



Joint Audit and Governance Committee
Date: 28 May 2024

ADUR & WORTHING COUNCILS

Key Decision: No

Ward(s) Affected: All

Update on the 2022/23 Statement of Accounts Audit

Director for Sustainability and Resources

Executive Summary

1. Purpose

This report provides members with an update on the Statement of Accounts 2022/23 for Adur District Council and Worthing Borough Council and the external audit progress.

In addition there is information on the legislative changes proposed by the government to both clear the backlog of outstanding audits and resetting the statutory deadlines for publication gradually over the 5 years to eight months post year-end.

2. Recommendations

3.

2.1 The Joint Audit and Governance Committee is recommended to;

- Note the contents of the report providing an update on the statement of accounts 2022/23 and the progress of the external audit.
- Note the update information relating to government proposals to make legislative changes to align the statutory deadline for audited financial statements over the next 4 years to target dates of eight months after year end.

4. Context

- 3.1 The Accounts and Audit Regulations 2015, section 9 sets out the requirements of signing, approval and publication of the statement of accounts for 2022/23.
- 3.2 The draft Statement of Accounts for 2022/23 were signed off by the Chief Financial Officer (CFO) for publication in August 2023. This was outside of the statutory deadline of 31st May 2023 due to a delay in the completion of the 2021/22 audits which were still ongoing until they were signed off in September 2023. Therefore as a result the 2022/23 accounts could not be certified by the 30th September 2023 deadline, as such a notice was published on the council website stating the delay and the reasons for the delay.
- 3.3 The national backlog in audit work across the local authority sector has meant that the 2022//23 audit work has been limited to the required Value for Money (VfM) assessment. A Value for Money report was presented to the Joint Audit and Governance committee by the external auditors, Ernst and Young, on 21st March 2024.
- 3.4 Ahead of auditing the councils accounts the external auditor produces an audit planning report, setting out the proposed audit approach. The 2023/24 audit planning report is included as a separate agenda item.

5. Proposals to Clear the Audit Backlog

- 4.1 The government has recognised the 'unacceptably high' backlog of audit opinions with only 12% of local government bodies receiving audit opinion on their finances in time to publish accounts for 2021/22 within the already extended deadline for local authorities publication.
- 4.2 A number of cross-system proposals have been developed and agreed by Department for Levelling Up, Housing and Communities (DLUHC), the Financial Reporting Council (FRC), National Audit Office (NAO), and Chartered Institute of Public Finance and Accountancy (CIPFA), the Institute of Chartered Accountant in England and Wales (ICAEW) and Public Sector Audit Appointments (PSAA). The joint statement noted that as at 31 December 2023 there were 771 audit opinions outstanding across the county.
- 4.3 On 8th February 2024 DLUHC published its consultation 'Addressing the local audit backlog in England' seeking views on amending the Accounts and Audit Regulations 2015 as a measure to clear the backlog and put the system on a sustainable footing. The consultation closed on 7th March 2024.

4.4 The intention is to introduce measures over two phases:

Phase 1 'Reset - Backstop proposals for financial years 2015/16 to 2022/23

Proposed changes would require that local authorities ensure that (subject to exceptional circumstances being met) have published audited accounts for financial years 2015/16 to 2022/23 by 30th September 2024. An authority's ability to meet the requirement above would be contingent on an audit opinion being issued in time. For this reason, the NAO is proposing that the Code of Audit Practice be amended so that auditors are required to issue their opinion in time for the authority to publish its accounts by the specified date in the 2015 Regulations.

The proposal to set the backstop date at 30 September 2024 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. It is proposed to also disapply the duty to publish a delay notice for the accounts in this period as authorities would be required to publish audited accounts by the backstop date.

Phase 2 'Recovery' - Backstop proposals for the recovery period, financial years 2023/24 to 2027/28.

