

Audit Committee summary report into delay of 19/20 accounts.

At the final Audit Committee of the previous Council, I offered to draw up a report for the incoming Audit Committee members to factually summarise the delay in agreeing these accounts. The best and fairest way of doing this is to directly quote the minutes of the Audit Committee for the relevant period as these have been agreed on a cross party basis by the Councillors on the committee.

Agreement of previous 2018/19 accounts

The 2018/19 accounts were agreed by Audit Committee at their meeting of 20 April 2020 and were done by BDO. The minutes record,

“It was noted that completion of the audit had taken longer than initially envisaged due to the identification of a number of anomalies that had required further investigatory work including:

- *Freehold interest in the JPUT land had been included in both the Council’s assets and its valuation of The Square shopping centre.*
- *A number of omissions had been identified in the accounts with respect to income, expenditure, assets and liabilities.*
- *Expenditure for pension costs, depreciation and impairments had been incorrectly included as other costs instead of cost of services.*

It was reported that it was the Auditor’s opinion that the Square’s blended yield value of 6.32% at 31st March 2019 was considered optimistic but not unreasonable in view of the explanation provided by the Valuation Service. Notwithstanding this the Auditors had raised concerns over a number of the complex transactions that the Council was involved with and it was stressed that there was a need to ensure that the Council had sufficient depth of specialist knowledge to ensure these transactions were scrutinised appropriately.

The Committee was informed that the level of anomalies and errors identified during the audit had required significant additional levels of work and this had impacted on the timescales and caused the subsequent delays in the delivery of the final audit report. Following the completion of its investigative work into the identified anomalies and any necessary corrections it was the Auditor’s opinion that the 2018/19 Accounts could be considered as being a true and fair reflection.

It was confirmed that when considering income and expenditure the level of materiality at which auditors started working from was £1.3million; any expenditure below this amount was not considered by auditors as part of their audit work on the annual accounts.”

Timetable for 2019/20 accounts

At the meeting on 23 November 2020, the following was recorded: -

“The Committee received a report setting out BDO’s (the Council’s external auditor) plans for their audit of the Council’s 2019/20 financial records

It was noted that there had been a delay in the current Interim Executive Head of Finance and committee members receiving the report, therefore limiting the opportunity for Members to review the Audit Plan and thus inform the audit process. The delay had been caused by a number of issues, including the departure of the Council's Executive Head of Finance earlier in the year, his interim replacement then leaving in July and a second interim Executive Head of Finance not taking up the role until mid-August. It was recognised that the circumstances leading to these delays would need to be addressed to ensure they would not be repeated.

Both the Interim Executive Head of Finance and BDO's Audit Partner accepted that these delays should have been avoided and undertook to ensure in future:

- i. A wider distribution of the draft Audit Plan (e.g., to Chief Accountant as well as Executive Head of Finance);*
- ii. The receipt, acknowledgement and actioning of papers from BDO to the Council to be a standing item on the agenda of periodic meeting between BDO and the Council's Finance Officers.*

It was reported that the audit's scope had been determined by the National Audit Office's Code of Audit Practice and would include auditing the financial statements, reviewing arrangements to secure value for money through the economic, efficient and effective use of its resources and, where appropriate, exercise the auditor's wider reporting powers and duties.

In setting out their approach to the audit of the accounts, DBO had identified the following areas that would be subject to specific scrutiny:

- Management override of financial controls*
- Revenue (and expenditure) recognition*
- Valuation of non-current assets*
- Pension liability valuation*
- Allowance for non-collection of receivables*
- Going concern*
- Sustainability of finances*
- Finance statement preparation and informed decision making*

Arising from the Committee's questions and comments the following points were noted:

- It was clarified that the reference to fraud related to fraudulent claims perpetrated against the Council for example Housing Benefit and the majority of these were worth less than £10,000.*
- The Jersey Property Unit Trust would be audited by the BDO Jersey Team and the findings include in the main audit report however the Trust's year end was December 2019.*
- The additional audit fee reflects a combination of the additional work required to deal with the number of errors identified in the 2018/19 accounts and the increased complexity of the audit in recent years for example the audit of the JPUT and the Council's expanded investment property portfolio.*

It was clarified that if a property was bought solely for the purposes of income generation then it would be recognised as an investment in the accounts. If a property was acquired for a combination of investment income and regeneration purposes then in accordance with the CIPFR Code of Audit and Practice it must be shown in the accounts as 'Other Land and Buildings'.

It was noted that, due to the Covid-19 pandemic, the reporting deadlines in relation to completing the audit had been changed. Councils had been given until the end of July 2020 to finalise their accounts and audits had to be completed by the end of November 2020. An additional meeting of the Audit and Standards Committee to discuss the audited report had been scheduled for Monday 18th January 2021."

The meeting planned for 18th January 2021 was cancelled as the report was not ready.

