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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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BDO AUDIT PROGRESS REPORT

SURREY HEATH BOROUGH COUNCIL

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EXECUTIVE SUMMARY

 This report provides the Audit and Standards Committee with an update on the progress of our audits and plans to clear the backlog of work.

The Department for Levelling Up, Housing and Communities (DLUHC) wrote to all local authorities and audit firms on 14 March requesting that auditors provide Audit and Standards Committees with a realistic project and delivery plan for delayed audits and the critical dependencies.

Issues nationally that have increased the resources required to complete local authority audits or have caused delays include:

- ▶ Backlog initially created during Covid and lockdown that has not been recovered
- ▶ Enhanced quality requirements following well publicised audit failures
- ▶ Implementation of new auditing standards
- ▶ Infrastructure accounting and inadequate historical records for highways and infrastructure spend
- ▶ Increased complexity of group structures, nature of transactions and asset ownership
- ▶ Difficulty recruiting auditors to the sector.

EXECUTIVE SUMMARY

NATIONAL PICTURE

2019/20

Only 45% of 2019/20 local government bodies received an audit opinion by the extended deadline of 30 November 2020 and 44 (9%) had still not received the audit opinion by 31 December 2022.

2020/21

Only 9% of 2020/21 local government bodies received an audit opinion by the extended deadline of 30 September 2021 and 160 (34%) had still not received the audit opinion by 31 December 2022.

2021/22

Only 12% of 2021/22 local government bodies received an audit opinion by the extended deadline of 30 November 2022 and 398 opinions (85%) remained outstanding at 31 December 2022.

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Audit capacity and costs

The latest procurement by Public Sector Audit Appointments Limited for contracts commencing for year ends 31 March 2024 will increase audit fees by 150% and Government has pledged to make an additional £60m of funding available over four years from 2021/22.

Redmond review

Limited progress has been made against the Redmond review recommendations to improve local public audit. The Financial Reporting Council (FRC) has recently taken on the role of shadow system leader and a memorandum of understanding setting out the FRC's responsibilities in this role was agreed with DLUHC in March 2023.

EXECUTIVE SUMMARY



AUDIT PROGRESS AND RECOVERY PLANS

Our audit of the Council's 2019/20 financial statements remains in progress. We set out below and on the following page progress on that audit, outstanding work, and issues to resolve.

In April 2021 we provided the Council with a report setting out the progress of our audit, including issues identified at that date. This report was considered by the Audit and Standards Committee.

In responding to the matters raised in our April 2021 report, management have already made a significant number of amendments to the draft accounts submitted for audit. Further amendments will be required to both the cash flow statement and expenditure and funding analysis, to ensure consistency with revisions already made to the draft financial statements. We have requested that the Council provide us with the rationale for each adjustment, and the underlying evidence to support each adjustment. This request remains outstanding and we cannot make further progress on the audit without it.

Importantly, there are areas where we have not yet completed our consideration of the Council's response to the matters raised in our April 2021 report, or where we have requested further information to enable us to complete our consideration of management's response. For those items where we have requested further information, we continue to work with management to resolve the issue.

The Council should be aware that our public sector assurance team are fully committed over the coming months. Arrangements to continue our audit will only be made once the Council has responded to the outstanding matters. On the assumption that the Council can respond to the outstanding matters by the end of August 2023, we would expect to be able to resume work and conclude the audit in the period from September to December 2023.

Following completion of our 2019/20 audit, audits for the Council's 2020/21, 2021/22, and 2022/23 financial statements will be required. Given the need for an accurate opening position to be established, and the issues identified with regard to our audit of the council's 2019/20 financial statements, we have not yet commenced our audit of the subsequent years audits. We are currently working on an indicative timetable for our audit of subsequent years and currently expect this to be available by the end of May 2023. We will provide management and the Audit and Standards Committee with this timetable once available.

YEAR ENDED 31 MARCH 2020

INFORMATION REQUIRED TO RESOLVE OUTSTANDING ISSUES

- ▶ Collection fund: management have proposed changes to outstanding balances and income / expenditure; rationale for change and supporting evidence required
- ▶ Bad debt provision: management to provide evidence to support proposed changes to bad debt provision
- ▶ Council to amend accounts for issues identified, and provide rationale for each adjustment and evidence to support each adjustment.
- ▶ Management to prepare updated draft financial statements with all adjustments fully reflected in all primary statements and notes together with comprehensive supporting audit trails and reconciliations
- ▶ Council to respond to information request to support subsequent events testing

WORK TO COMPLETE

- ▶ BDO to conclude on management's response to audit queries responded to by the Council in recent weeks
- ▶ Review of final version of financial statements, including testing of adjustments to draft financial statements
- ▶ Completion of use of resources assessment
- ▶ Completion of subsequent events testing
- ▶ Clear issues raised from Key Audit Partner (KAP) file review
- ▶ Completion of final audit reporting

WORK COMPLETED

- ▶ Fieldwork and majority of audit testing completed
- ▶ Progress report provided to Council with a number of areas for management to consider (April 2021)
- ▶ Financial statements reviewed with proposed amendments provided to management.

FOR MORE INFORMATION:

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