

Report To: Audit & Governance Committee

Date: 18 July 2024

Report Title: External Audit Update

Report of: Homira Javadi, Director of Finance and Performance (S151 Officer)

Ward(s): All

Purpose of report: To provide an update on progress to complete the external audit of the 2020/21 draft financial statements.

Decision type: Budget and Policy Framework

Officer Recommendations: 1. To note the report

Reasons for recommendations: The Council is required to produce an Annual Statement of Accounts in line with the Accounts and Audit Regulations

Contact Officer(s): Name: Steven Houchin
Post title: Deputy Chief Finance Officer
e-mail: steven.houchin@lewes-eastbourne.gov.uk
Telephone number: 07591 838068

1. Background

1.1 The Government abolished the Audit Commission in 2012, and its audit practice was outsourced to private audit firms. The regulations for this Act disbanded the residual Audit Commission and introduced a new local audit framework. The Government's closure of the Audit Commission was expected to save over £1bn.

Public Sector Audit Appointments Limited (PSAA)

1.2 Public Sector Audit Appointments Limited (PSAA) was incorporated by the Local Government Association (LGA) in August 2014.

1.3 In July 2016, the Secretary of State for Housing Communities and Local Government specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

1.4 Acting in accordance with this role PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme.

- 1.5 PSAA produces quarterly reports on the contracted firms, building up information as the year progresses.

Audit year Publishing date	Number of opted in bodies	Percentage of audits complete by publishing date	Number of audits outstanding per financial year As at 31 March 2024
2022/23	467	1%	348
2021/22	467	12%	184
2020/21	474	9%	73
2019/20	478	45%	25
2018/19	486	57%	9
Total Outstanding Audits Nationally			639

- 1.6 In total 639 audit opinions were recorded as delayed at 31 March 2023 (excluding three opinions outstanding at one authority for 2015/16 to 2017/18). The figure of only 1% of audit opinions meeting the publishing date of 30 September 2023 for 2022/23 audited financial statements underscores the scale of the challenge that local audit and local authorities continue to face.

2. External Audit of 2020/21 Draft Financial Statements

- 2.1 The work of the Corporate Finance Team to complete the audit of 2020/21 accounts is now complete, with outstanding queries relating to Pensions, Reinforced Autoclaved Aerated Concrete (RAAC), COVID grants, Related Party Transactions, Group Accounts and Subsequent Event now complete
- 2.2 The updated set of financial statements were submitted to the Council's external auditors, Deloitte on Friday 14 June 2024. Unfortunately, Deloitte have advised that they will not be able to review the revised statements until the start of July due to ongoing commitments on NHS reporting.
- 2.3 Once the review has been completed and any further changes required completed, we will await the completed Audit Findings (ISA260) Report for Eastbourne Borough Council.

Letter of Representation 2020-21

- 2.4 On completion of the audit of the Council's Financial Statements, the Council's Director of Finance & Performance (S151 Officer) will submit a Letter of Representation to the Council's external auditor. The letter formally and publicly confirms the accuracy and completeness of the presented Statement of Accounts. Council officers and Deloitte colleagues will then be able to present the audit findings to this committee at the earliest opportunity seeking approval to publish the audited financial statements.

3. Publication of 2023/24 Draft Financial Statements

- 3.1 The draft statement of accounts for the year ended 31 March 2024 have not yet been completed due to delays in previous years' audits. As a result, the Council is

not yet able to commence the period for the exercise of public inspection. The Council will publish the draft 2023/24 statements as soon as reasonably practicable, following which the period for the public inspection will commence.

- 3.2 The relevant Delay Notice has been published on the Council's website informing the public of the delay.

3. External Audit Backstop Update

- 3.1 The work to progress the subsequent audits to now subject to Government's proposals to clear the national backlog of historic local government audits.

- 3.2 On 8th February the Minister for Local Government launched a consultation and Joint Statement on a series of cross-system proposals to clear the backlog of local authority audits across the country. The consultation seeks views on proposed legislative changes to the Accounts and Audit Regulations 2015 (also known as the 2015 Regulations). The proposals have been developed and agreed by:

- Department for Levelling Up, Housing and Communities (DLUHC)
- The Financial Reporting Council (FRC)
- The National Audit Office (NAO),
- Chartered Institute of Public Finance and Accountancy (CIPFA)
- Institute of Chartered Accountants in England and Wales (ICAEW)
- Public Sector Audit Appointments (PSAA).

- 3.3 The package of measures contained with the proposals consists of three stages:

- **Phase 1: Reset involving clearing the backlog of historical audit opinions up to and including financial year 2022/23 by 30 September 2024.**
- **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.**
- **Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.**

Phase 1

- 3.5 Phase 1 proposes that for all years between 2015/2016 to 2022/2023 authorities would be required to publish unaudited accounts and auditors should issue opinions based on the work they have completed by the backstop date of 30 September 2024.

- 3.6 The opinions will be based on the work they have completed by 30 September and will likely be in the form of modified opinions given by the auditor incorporating outstanding Value for Money (VFM) reporting for all historical years into a single output under a reduced scope.

- 3.7 It is expected the proposed backstop date will result in modifications or disclaimers of audit opinion for many local authorities. In this instance the Council would be required to publish its unaudited accounts for periods 2020/21, 2021/22 and 2022/23 giving time for the required 30-day Public Inspection Period and for external auditors to give their opinion on those accounts by the end of September 2024.

Phase 2

- 3.9 Phase 2 of the proposals sets out a series of key dates for the publication of audited accounts for year 2023/24 to 2027/28 as follows:

- 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

- 3.10 The requirement to publish unaudited accounts for public inspection by 31st May in line with Accounts and Audit Regulations 2015 will remain the same.

Phase 3

- 3.11 For Phase 3 of the proposals the FRC, alongside DLUHC and other system partners, will continue to work to address systemic challenges in the local audit system and embed timely financial reporting and audit. The work will build on:

- The recommendations of the Redmond Review
- Recent meetings of the Levelling Up, Housing and Communities Committee and Public Accounts Committee reports on the timeliness of local audits.
- CIPFA Local Authority Advisory Strategic Plan looking at long term reforms to financial reporting.
- Treasury thematic review into the valuation of non-investment assets for Local Authority Accounting for 2025/26.
- CIPFA will work to introduce changes agreed into the Code of Practice for Local Authority Accounting for 2025/26.
- The FRC intends to publish its Local Audit Workforce Strategy during 2024.

Impact of General Election

- 3.13 The required legislative changes to enable implementation of the backstop arrangements did not occur prior to parliament rising for the General Election.
- 3.14 Deloitte has confirmed that there is political cross-party support for the backstop proposal. Deloitte has also advised that the practical work to get the legislative change is straight forward, what is not known is how long parliament will sit post-election once a new government has been formed.

3.15 Therefore the likely outcome will be a delay in the deadline to the backstop deadline of at least one month (31 October 2024) but could be longer.

4. Financial Appraisal

4.1 There are no direct financial considerations arising from this report. However, there are significant financial implications caused by the delay in the audit of the accounts.

5. Risk Management Implications

5.1 There are no implications arising from this report.

6. Equality Analysis

6.1 This is a routine report for which a detailed Equality Analysis is not required to be undertaken.

7. Legal Implications

7.1 The Accounts and Audit Regulations 2015 require the Statement of Accounts to be considered and approved by way of a committee resolution and thereafter published. Further comment from the Legal Services Team is not necessary for this routine monitoring report.

8. Environmental sustainability implications

8.1 There are no environmental implications from this report.

9. Appendices

9.1 None

10. Background Papers

10.1 Draft 2020/21 Statement of Accounts