The next meeting was held on 26th April 2021 and the relevant minutes are as follows:

"The Committee received a report from BDO, the Council's external auditor, on the progress being made to finalise their audit of the Council's 2019/20 accounts.

It was acknowledged that there had been significant delays in completing the audit of the accounts for the 2019/20 financial year. There had been a number of reasons for the delays including changes to the regulatory requirements for external audit work and the Covid-19 pandemic which had impacted not only on staffing levels at BDO but also raised practical challenges when sharing evidence and conducting testing under remote working conditions.

It was reported that, notwithstanding the Government's decision to extend the deadline for completion of the audit of local authority accounts to 30th November 2020, figures obtained by Public Sector Audit Appointments Ltd. showed that 55% (267) of local authority accounts audits for the 2019/20 financial year had still not been completed by the date of the extended deadline.

The Committee was informed that whilst the audit had not yet been completed the work carried out to date had concluded that the mechanisms in place to prevent management override of controls were appropriate, that sample testing of revenue and expenditure had confirmed processes were appropriate and that the assumptions and estimates used in the valuation of the Council's land, buildings and investment properties were reasonable. Audit work still to be completed included the valuation of non-current assets, allowances for non-collection of receivables and an assessment of going concern. It was BDO's contention that whilst the audit was substantially complete they still required a number of pieces of information before the audit could be finalised.

The Auditors informed the Committee that Government changes to the regulatory requirements governing audit work had resulted in a significant increase in the scale of work required for each audit; consequently BDO would be seeking a variation in their fee to cover this increased work.

The Committee stressed that the delay in completing the audit was unacceptable particularly in view of the fact that the Committee had been assured by BDO in November that the audit would be completed by January 2021. Officers were

instructed to work with BDO to establish all issues which were still outstanding and develop a timetable to expedite their resolution so that the audit would be completed.

The Committee noted BDO's stated commitment to bring an audit completion report to the Committee's next meeting in July 2021; however whilst noting the pressures on DBO's work load the Committee stressed that this ongoing delay was considered to be unacceptable.

RESOLVED that:

- i. The progress made by BDO to audit the Council's accounts for the 2019/20 financial year be noted.*
- ii. Officers to work with BDO to establish all outstanding issues and develop a timetable to expedite their resolution which would be shared with the Committee.*
- iii. The Committee's concerns about the delays to the audit be raised with the Council's Chief Executive."*

At the next meeting of the Audit Committee on 4th August 2021, the following was minuted: -

"The Committee received an update in respect of the work taking place to bring the external audit of the Council's accounts for the 2019/20 financial year to a conclusion.

The Committee was informed that a recent Public Service Auditing Authority webinar focusing on the auditing of public sector accounts had drawn attention to the fact that there were insufficient auditing firms qualified to audit public sector accounts which was causing delays. In addition, the public sector audit system was set up in such a way that auditors were given a set period in which they had to complete an audit. If the audit was not completed within this timeframe then, instead of completing the audit before moving to the next piece of work, the auditor automatically moved on to the next piece of work leaving the previous audit unfinished. It was stressed that this situation affected all public sector audits including police authorities, the NHS as well as local authorities.

It was confirmed that the audit of the Council's accounts for the 2019/20 financial year was progressing. All the papers requested by BDO, the external auditors, had been passed on and answers to the questions arising from these documents would be provided to BDO by the end of this week. Following the Committee's last meeting in April 2021, it had been necessary for a number of amendments to be made to the financial statement, work which was currently underway. Once the amended financial statements had been received by BDO these would be reviewed before they were signed off.

BDO confirmed that they had the resources available to review the financial statements as soon as they were received. If no further issues were identified then it was expected that the audit would be swiftly concluded and it was expected that the final audit report would be available for the Committee's consideration in September.

The Committee noted the update and expressed their frustration and disappointment at the fact that the audit still had not been completed two years after it had started."

The Audit Committee planned for 20 September 2021 was cancelled as the Audit was not ready.

22 November 2021 – the next Audit Committee minutes record the following: -

“The Committee was informed that work to complete the audit of the 2019/20 accounts was still ongoing. The Council had employed an additional member of staff to focus solely on working with BDO to finalise the audit and weekly focus meetings would take place going forward.

The Committee expressed concern about the length of time that it had taken the Council to put additional resources into place to respond to the BDO’s queries and clarification was sought on the reasons for this delay.

It was clarified that any variations to the fee scales had to be submitted with supporting evidence to the PSAA for approval and the Council had no influence or input into this process.”