To reset the system into a more sustainable position it is proposed in phase 2 to gradually shorten the statutory deadline for audited financial statements requiring local authorities to publish audited accounts by the following dates:

- 2023/24 31 May 2025
- 2024/25 31 March 2026
- 2025/26 31 January 2027
- 2026/27 30 November 2027
- 2027/28 30 November 2028

To achieve this the National Audit Office (NAO) is proposing that the Code of Audit Practice would require auditors (unless specific circumstances apply) to issue their opinion in time for the authority to publish its accounts by the above dates.

Under these proposals, the published, audited accounts must also be approved in accordance with regulation 9(2) and therefore the approval must be given before the backstop date.

4.5 At the time of writing this report the proposed changes have been set out in draft legislation but these have not yet been formally approved.

5. Update from the Ernst and Young

5.1 EY's strategy was communicated to all s151 officers of their audited bodies on 6 December 2023. They took a number of steps to support the delivery of consistent high quality audits and prepare for the implementation of the proposals as understood at that time by prioritising:

- **Maximising the completion of historic audits** – working to close open audits where audit work was substantially complete and with a high likelihood of issuing an opinion in a short period of time. The delivery of these audits was phased through to early 2024.
- **Pension fund audits** – These audits were not understood to be subject to the reset of the system; they continued to prioritise completion of all these audits to 2022/23, to provide information across geographic areas to other auditors, and facilitate IAS19 reporting in the future.
- **Value for Money reporting** – As there were no anticipated changes to value for money reporting requirements, auditors' exception reporting responsibilities and statutory powers they continued to prioritise the completion of reporting up to the 2022/23 financial year. Given the increasing focus on the financial sustainability of the local government sector, as well as a focus on those authorities who are seen to be at greater risk of not achieving value for money, this is an important priority in providing necessary assurances to stakeholders.

5.2 Focus was then placed on planning for 2023/24 audits. This was to support the Minister's view of moving the focus to the most recent year's financial statements, and EY's view is that the best and quickest way to ensure sustainable recovery of the system is to be able to work to a 'traditional' audit timeline which will allow auditors to provide timely assurance to you, Council Tax payers and other interested parties and will relieve the burden of working on historic audits for all parties. Moving quickly back to the traditional timeline also takes into account the Minister's view that clearing the backlog should not impact other parts of the public sector, which for EY include auditing the NHS, central government bodies on behalf of the NAO, and Higher Education.

5.3 The consultations in February 2024 did not indicate a substantial change in EY's strategy.

6. Implications of Proposed Changes for Adur and Worthing

6.1 The DLUHC consultation proposes a phase 1 backstop date of 30 September 2021 for the completion of all audits up to and including 2022/23. However, discussions with EY highlighted that in order to best support the reset of audit timescales the resources would be focused on the 2022/23 VfM and planning the completion of audit work on the 2023/24 accounts. This approach will result in a disclaimed audit opinion for the 2022/23 accounts, which will also impact the 2023/24 accounts as the auditor will not be able to rely on audited prior year figures.

6.2 To support the reset of the local audit system there are two temporary changes to the CIPFA code proposed for 2023/24 and 2024/25. These changes will impact the Authority's accounts and relate to the simplification of requirements for the revaluation of operational property and the reduction in disclosure requirements relating to pension assets and Liabilities.

6.3 Property, Plant and Equipment (PPE) assets and net pension liabilities are the two largest items on the Authority's balance sheet and both involve estimation and judgement by specialists. Although significant numbers on the Balance Sheet, statutory accounting requirements for local authorities mean that changes in valuation do not impact the Authority's revenue budget or council tax requirement.

7. Risks Analysis

7.1 External audit of the financial statements is an important element of the overall assurance provided to the Standards and Governance Committee. The absence of a full external audit for one year does therefore present some risk.

7.2 However, there are a number of factors that reduce the risk:

- (a) The accounts are prepared by a specialist, professionally qualified finance team. The team has the capacity and technical skills to maintain an up-to-date knowledge of the requirements and changes to the

Accounting Code. The Chief Financial Officer signs off the accounts as a true and fair view of the financial position of the Authority.

