

STATEMENT OF ACCOUNTS 2019/20 – UPDATE 7

SUMMARY:

The purpose of this report is to inform Members of audit progress for the Council's Statement of Accounts for 2019/20 and provision of the audit opinion since the meeting on 22 November 2021. The Committee is reminded that the deadline for issuing a final set of audit statements of accounts and audit opinion of 30 November 2020 was not met.

RECOMMENDATIONS:

It is recommended that the committee

- i) Note the Statement of Accounts Update Report
- ii) Note the indicative timetable for approval of the 2019/20 Statement of Accounts and receiving the Audit opinion.

1 BACKGROUND

- 1.1 This report updates members on the status of the 2019/20 Statement of Accounts and Audit Opinion.

2 INTRODUCTION

- 2.1 Owing to the impact of Covid-19 deadlines for the completion and publication of the 2019/20 accounts have been relaxed recognising the possible disruption to relevant authorities caused by the spread of coronavirus
- 2.2 The table below sets out the changes made to the deadlines, as set out in the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 which came into force on 30 April 2020.

Action	Deadline as set out in Accounts and Audit Regulations 2015	Revised Deadline as set out in Accounts and Audit (Coronavirus) (Amendment) Regulations 2020
Draft Accounts completion	31 May	31 August
Public Inspection period	First 10 working days of June of the financial year immediately following the end of the financial year to which the statement relates	First 10 working days of September of the financial year immediately following the end of the financial year to which the statement relates
Publication of Accounts	31 July	30 November

- 2.3 The Council published a draft statement of account 2019/20 on 31 August 2020. These are available on the Council's website:
<https://www.rushmoor.gov.uk/statementofaccounts>
- 2.4 The Council is required under regulation to obtain an independent external audit opinion on the true and fair nature of the statement of accounts. Following provision of the external audit opinion the relevant Council Committee (being Licencing, Audit and General Purposes Committee) is required to approve the accounts and publish both the approved set of account and the audit opinion by 30 November 2020.
- 2.5 As reported to the Corporate Governance, Audit and Standards committee in July 2021, September 2021 and November 2021, there were several outstanding issues around asset valuations and the Going Concern consideration. Officers have been working closely with EY to resolve these issues and queries arising from EY's review of the audit. This report provides members with an update on progress made since the last meeting in November 2021.

3 CURRENT STATUS OF THE AUDIT

- 3.1 Members will be aware from the meeting in November 2020 that the Council's external auditors set out in the Audit Plan an outline of the timetable and work required to complete their audit and issue an Audit Results Report.
- 3.2 At the LA&GP meeting in January 2021, members were informed that following discussions with EY on 14 January 2021, it was agreed that the current audit work would be paused until mid-February. This would allow the finance team to complete work on the 2021/22 budget setting process unencumbered by other work pressures. The audit would be reconvened in mid-February with the intention to have a scaled-up audit resource to allow the completion of the audit process to be achieved in advance of the next meeting of LA&GP in March 2021.

- 3.3 Audit work was restarted late in February 2021 and worked through some of the remaining issues. However, there were several audit queries that remained unresolved which meant the audit opinion was not available for the committee to consider at the meetings on 29 March 2021, 27 May 2021, 27 July 2021, 27 September 2021 or 22 November 2021.
- 3.4 At the meeting in November 2021 members were updated on the progress of the audit and the need for the Council and EY to close off all the remaining issues on property and valuation related queries. Whilst these were relatively minor queries for the Council to resolve they are material to allow EY to form their audit opinion. EY do require all issues to be resolved before they are able to consider the next stage of the audit opinion process. The Council has responded positively to further queries raised in December 2021. At the time of writing this report EY have confirmed that the Council has yet to resolve all the queries. The Council will need to respond to EY.
- 3.5 An audit updates meeting took place with EY on 12 January 2022. Discussion focussed on the position regarding the remaining asset valuation queries that were submitted to the Council in December 2021. It was agreed that EY would review all the information they had received and would then set out any unresolved queries for the Council to respond to. EY would then be able to set out for the Council the impact on the opinion of the incomplete asset valuation information.
- 3.6 Subject to the position with the audit set out in the above paragraph, the Executive Head of Finance will draft the updated cashflow forecast and Going Concern Note to enable the audit to conclude on the basis as set out below:
- Updated Disclosure Note valid for an 18 month period from the proposed audit opinion issue date. This will address any Going Concern issues with a cashflow forecast covering the period required. This sets out the updated impact on the Council's finances from Covid-19 and any Post Balance Sheet Event (PBSE) given the ongoing risk Covid-19 poses to the Council's financial standing.
 - Consideration will need to be given to any adjustments proposed by EY to the financial statements. The Council will need to satisfy itself that these adjustments are reasonable and supported by appropriate evidence and detailed accounting guidance.
 - Production of updated Statement of Accounts with supporting notes and narrative statement
 - Review of Statement of Accounts by EY including any internal consultation process prior to the issuing of any proposed audit opinion.
- 3.7 At the time of writing, it is not clear when the audit opinion will be received as outlined above. It had been anticipated that the audited Statement of Accounts, Audit Opinion, and the Final Audit Results Report will be available in early 2022 with the next scheduled meeting of the committee (i.e. 28 March 2022).

