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To: All Members of the **AUDIT AND STANDARDS COMMITTEE**

The following papers have been added to the agenda for the above meeting.

They were not available for publication with the rest of the agenda.

Yours sincerely

Damian Roberts

Chief Executive

SUPPLEMENTARY PAPERS

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**Surrey Heath Borough Council
Audit and Standards Committee
17 April 2023**

**Position Statement
on the status of the
outstanding financial accounts**

Strategic Director	Bob Watson – Strategic Director Finance and Customer Services
Report Authors:	Bob Watson, Damian Roberts
Wards Affected:	All

Summary and purpose

To provide the Committee with an update on the work to complete the audit of the Council's financial statements for the 2019/20 financial year, and progress on the draft accounts for 2020/21, 2021/22 and 2022/23.

Recommendation

The Committee is advised to NOTE:

- (i) the report on the work to finalise the financial statements for 2019/20 financial year.
- (ii) the progress made by the Council's finance team on the accounts for financial years 2022/21, 2021/22 and 2022/23.

The committee is also asked to NOTE the requested update from the appointed auditor, BDO, elsewhere on this agenda.

The Committee is requested to DECIDE:

- (iii) if the report on the work to finalise the financial statements for 2019/20 financial year needs to be presented to full Council for review.

1. Background and Supporting Information

- 1.1. Last month, Catherine Frances, the Director General, Local Government Resilience and Communities at the Department for Levelling Up, Housing and

Communities (DLUHC) wrote to all Chief Executives, Chief Finance Officers and Local Audit Firm partners regarding the current national position on local authority audits and public sector audits as a whole.

The national picture.

- 1.2. Ms Frances' letter outlines the national picture and the opening paragraph is reproduced below:

“For 2020/21 only 12% of local government bodies audited accounts were published by the 30 November deadline. These delays affect the assurances that can be given to taxpayers and elected representatives; and impact on authorities' ability to plan and manage their services and finances effectively. This is a multifaceted and complex problem that requires all actors in the local audit system to play their part. Securing the capacity required for the next contracting period through the most recent procurement led by PSAA is reassuring and has resulted in two new entrants into the market; and there have been several technical solutions that have been put in place to reduce the burdens on auditors and local authorities so that auditors can focus on the backlogs. This letter is to update you on DLUHC's continued work to respond to Sir Tony Redmond's Local Authority Financial Reporting and external audit: independent review (the 'Redmond Review') and to reaffirm the Department's continued resolve to work with you and others across the sector to ensure a system wide approach to reducing the continued delays to local audit.”

- 1.3. The 'Redmond Review' identified that the fragmented nature of the local audit system limited the ability of the system to respond to emerging challenges. DLUHC's vision for local audit focuses on the need for a system leader to enhance coordination and collaboration amongst stakeholders and establish clear accountability for the functioning of the system. The role of a system leader for local audit will therefore be vital to drive through the reforms necessary for a sustainable, effective local audit system.
- 1.4. DLUHC has now published a 'Memorandum of Understanding (MoU) between themselves and the Financial Reporting Council (FRC), setting out the roles and responsibilities that the FRC will assume as shadow system leader for local audit.
- 1.5. The FRC appointed Neil Harris as Director of Local Audit in September 2022 and Mr Harris has now established a new local audit unit to spearhead the FRC's new role. DLUHC expect full shadow arrangements to start in the coming months, at which point the Department will issue a 'Remit Letter' setting out their policy priorities. The shadow period will continue until the Audit, Reporting and Governance Authority (ARGA) is established through legislation.

Local Audit Delays

- 1.6. The recent National Audit Office's report (*Progress update: Timeliness of local auditor reporting on local government in England*) set out that the backlog of audit opinions remains 'considerable and pervasive' and that 'the

reasons for this are multifaceted'. Addressing the existing backlog, alongside embedding sustainable, long-term culture change on timely and high-quality financial reporting and audit will be a key focus for the FRC in its new role.

Audit year Publishing date	Number of opted in bodies	Percentage of audits complete by publishing date	Number of audits by oldest year outstanding Total = 619	Number of audits outstanding per financial year
2021/22 30 Nov	467	12%	238	398
2020/21 30 Sep	474	9%	116	160
2019/20 30 Nov	478	45%	34	44
2018/19 31 Jul	486	57%	7	10
2017/18 31 Jul	494	87%	2	3
2016/17 30 Sep	497	95%	0	1
2015/16 30 Sep	497	97%	1	1

- 1.7. DLUHC and the FRC will continue to engage with all parts of the system to determine if further measures are needed in addition to activity underway as set out in the Department's December 2021 publication *Measures to Improve Local Audit Delays*. As an example, the Government acted at the end of last year to lay a Statutory Instrument to provide a temporary solution to the issue concerning the audit of local authority infrastructure assets.
- 1.8. The Department went on to highlight that Chief Executive Officers, Chief Financial Officers and their finance teams are critical to delivering high-quality financial reporting in the public interest. This includes complying with the Chartered Institute of Public Finance and Accountancy's (CIPFA) financial reporting framework, professional accounting standards, being accountable with appropriate expert support for critical accounting judgements, estimates and ensuring through robust internal quality assurance that sufficient and appropriate evidence exists to support the primary statements and disclosure notes ahead of audit. This should involve submitting the annual auditor's report to the Audit Committee and if deemed necessary then to Full Council, accompanied by any response recommended by the audit committee to any significant issues raised in the

report. It is also incumbent upon the Chief Financial Officer to report to the Chief Executive, Audit Committee and others if there are any concerns on the capacity, capability and ability to deliver high-quality draft financial statements by the statutory deadline.

