

Report to: Audit and Governance Committee

Date: 1 March 2023

Title: The External Auditors (Deloitte) report on the draft 2019/20 Statement of Accounts

Report of: Director of Finance and Performance (Chief Finance Officer - S151 Officer)

Ward(s): All

Purpose of report: To review the External Auditor's (Deloitte) report to those charged with governance regarding the draft 2019/20 Statement of Accounts.

Decision type: Budget and Policy Framework

Officer recommendation(s): The Committee is recommended to:

1. Note the Independent Auditor's (Deloitte) report as those charged with governance on EBC Accounts, and the Value for Money conclusion report.
2. Delegate authority to the Chief Finance Officer in consultation with the Chair of the Committee to sign-off the audited Eastbourne Borough Council 2019/20 Statement of Accounts.
3. Authorise the Chief Finance Officer to sign the formal Letter of Representation to Deloitte.

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

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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. The data pack covers audit opinions, approved fee variations and electors' objections as at 31 December 2022.
- 1.6 The fact that only 12% of audit opinions met the publishing date of 30 November 2022 for 2021/22 audited financial statements underscores the scale of the challenge that local audit and local authorities are facing. By the end of December 2022 this figure had risen slightly to 15%.
- 1.7 The backlog of unfinished audits continues to be very concerning. In total over 630 audit opinions were recorded as delayed at 30 November 2022. S Freer (PSAA Chair) commented: "The local audit system desperately needs to find a way of clearing the backlog and restoring the norm of timely opinions as quickly as possible."

Firm	Total Audit	Outstanding no	Outstanding % 31 Dec 2022
BDO	25	25	100%
DL	26	25	96%
EY	149	140	94%
GT	189	134	75%
Mazars	87	75	85%

Audit Opinion Data- 2021 audit -PSAA Quarterly monitoring Q3 2022

Eastbourne Borough Council Audit

- 1.8 After a considerable examination and following a number of formal and informal discussions with the PSAA, the Council decided to opt in for another term of PSAA audit appointment. The Council has been advised that Grant Thornton (GT) will be the authority's future auditors after a period of hand over from Deloitte to GT which is expected to start later in 2023.
- 1.9 With a number of accounts yet to be audited, the Council's Chief Executive and Chief Finance Officer (S151 Officer) met with Deloitte's senior officers in March 2021. Following this meeting Deloitte issued a revised audit timetable providing the Council with assurance that adequate capacity will be built in and the audit of the outstanding accounts will be completed by end of 2021/22 financial year.

Since then there have been a number of follow up meetings and a number of revised timelines. The latest agreed revised audit timeline is as set out below:

	2020:		
	Submission of final papers		Committee
EBC	20-Feb-23		01-Mar-23
	2020/21:		
	Commencement	Team until	Committee (and so signing not before)
EBC	15-Feb-23	20-Apr-23	31-Jul-23
	2021/22:		
	Commencement		Committee (and so signing not before)
EBC	14-Aug-23		30-Nov-23
	2022/23:		
	Commencement		Completion
EBC	03-Jan-24		31-Mar-24

- 1.10 It is therefore disappointing that this latest revised completion deadline is once again missed. This, however, is presenting the Council with a significant and serious risk of Deloitte not being in the position to handover the function to GT the Council's newly appointed auditors and in doing so, the build-up of unaudited accounts to continue.
- 1.11 The Committee is also reminded that every day delayed comes at a cost, financial cost, reputational cost and governance cost. Considering the Council's Pre-election period and Local Elections, it could be that the next opportunity for the Committee to approve the 2019/20 accounts will be no sooner than July 2023 should the Committee decide not to accept the recommendation included in this report.

This recommendation has been made based on the following expectations as indicated by Deloitte as reflected in paragraph 2.4 and 2.5.

2 Introduction

- 2.1 This report summarises the key findings (Appendix A) arising from Deloitte final audit work in relation to the Council's 2019/20 financial statements, and on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').
- 2.2 The completion of the audit was delayed, primarily due to various resource issues and challenges of determining the appropriate accounting treatment, valuation,

entries in respect of the Council's financial guarantee arrangements and Group financial statements issues.

2019/20 Statement of Accounts

- 2.3 Under its terms of reference, it is the role of this Committee to review/approve the annual statement of accounts and the external auditor's report as those charged with governance, having considered whether appropriate accounting policies have been followed, and any issues raised by Deloitte from the audit of the accounts.
- 2.4 The auditors envisage issuing an unqualified audit opinion on the 2019/20 Council's financial statements subject to resolution of outstanding areas for completion, which include:
- review of the updated statement of accounts;
 - completion of work on ICE financial instrument valuations;
 - completion of working through support received for sundry open areas of testing;
 - completion of quality assurance review procedures;
 - receipt of signed management representation letter; and
 - review of subsequent events through to signing.
- 2.5 Deloitte has also completed the review of the arrangements made by the Council to secure economy, efficiency, and effectiveness in the use of resources (Value for Money - VFM) and did not identify any significant VFM risks in 2019/20. Deloitte is satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020, and did not feel it necessary to report on any particular points on value for money issues.

Letter of Representation 2019-20

- 2.6 Each year, on completion of the audit of the Council's Financial Statements, the Chief Finance Officer is required to 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. A copy of a draft letter is attached as Appendix B.
- 2.7 On receipt of the signed Letter of Representation, the Council's external auditor will formally issue an opinion on the Financial Statements.

3 Corporate plan and Council policies

- 3.1 Considered as part of the overall Accounts and Audit Regulations requirement and the timescales.

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 Legal implications

5.1 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.

6 Risk management implications

6.1 There are no implications arising from this report.

7 Equality analysis

7.1 Equality issues are considered

8 Appendix

- Appendix A – Deloitte’s update report to the Audit and Governance Committee on the audit for the year ended 31 March 2020, (included in main agenda pack but attached again for completeness).
- Appendix B - Draft Management Representation Letter.
- Appendix C – Deloitte’s letter to the Audit and Governance Committee in November 2022 on the audit for the year ended 31 March 2020 (Eastbourne Borough Council’s ISA260 report to the Audit and Governance Committee in November 2022)

9 Background papers

The Background Papers used in compiling this report:

Draft 2019/20 Statement of Accounts