4 2020/21 AND 2021/22 STATEMENT OF ACCOUNTS AND AUDIT TIMINGS

- 4.1 Deadlines for the completion and publication of the 2020/21 and 2021/22 accounts were amended as part of the Government's response to the recommendations contained in the independent Redmond Review into the effectiveness of external audit and transparency of financial reporting in local authorities. The Redmond review reported on 08 September 2020.
- 4.2 The regulations will amend the draft and final accounts publication deadlines for relevant bodies from 1 June and 31 July to 1 August and 30 September for the next 2 accounting years – i.e. 2020/21 and 2021/22 and the position will be reviewed at that time. The regulations come into force on 31 March 2021.

Action	Deadline as set out in Accounts and Audit Regulations 2015	Revised Deadline as set out in Accounts and Audit (Amendment) Regulations 2021
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- 4.3 The Council has amended its 2020/21 accounts closure process to meet the revised Accounts and Audit Regulation 2021 timetable. It is unclear when the audit of the 2020/21 financial statement will commence as the audit process for 2019/20 is not yet completed although it is anticipated that the 2020/21 audit work will commence shortly after the conclusion of the 2019/20 with the 2021/22 audit likely to commence in Autumn 2022.
- 4.4 For context, the number of audit opinion completed by the statutory deadline shown in the table below is significantly lower than the 2 previous years underlining the on-going performance of local audit and the challenging external audit environment. Public Sector Audit Appointments issued the following note on 12 October 2021:

Delayed audit opinions continue to be a major concern in the local audit system. The growing scale of the challenge is illustrated by the latest figures compiled by PSAA. As at the target date of 30 September 2021 only 9% of local government bodies' 2020/21 audits have been completed. The position compares to completion of 45% of 2019/20 audits and 57% of 2018/19 audits by the respective target dates of 30 November 2020 and 31 July 2019.

The challenges posed by Covid-19 have contributed to the current position. However, a range of further pressures documented in the Redmond Report are also continuing to impact performance. In particular there is a shortage of auditors with the knowledge and experience to deliver the required higher

quality audits of statements of accounts, which increasingly reflect complex structures and transactions, within the timeframe expected. The growing backlog of audits is also a concern, with 70 of the 2019/20 audits still incomplete.

The new Liaison Committee established by the Department for Levelling Up Housing and Communities (DLUHC) has a vital role in helping to ensure co-ordinated action in response to Sir Tony Redmond's recommendations and in overseeing the overall progress and performance of the local audit system. It is currently working to develop a strategy to improve the timeliness of opinions within a more resilient, sustainable system.

DLUHC's Spring Statement and recent consultation on the Local Audit Framework are key steps in addressing necessary improvements including the need for effective systems leadership.

- 4.5 Further discussions will need to take place over the coming weeks with EY to schedule the 2020/21 and 2021/2 audit work. It is unlikely the audit work will be able to commence until early 2022 and is dependent on the 2019/20 audit being concluded.

5 MEASURES TO IMPROVE LOCAL AUDIT DELAYS

- 5.1 The Government outlined a series of measures to support the timely completion of local government audits and the ongoing stability in the local audit market in December 2021. The extract below provides the context to the measures set out by the Government:

(However), challenges remain around the timeliness of local audit, one of the key issues highlighted by Sir Tony. 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, most recently, only 9% of 2020/21 audits completed by the extended deadline of 30 September 2021.

*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.*

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. In some cases, issues with the preparation of local authority accounts have led to delays in audits being signed off.

In the face of competing workload pressures, some local authorities have diverted staff resources away from completing working papers and preparing accounts, while the quality of processes within the finance functions of some local authorities has affected their preparedness for audit. These issues, have, understandably, been exacerbated by the impact of the COVID-19 pandemic.