- (b) The Authority receives and approves the Annual Governance Statement each year.
- (c) Internal audits have continued and progress on audits and resulting actions have been regularly reported to the committee.
- (d) The value for money assessment has been completed and reported to this committee in March 2024. This covers arrangements for ensuring economy, efficiency and effectiveness in the service.

These mitigations reduce the risk of the absence of a full 2022/23 audit.

8. Engagement and Communication

- 8.1 The external auditors Ernst and Young have been consulted to contribute to this report and provide members with an update on their corporate strategy in relation to the audit backlog and how they are approaching the re-set.

9. Financial Implications

- 9.1 The fees for external audits are set by Public Sector Audit Appointments (PSAA) Ltd, the national appointing person for principal local government and police bodies for audits. A scale fee is set by PSAA based on known audit requirements and the auditor is then able to propose changes to the audit fee (a 'scale fee variation') where audit requirements have changed.
- 9.2 It is likely that the proposed approach will see a reduction in audit fees (i.e. a fee below the scale fee) for 2022/23 given that a full audit will not have been completed by EY. This will be determined in due course by PSAA.
- 9.3 The audit of the accounts for 2023/24 is the first under the new five year contract and includes a significant increase in audit fees. The higher scale fee has been built into the budget, although there is a risk of higher than budgeted costs if additional audit work is required that PSAA determines is outside of that covered by the scale fee. This will not be known fully until the audit is completed, however we know that some work is required outside of the scale fee for IASA315 (Identifying and Assessing the Risks of Material Misstatement) and the adoption of IFRS16 (accounting for leases). PSAA have been unable to quantify their effects and so this will be a variation.

10. Legal Implications

- 10.1 The 2015 Accounts and Audit Regulations (as amended) set out requirements in relation to internal control, the exercise of public rights in relation to the accounts and rules for the preparation, approval and publication of the statement of accounts.
- 10.2 The two sets of Statements of Accounts have been prepared in accordance with the Accounts and Audit Regulations 2015; Statutory Instrument number 2015/234; and the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, based on International Financial Reporting Standards (IFRS).
- 10.3 Part 3 of The Accounts and Audit Regulation 2015, sets out the process for signing, approval and publication of the annual Statement of Accounts for 2022/23. The formal approval of the accounts enables the Councils to comply with the Account and Audit Regulations 2015.
- 10.4 Part 5 of the 2015 Regulations sets out the “inspection and notice procedure”. As required by the regulations Adur District Council and Worthing Borough Council are required to give notice on the respective websites of the matters set out in paragraph (2), Regulation 15 of the 2015 regulations.
- 10.5 The CIPFA Code of Practice on Local Authority Accounting sets out how the Authority must prepare its accounts. The Authority will need to ensure that its accounts reflect any changes as a result of the current consultation.

Legal Officer: Joanne Lee

Date: 15/05/2024

Background Papers

- [Adur District Council Draft Statement of Accounts 2022/23](#)
- [Worthing Borough Council Draft Statement of Accounts 2022/23](#)
- [Ernst & Young Value for Money Reports 2022/23 for Adur District Council and Worthing Borough Council](#)
- Department for Levelling Up, Housing and Communities - ['Addressing the local audit backlog in England: Consultation](#)
- ['CIPFA consultation on Code of Practice in the UK \(England only\) - short term measures to aid the recovery of local authority reporting and audit'](#)

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Sustainability & Risk Assessment

1. Economic

Matter considered and no issues identified.

2. Social

2.1 Social Value

Matter considered and no issues identified.

2.2 Equality Issues

Matter considered and no issues identified.

2.3 Community Safety Issues (Section 17)

Matter considered and no issues identified.

2.4 Human Rights Issues

Matter considered and no issues identified.

3. Environmental

Matters considered and no issues identified.

4. Governance

The report concerns the appointment of the external auditor for the housing benefit subsidy audit.