At the same meeting, the Committee also considered a report setting out proposals for the appointment of an external audit function to the Council for the five-year period from 2023/24. The minutes of this item record the following: -

“Minutes:

Under the Local Government Audit and Accountability Act 2014, the Council was required to appoint an independent auditor to audit its accounts for each financial year, within this requirement there were three options available to the Council:

- To appoint its own auditor*
- To act jointly with other authorities to procure an auditor*
- To opt into the national auditor appointment scheme administered by a body designated by the Secretary of State as the ‘appointing person’ (currently PSAA)*

The Committee was informed that the Council had previously opted into the Public Sector Audit Appointment’s (PSAA) national auditor appointing process for the period covering the accounts for 2018/19 through to 2022/23. The PSAA was in the process of undertaking a procurement exercise for the periods covering the financial years between 2023/24 and 2027/28 and all relevant bodies were being invited to opt into the scheme. If the Council was to opt into the national procurement scheme then the Council had to return completed opt-in documents to the PSAA by 11th March 2022.

It was reported that there had been a number of significant changes in the audit market since audit contracts were last awarded in 2017 including an expectation of imminent significant changes to the audit regime and the complexity of local government financial statements meant that there would be increasing pressure on the limited pool of audit firms able to undertake the audit work required.

It was confirmed that the PSAA were aware of resourcing issues within audit firms and the impacts that this was having on the timely completion of audit work. It was expected that amendments to the National Fee scales would be brought in at the same time as new codes were introduced.

RESOLVED *that the Audit and Standards Committee recommends to Council that it accepts the invitation from Public Sector Audit Appointments to opt in to the sector led process for the appointment of external auditors to principal local government and police bodies for the five financial years from 1st April 2023.*

The next meeting was held on 25 April 2022 and the minutes of this meeting record: -

“The Committee received an update in respect of the progress of work to audit the Council’s financial statements for the 2019/20 financial year.

It was reported that although that Council’s annual accounts for the financial year ending 31st March 2020 remained unaudited it was not a situation unique to Surrey Heath and there were a significant number of local authorities in England in the same position. These delays, which had initially originated from a shortage in resources and recruitment difficulties for the external audit firms who serviced local government audits, had been recognised in a recent review by Sir Tony Redmond, for the Department for Levelling Up, Housing and Communities (DLUHC). The situation had been further exacerbated by the Covid-19 pandemic and the associated Government restrictions which had impacted on the ability of council finance teams to prioritise the annual statements over new burdens for making support payments to residents and businesses, monitoring grant funding, acting as a payment agency for central government and completing a significant number of new government returns whilst still ensuring the probity of public monies. Similarly the need to work remotely had made the audit processes more time-consuming and impeded effective communication between finance officers and the external audit team.

The publication of the first draft of the Council’s accounts for 2019/20 had generated a number of audit questions from our external auditors which is not uncommon in the process of moving from draft to final accounts. With a number of concerns being raised about the accounting treatment for the Jersey-based Property Unit Trust and how it had been presented within the Council’s formal statement of accounts. Over the past six months, Council finance officers had been in close dialogue with the audit team at BDO and have now agreed the accounting treatment approach with them. The latest draft Statement of Accounts had now been passed to the external auditor for their review and a copy had been published on the Council’s website. Officers would be working with BDO to ascertain when the Auditor would have the resources available to complete the audit process so that Council resources could be made available to respond to any questions and queries in a timely manner.

Concerns about the mis-posting of £40million between the publication of the draft accounts and the publication of the latest revised draft accounts were noted. It was clarified that this mis-posting had originally occurred when, during the production of the original draft accounts, money had been incorrectly categorised as being available in the useable reserves budget. This mis-posting had been rectified and the money was now correctly assigned to the unusable reserves budget in the latest draft

accounts. It was stressed that the true position of the Council's reserves balance had always been between £35 and £40million, a sum that was considered sufficient to support the Council's current budget.

It was clarified that although regular meetings had taken place with the Auditors and a range of officers including the Section 151 Officer, the Chief Accountant and members of the Finance Team. It was noted that meetings had only been held when there had been matters to discuss or resolve and consequently meetings whilst regular they had not been the weekly ones specified by the Audit and Standards Committee.

The statutory requirement for local authorities to publish an audited set of accounts was acknowledged however it was stressed that at the current time there were no sanctions that could be applied to a local authority if this was not done.

The amount of time that was required to audit a local authority's account varied according to the size and complexity of the local authority in question. However for an organisation of Surrey Heath Borough council's size six weeks would normally be considered to be sufficient.

The Committee was informed that it would not be possible to run the audit of the 2020/21 accounts concurrently with the 2019/20 accounts audit because the opening position of the 2020/21 balance sheets would not be available until after the completion of the audit of the 2019/20 accounts.

The Committee agreed that it would welcome the opportunity to discuss what input of the relevant Executive Portfolio Holder had had into the situation. It was agreed that the Chairman would invite the Portfolio Holder to meetings of the Audit and Standards Committee.

It was agreed that:

- i. A log of the outstanding queries submitted by BDO would be circulated to the Committee.
- ii. Monthly progress updates would be provided to the Committee
- iii. The Finance Portfolio Holder would be invited to the Committee's meetings."