Considering the complexity of the drivers behind audit delays, it is clear that a whole system response is needed, with local bodies, audit firms, regulatory bodies and code-setters working collectively to implement solutions across the sector.

The government is continuing to prioritise measures to improve timeliness and support capacity as part of our response to the Redmond Review. We laid new regulations on 21 October to provide greater flexibility to the appointing person through, for example, extending the deadline for setting fee scales so that they can reflect the most recent market conditions, and streamlining the fee variation process under certain circumstances. We are also providing £15 million additional funding to local bodies for 2021/22 to support with the implementation of recommendations following the Redmond Review and additional costs resulting from new audit requirements, including the new value for money reporting arrangements. In addition, we have extended the statutory deadline for publishing audited local authority accounts to 30 September from 31 July from 2020/21 for 2 years.

We recently consulted on proposals for the Audit Reporting and Governance Authority (ARGA), the new body being established to replace the Financial Reporting Council (FRC), to take on a systems leader role for local audit. Ensuring there is a strong system leader will help to ensure broader alignment across the system to respond to challenges within the market. However, while these changes will be beneficial in the longer-term, it is clear that we need to go further in the short-term to address the stark deterioration in timeliness.

The government emphasised this point at a recent discussion of the Local Audit Liaison Committee on 21 September, where it was noted by members that, while in the past, ensuring the quality of the final audit had been the priority, timeliness had worsened to the extent it had become a quality issue.

- 5.2 The document sets out a series of additional measures across 4 broad areas to support improved timeliness and the wider local audit market.

Measures relating to audit firms and timely completion of audit

- FRC to publish updated Key Audit Partner (KAP) guidance by spring 2022, including new routes for an experienced Registered Individual to become a KAP
- Work with CIPFA to further develop the proposal for a new local audit training diploma in local government financial reporting and management aimed at different levels of auditor, and a new technical advisory service that could provide support to firms, and in particular new entrants

Measures relating to local audit bodies and quality of accounts preparation

- DLUHC to provide further funding of £45 million over the course of next Spending Review period to support local bodies with the costs of strengthening their financial reporting, new burdens related to appointment of independent members and other Redmond recommendations and increased auditing requirements.
- CIPFA to publish strengthened guidance on audit committees by April 2022. The guidance will emphasise the role that audit committees should have in ensuring accounts are prepared to a high standard, alongside broader changes including appointment of independent members. Following consultation, consider making the guidance, committees and the independent member statutory
- DLUHC to provide via the Local Government Association sector grant for a number of targeted training events for audit committee chairs

Proposed measures relating to accounting and audit requirements

- NAO rolling over of amendments to 20/21 AGN 03 and 07 to allow for altering the timing of elements on the VfM arrangements work and enable more focus on fully delivering opinions on the financial statements
- CIPFA/LASAAC is undertaking a project to improve the presentation of local authority accounts to inform the development of the 22/23 Accounting Code and comply with IFRS and statutory accounting principles HMT to undertake thematic review of financial reporting valuations for non-investment properties to inform development of the Accounting Code from 22/23 onwards
- The government has asked CIPFA/LASAAC to consider the merits of a time-limited change to the Accounting Code for 21/22
- Delaying implementation of standardised statements and associated audit requirements

Longer-term measures to help stabilise the market and address long-term supply issues

- PSAA to progress their proposed procurement strategy for the next round of local audit contracts from 2023/24
- Extending the deadline for publishing audited local authority accounts to 30 November 2022 for 21/22 accounts and the 30 September date for 5 years from 2023/24 – 2027/28.
- NAO to prepare for a re-laying of the Code of Audit Practice 2020 in parliament, so that it will apply for the whole of the next appointing period

- Developing an industry-led workforce strategy, working with the system leader and audit firms, to consider the future pipeline of local audits, and associated questions related to training and qualifications

6 CONCLUSION

- 6.1 There is some uncertainty around the timing of when the Council will receive the audited financial statements and EY's Audit Opinion as it is dependent on the Council providing further information to resolve the outstanding property-related queries. Subject to EY's internal consultation process, officers and EY will work towards a formal completion of the audit in early 2022. However, there remains some risk around the exact timing given the need to agree the final accounts position, review any proposed adjustments and a revision to the Council's financial statements.
- 6.2 It is worth reassuring members that the additional time taken is not due to errors, omissions or matters concerning the quality of the final accounts.

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