

Progress Report on the Audit of the Council's Financial Statements for 2019/20 from the Council's External Auditors

Summary

A report providing a progress report on the audit of the Council's Financial Statements for the 2019/20 financial year from BDO, the Council's External Auditors

Portfolio: Corporate

Wards Affected: N/A

Recommendation

The Audit and Standards Committee is advised to note the progress of the Council's External Auditors in finalising their audit of the Council's 2019/20 financial statements.

1. Key Issues

- 1.1 The Committee will be aware that there have been significant delays in the audit of the Council's financial statements for 2019/20.
- 1.2 These delays have been caused by a number of factors, of which the most significant have been the impact of COVID-19 and associated resourcing issues at BDO. The pandemic also posed practical challenges to the Council's financial team in producing accounts and supporting evidence, and for auditors to carry out testing. Staff had to work remotely, and the second national lockdown came at a critical point in the audit cycle. Because of the need to close offices, many of the day-to-day issues arising from the audit took longer to resolve on-line or via email.
- 1.3 It should be noted that these delays are not specific to Surrey Heath. In March 2021, the National Audit Office issued its report on the timeliness of local auditor reporting in 2020. The key findings are set out in Section 2 below

2. Proposals

- 2.1 That the Audit and Standards Committee note the update.

3. National Audit Office Findings on the Timeliness of 2019/20 Audits

Deterioration in timeliness

- 3.1 Less than half of local bodies' 2019/20 audits were completed by the extended deadline of 30 November 2020. Figures compiled by Public Sector Audit Appointments Ltd (PSAA) show that 267 audit opinions (55%) were not issued by 30 November 2020. This was despite the Ministry of Housing, Communities & Local Government easing the deadline for the completion of the 2019/20 audits from 31 July 2020 to 30 November 2020, because of the COVID-19 pandemic and to reduce the burden on Councils and audit firms.

- 3.2 The timeliness of audit opinions in 2019/20 had deteriorated further from the 2018/19 audits, when around two-fifths of audit opinions were delayed. For the 2018/19 financial year, auditors delivered 284 opinions (57%) by the 31 July deadline. This compared with 220 opinions for 2019/20 issued by the revised statutory deadline of 30 November 2020.

Impact of COVID-19

- 3.3 The COVID-19 pandemic had a significant impact on delivery of the 2019/20 audits and the financial position of audited bodies. The pandemic put pressure on the audit process by challenging normal ways of working. Concern over the potential financial implications of the pandemic for some Councils meant that auditors had to pay particular attention to the financial position of each audited body, thereby extending and complicating the audit that needed to be completed.
- 3.4 The implications of the late delivery of audit opinions for local authorities are significant. Local authorities need accurate and reliable financial information to plan and manage their services and finances effectively. The audit process provides a key element of assurance for financial planning and budgeting. Delays to the audit opinion, and the issue of recommendations to audited bodies, can mean that actions to improve financial efficiency and resilience are also delayed, and risks those actions being less effective.

Future of External Audit

- 3.5 The Redmond Review reported in September 2020 and recommended major changes in the organisation and regulation of local audit in England. The Secretary of State for Housing, Communities and Local Government stated, on publication of the Redmond Review, that he would consider the findings and recommendations carefully and remained committed to strengthening the local audit system, so that it worked more effectively for taxpayers and councils. The Department's response accepted some of the recommendations of the review and recognised the findings regarding the fragility of the local audit market, agreeing that urgent action is required. The Department set out actions to support market stability, to alleviate some of the immediate funding and timing pressures facing audit firms and local authorities, but decided to consider further the central recommendation to establish a new independent regulator for local audit.
- 3.6 Concerns over the quality of local audit have been raised by the FRC in its report on local audits in October 2020. The FRC inspected 15 financial statement audits in 2019/20 across seven local audit firms. It described the overall results as concerning, with only 40% of audits judged good or requiring no more than limited improvement, down from 64% in 2018/19. The FRC said that urgent action was required from some of the firms, to take appropriate action to respond to the findings and ensure improvements were made in audit quality, given the deterioration in quality in the year.

Progress Report from the Council's External Auditors

- 3.7 The progress report from BDO, the Council's external auditors, is attached at Annex 1. BDO's audit manager will attend the Committee to present the key findings to the Committee.

Conclusion

- 3.8 Given the increasing financial challenge and service pressures the Council can expect to experience over the medium-term, the Councils must strengthen arrangements to manage its finances and to secure value for money. The Council's external auditors will have a key role in providing independent assurance on whether these arrangements are strong enough and in recommending any action. The late delivery of 2019/20 audit opinions is concerning, given the important part that external audit plays in assurance over taxpayers' money both centrally and locally.

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| Annexes | Progress Report on the Audit of the Council's Financial Statements for 2019/20 from the Council's External Auditors (BDO) |
| Background Papers | |
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