- 1.9. Ms Frances further stated that within the appointed audit firms, the auditors and the Key Audit Partner also have a fundamental role in safeguarding high quality audits and by also setting out to the Chief Executive, CFO and Audit Committee a realistic project and delivery plan for delayed audits and the critical dependencies. For example, this may involve (but is not limited to) obtaining sufficient and appropriate evidence from management on critical judgements, or securing the appropriate mix of skilled and specialist audit resource. Key Audit Partners also have a critical role to report as soon as practicable where they have identified any significant concerns and/or risks of significant weaknesses in Value for Money arrangements and what action should be taken by management, Audit Committee and full Council. It is just as important for this to happen if the delays are associated with concerns on the Local Authorities' financial reporting systems, process, capacity and capability.
- 1.10. Both the Department and the FRC are now actively reviewing where lengthy backlogs of audits exist from both an auditor and local authority perspective. It is evident that in some cases an audit has not been completed in several years and this is clearly not in the interests of the council nor the taxpayers. Central government and the FRC expect that audit firms and Local Authorities will work together to resolve this and they suggest that every effort to consider collaboratively where historic issues are compounding delays unnecessarily and to put in place an action plan and timetable to ensure these are swiftly resolved. They further suggest that Local Authority CEOs and CFOs and their appointed audit partners provide the Audit and Standards Committee with a written 'Position statement'.

BDO position on audits

- 1.11. On 17 January this year, Scott Knight, Head of Audit at BDO wrote to the Chief Finance Officers and Chairs of Audit Committees of those Councils that they are the appointed auditor. He quotes a number of factors contributing to the situation, including:
 - Resourcing challenges for both audit firms and audited bodies
 - Increasingly complex and judgemental nature of accounting and reporting requirements, particularly including valuations of property and pension fund assets and liabilities, but also certain income recognition and expected credit losses (previously "bad debt provisions")
 - Commercialisation, often driven by government funding cuts, including factors such as asset and investment valuations and subsidiaries requiring group accounts.
 - Audit quality regulator pressures and increased expectations.

- More recently, a national issue relating to infrastructure accounting, which has effectively meant the vast majority of open audits where there are infrastructure balances not being signed off since February 2022

1.12. More widely, given that the same core pool of auditors also service these other areas, we have seen increasing delays in timetables for completion of housing benefits certification, and in completion of NHS audits within the timescales set. The audit sector are aware that NHS bodies are finding it increasingly difficult to even secure an auditor.

BDO - current position and 2021/22 proposals

- 1.13. As set out above, there remain a considerable volume of 2020/21 and prior period audits outstanding, and BDO has its share of those. Their priority is, wherever possible, to complete those earlier period audits first. This includes addressing those only needing resolution of the infrastructure issue referred to above.
- 1.14. For 2022/23, due to delays in central government enacting the restructuring of the commissioning side of the NHS, and also with this effective from 1 July 2022 (so part way through the 2022/23 financial year), NHS appointed auditors (which includes the public sector audit function of BDO) are now required to undertake two sets of part-year audits of the NHS (NB: short-period financial statements audits tend to involve nearly as much audit work as a full year's audit) which covers the demising Clinical Commissioning Groups (CCGs) and new Integrated Commissioning Boards (ICBs).
- 1.15. BDO remain committed to their overriding objective to focus on delivering consistent high quality audits, supported by regulatory quality assessments.
- 1.16. So by taking into account the prioritisation of overdue 2020/21 and prior years audits, the increase in NHS commitments for 2023 and overdue housing benefits work, and viewed in the context of continuing experienced auditor resourcing pressures combined with the need to deliver high quality audits; BDO have concluded that they cannot realistically commence the audit review of 2021/22 local government financial statements until August 2023 at the earliest.
- 1.17. The Council is working with the BDO Engagement Lead to discuss the specific timing of the outstanding audits in the next couple of weeks.

Surrey Heath Borough Council Position Statement – 2019/20 accounts

- 1.18. Surrey Heath is one of those Councils who are still to complete their 2019/20 accounts audit. Three other near neighbours, also audited by BDO are in a similar position.
- 1.19. During 2022, the Council employed a consultant accountant to work on the production of the annual statement of accounts, primarily dealing with the

audit questions from the 2019/20 draft accounts, but also to work on the accounts for 2020/21 and 2021/22.