The next Audit Committee was held on 25 July 2022 and the minutes record the following: -

"The Committee received an update on the progress being made by BDO, the Council's External Auditors, to complete their audit of the Council's accounts for the 2019/20 financial year.

The Committee was informed that the auditors had spent the majority of May, June and July working on NHS audits to ensure that nationally set Government deadlines were met. Consequently there had been limited opportunities for BDO to review the Council's revised accounts since their submission to BDO at the end of April. Notwithstanding this, officers had been in regular contact with BDO to seek assurances that the accounts would be reviewed as soon as possible after the

completion of the NHS audits. At the current time, it was expected that the audit report would be ready in time for the Committee's meeting in September.

It was acknowledged that these delays would have implications for the audits of the 2020/21 and 2021/22 accounts and consequently to minimise disruption and expedite subsequent audit work, officers were preparing both sets of accounts for audit using the balances from the unaudited 2019/20 accounts as a baseline.

The Committee reiterated the frustrations that it had previously expressed in relation to this situation. The Committee was reminded that the Council was not in a unique position and nationally there were currently 57 local authorities waiting for the outcomes of the audits of their 2019/20 accounts and 212 local authorities were awaiting the outcomes of the audits of their 2020/21 accounts and to date only 4% of 2021/22 accounts had been submitted by the deadline.

The suggestion that the Council seek new auditors was acknowledged however it was stressed that the number of firms with the knowledge and experience of completing public sector audits was limited and there was a shortage of auditors nationally. Furthermore, the situation had recently been exacerbated by Government changes which had made auditors personally liable if there were errors in an audit, a situation which had resulted in a significant number of experienced auditors leaving the profession.

Local authorities had been intensively lobbying both representative bodies and the Government directly, through the Treasury and the Department of Levelling Up, Housing and Communities, with their concerns not only with the capacity of the audit industry but also the impact that recent changes to the way that local government audits were to be carried out were having on the process. These concerns were now being examined by a Government Select Committee however the situation was not expected to change imminently.

The Committee expressed concern that they had not been provided with progress updates following an agreement to provide these on a monthly basis at the Committee's last meeting. Whilst it was acknowledged that no progress had been made in the interim, it was stressed that regular monthly updates of officer's communications with BDO and the status of the Audit should be provided to the committee, even if it was to report that no progress had been made.

The Committee requested that a full breakdown setting out when and where delays had occurred during the audit process be provided alongside the completed audit report. It was agreed that a briefing would be provided for members of the Committee to take them through the audited accounts and the audit report in detail before it was brought to the Committee proper.

The Committee was reminded that the Council would not be subject to any form of penalty, beyond reputational damage, as a consequence of the lateness of the audit and there would be no impact on the Council's ability to raise funds either.

The Committee noted the update."

The Audit Committee planned for 19 September 2022 was cancelled as the report was not ready.

The next Audit Committee took place on 21 November 2022 and the minutes record the following: -

“Minutes:

The Committee received an update on the audit of the Financial Statements for the 2019/20 financial year. Members were informed that the External Audit report was planned to be finished before the end of the 2022/23 Financial Year, but the External Auditors had not committed to this target. Upon receiving the report, a special Committee meeting had been planned for late January 2023.

Members were updated on the number of unresolved queries stored on the Info system stood at 19, however, the Committee were informed that as of 21/11/2022 the number of unresolved queries had risen to 24. This was attributed to the discovery of further discrepancies, but the majority of these issues were considered inconsequential.

Following discussion between Members, the following key issues were raised:

- 1. The number of outstanding queries on Info had been 9 at the end of November 2020. It was noted that the remaining queries would need to be actioned on prior to the Council elections.*
- 2. BDO had already been replaced for 2023, with new Auditors being contracted.*
- 3. Council Members and Officers could not influence the External Auditors failure to deliver on their contracted work.*
- 4. The Council signed up to Public Sector Audit Appointments (PSAA) and agreed to accept the changes to the appointed External auditors. PSAA carried out a full tendering process and advised the Council on the new auditors appointed through the scheme. The Council could have rejected the appointed firm, but then had to tender its own external audit and this was from a limited field and did not offer the cap on fees that PSAA provided.*
- 5. The External Auditors had allocated additional resources to finish the audit on the 2019/20 Accounts.*

The Committee expressed concern that the External Audit report had yet to be produced and noted the report.”

A meeting did not happen in January 2023 because the Audit report was not ready.

April 2023 – The minutes of the meeting will be separately produced for the meeting.

Summary:

- There have been several reasons given regarding the delay although Cllrs have had differing views as to the primary reasons and whether this is down to the Council, BDO or a combination of both. These reasons have been mentioned in the minutes of the Audit Committee over the last 3 years as outlined above.