 23 accounts, as there would be insufficient time to complete this. It is likely that a disclaimed opinion will be issued for the 2022 / 23 financial year, which sets out the limitation of any work undertaken. However as noted at paragraph 3.6 above this will be dependent on a new government implementing the legislative changes required.
- 6.4 The scale fee for 2022 / 23 is £37,942. The final fee will depend on the extent of audit work actually undertaken but is likely to be significantly less than 2020 / 21 and 2022 / 23 if a full audit process is not planned to be undertaken.

7. 2023 / 24 ACCOUNTS

- 7.1 For 2023 / 24 draft accounts were required to be published by 31 May 2024 and accounts audited by 30 September 2024. The accounts for 2023 / 24 were not published by the deadline, mainly due to the knock-on impact of the prior year audits being outstanding, as well as resourcing issues within the Finance team.
- 7.2 In accordance with 'The Accounts and Audit Regulation 2015' the Council published an explanation of why the draft accounts were not available at 31 May 2024 on its website.
- 7.3 Only around 40% of Local Authorities nationally published their 2023 / 24 accounts by 31 May 2024.

- 7.4 MDC's new auditor from 2023 / 24 will be KPMG. KPMG's initial planning work for the 2023 / 24 audit commenced in late 2023 but was paused in January 2024 due to sickness and planned leave in the Finance team during January / February, and resource having to be directed to budget setting and the preparation of the 2023 / 24 accounts. Planning work is due to continue in September 2024, with the commencement date of the actual audit unclear at this time. Regular liaison meetings between KPMG and MDC have taken place over the last few months to ensure progress is reported.
- 7.5 The government proposals for a backstop date indicated that the date for providing an opinion on the 2023 / 24 accounts was likely to be March 2025; however, until such time as legislation is passed this will not be confirmed.
- 7.6 The scale fee for 2023 / 24 is £143,768.

8. CONCLUSION

- 8.1 The Council published its unaudited accounts for 2021 / 22 and 2022 / 23 by the deadline, however the audits have not yet been completed. It is anticipated that the 2021 / 22 audit will be completed, and a disclaimed opinion for the 2022 / 23 accounts issued, by end September 2024, in line with the anticipated backstop date for prior year audits (not yet confirmed by central government).
- 8.2 The accounts for 2023 / 24 were not published by 31 May 2024, mainly due to the knock-on impact of the prior years audits being outstanding, as well as resourcing issues within the Finance team. It is anticipated that the draft accounts will be published by end August 2024, and audit planning work will conclude in September 2024. It is anticipated that the backstop date for 2023 / 24 audits may be March 2025 (not yet confirmed by central government).

9. IMPACT ON PRIORITIES AS SET OUT IN THE CORPORATE PLAN 2023 - 2027

9.1 Smarter finances

- 9.1.1 It is a corporate plan priority to produce the Council's Annual Financial Statements in line with the Accounts and Audit Regulations 2015. The timeliness of external audit work is subject to external factors, as set out in the report, and therefore not entirely within the Council's control.

10. IMPLICATIONS

- (i) **Impact on Customers** – The Council has a duty to make its financial information available to the public in a timely manner, in line with the Accounts and Audit Regulations 2015.
- (ii) **Impact on Equalities** – None.
- (iii) **Impact on Risk** – There is a risk that the public will have not access to the Council's financial information in a timely manner if accounts are not published or audited within the Accounts and Audit Regulations 2015.

- (iv) **Impact on Resources (financial)** – There are increased audit fees associated with auditing the increasingly complex Financial Statements, as detailed in the body of the report.
- (v) **Impact on Resources (human)** – Outstanding audits create a pressure on Finance Team resources due to the ongoing requirement to respond to audit queries, and the knock-on impact on subsequent financial years accounts.

Background Papers: None.

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