- 1.20. At the last Audit and Standards Committee in November 2022, the Strategic Director for Finance and Customer Services (Chief Finance Officer) advised that there were 19 outstanding questions on the 2019/20 accounts that were being addressed. This number fluctuates depending on the questions being raised by the auditors as they review the accounts.
- 1.21. When the consultant accountant contact finished in the middle of January this year, all the queries raised by BDO had been answered and the Council was waiting on confirmation of the proposed changes being acceptable to BDO prior to completing the Statement of Cashflows (IAS7), and then compiling the changes into a final version of accounts. This position was confirmed to Council by the Portfolio Holder for Finance and Customer Services.
- 1.22. Since then, BDO have raised clarifications on four of these items being:
 - 1.22.1. A question around the cost of service income. This is within the Legal and Investment and Development services. It relates to the adjustments from the group accounts and the JPUT. The Council has provided answers on this back to BDO.
 - 1.22.2. A question on 'Receipts in Advance' and a request for evidence on a number of samples. This has now been answered and evidence provided back to BDO.
 - 1.22.3. Clarification on the Council's bad debt provision. BDO have suggested a £1.4 million adjustment in this provision, which the Council has worked upon although we cannot fully reconcile this back to the accounts position. We are in dialogue with BDO and the Closing Consultant to agree a final position that both the Council and BDO are content with.
 - 1.22.4. Further clarification on the of the outstanding balances and the income/expenditure recorded in the Collection Fund. The Council needs to confirm the adjustments to be posted to present the correct figures and the supporting working papers.
- 1.23. The Council Finance Team are in conversation with the relevant auditor and plan to meet in the next couple of weeks to resolve these issues to completion.
- 1.24. It is anticipated that once these have been resolved and agreed with BDO, then the Council will complete the Statement on Cashflows and then produce the final set of accounts. BDO will need to complete a final review before issuing their ISA 260 report to this Committee.
- 1.25. The Council has not contested any of the observations raised by BDO and accepts them, and will subsequently adjust the final version of the Statement of Accounts. This should indicate that there will not be any qualification on the accounts for material mis-statement.

Surrey Heath Borough Council Position Statement – later year accounts

- 1.26. The Council has prepared draft accounts for both 2020/21 and 2021/22, and will publish the first of these on the Council's website once we have confirmation of the opening balances to carry forward. BDO have already started preliminary work on the 2020/21 accounts audit.
- 1.27. At budget Council in February 2023, a growth bid was approved for two financial closing accountants on a two-year fixed term engagement to allow the Council to complete its outstanding statements of accounts, including the 2022/23 closedown. Recruitment is ongoing at present.
- 1.28. The recent tender exercise by PSAA will mean that the Council will have a new external auditor from the 1 April 2023 – ie: the accounts for 2023/24 will be audited by Grant Thornton (GT). BDO will work to complete the outstanding audits of the accounts prior to GT taking over, although they have indicated that this may be difficult to resource.
- 1.29. Further to this and partly as result of various representations to both DLUHC and PSAA by affected Councils, BDO have allocated resource and senior management oversight to completing the outstanding audits. A report from BDO follows this agenda item.

2. Reasons for Recommendation

- 2.1. This report forms the required Position statement and sets out:
 - 2.1.1. the outstanding matters,
 - 2.1.2. the impact this position could have on the audit opinion(s) and any reporting under statutory audit powers,
 - 2.1.3. the actions and timetable to resolve these from a local authority and auditor perspective, as well as a judgement from the Council and BDO on how realistic and achievable this is.
- 2.2. This will enable the Committee to exercise its role to determine whether it has sufficient assurance on the action plans and if not, what additional information and explanations it requires to make a decision that balances a realistic and swift timetable for authorising the historic audited financial statements for issue.
- 2.3. The Committee should also consider whether this statement should also be submitted to full council.

3. Contribution to the Council's Five Year Strategy

- 3.1. Timely completion of the annual accounts (including external audit review) contributes to the sound financial management of the Council and provides assurance to residents and businesses within the Borough.

4. Resource Implications

- 4.1. The Council has already committed a great deal of resource to completion of the accounts. It is now intended to establish a technical accounting team to complete the outstanding accounts and budget for this has already been approved at full Council.
- 4.2. This team will work to completion within the timetable provided by BDO. It will also open a dialogue with Grant Thornton to start production of future year accounts in accordance with their timetable.

5. Section 151 Officer Comments:

- 5.1. There is requirement to publish accounts by the set deadline. As with many local authorities nationally, the Council has missed these deadlines for the last two sets of accounts. There is no financial penalty on the Council, but the intention is to publish draft accounts as soon as the 2019/20 opinion has been provided.

6. Legal and Governance Issues

- 6.1. None

7. Monitoring Officer Comments:

- 7.1. The Monitoring Officer has no further comments to include in this report.

8. Other Considerations and Impacts

Environment and Climate Change

- 8.1. None

Equalities and Human Rights

- 8.2. None

Risk Management

- 8.3. There is reputational risk to the Council in not having completed published. audited accounts in a timely manner.

Community Engagement

- 8.4. None