

## BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

<b>TO: Joint Audit and Standards Committee</b>	<b>REPORT NUMBER: JAC/23/15</b>
<b>FROM: Melissa Evans, Director, Corporate Resources</b>	<b>DATE OF MEETING: 27 November 2023</b>
<b>OFFICER: Karen Watling: Interim Corporate Manager Finance, Procurement &amp; Commissioning</b>	<b>KEY DECISION REF NO. N/A</b>

### **BRIEFING NOTE: UPDATE ON PREVIOUS YEARS' FINANCIAL STATEMENTS**

#### **1. PURPOSE OF THIS BRIEFING NOTE**

- 1.1 This report updates Committee on the status of local government audit activity nationally and government's intention to bring in changes to speed up the delivery of audits in the short term.
- 1.2 The report also updates Committee on where we are with the preparation and audit of previous years' Statement of Accounts for Babergh and Mid Suffolk District Councils.

#### **2. LOCAL GOVERNMENT AUDIT – THE NATIONAL PICTURE**

- 2.1 Only 1% of councils received an auditor's opinion on their 2022/23 accounts by the publishing deadline, according to a recently released report by Public Sector Audit Appointments (PSAA).
- 2.2 The PSAA was set up by the Local Government Association and is responsible for appointing auditors and setting fee scales for councils who have chosen to opt into this national procurement scheme. Most councils have done so including Babergh and Mid Suffolk District Councils.
- 2.3 Councils were required to publish their accounts with an auditor's opinion by 30 September 2023. However, the PSAA report states that only 5 out of 467 local government bodies in England met this deadline. This figure adds to the 456 statement of accounts which are outstanding from previous years bringing the total cumulative position to 918 delayed audit opinions.
- 2.4 In a related development, PSAA have increased external audit fees by 150% for audits undertaken from 2022/23. Capacity issues, regulatory pressures, and an increase in audit risk arising from councils investing in commercial property and other complex/commercial arrangements, have meant that in the last national procurement undertaken by PSAA, audit firms submitted much higher fees in their bids than in the last procurement exercise. This has meant an increase in the audit fees revenue budget is needed for both councils in 2024/25 of £120k (£60k for each council).
- 2.5 In July 2023 the Department of Levelling Up, Housing and Communities (DLUHC) announced their intention to address the backlog of local audits in

England. Government’s proposals need more clarity, but they could include setting statutory deadlines and for auditors to undertake a “light touch” audit and/or for them to give an opinion with qualifications and disclaimers in the short term. More information can be found in the links given in the Background Documents section of this report.

2.6 These proposals were outlined to the DLUHC committee inquiry into financial reporting and audit in local authorities in July of this year. As of the date of writing this report, no final proposals have yet been announced but they are expected by the end of this calendar year.

### 3. STATUS OF BABERGH’S AND MID SUFFOLK’S FINANCIAL STATEMENTS

3.1 The table below gives the current position of the councils’ Financial Statements both in terms of their preparation and their audit.

YEAR	PROGRESS ON PREPARING THE ACCOUNTS	PROGRESS ON THE EXTERNAL AUDIT
2019/20	Final Accounts prepared	Unqualified audit opinions given July 2021 & reported to JASC in September 2021 (JAC/21/7)
2020/21	Drafts prepared & published: BDC - 30 September 2021, MDC - 16 February 2022	External Audit plan for 2020/21 reported to JASC in November 2021 (JAC/21/11). Most of the audit work now done. Outstanding auditor questions remain and are being worked on by Finance Team. We have asked the auditors to recommence audit work in January 2024 (awaiting a response from them on this)
2021/22	Drafts prepared and published on 30 November 2022	Not yet started. We have asked the auditors to recommence audit work in January 2024 (awaiting a response from them on this)
2022/23	Work currently in progress – more than half the tasks still need completing	Not yet started
2023/24	Work on preparing these will commence the end of March 2024. National deadline for draft 2023/24 statements is 31 May 2024	Not yet started. National deadline for 2023/24 audited statements is 30 September 2024.

3.2 Members need to be aware that once the deadlines for preparing and auditing one year’s statement of accounts have not been met, there is inevitably an adverse knock-on effect for future years’ statements. For example, auditors cannot give a final opinion on more recent statements until balances brought forward from the previous year’s statements have been audited.

3.3 In addition, missing the deadlines also means that the work often impinges on other work the finance team must undertake during the yearly financial cycle, such as helping management prepare budget proposals for Council’s annual February budget meeting.

3.4 We have been unable to agree to the external auditors' recent request to restart their audit work in October 2023 because of the need for the finance team to focus on the work required for preparing the 2024/25 budgets as well as finalising the installation of the new finance system, Unit 4. Instead, we have requested that the audit recommences in January 2024 when we can shift the focus of the Finance Team's effort to progressing the outstanding audits and accounts preparation. This is also the time when a new permanent Senior Finance Business Partner starts who has extensive prior experience of preparing the Financial Statements for other councils and of coordinating the response to external audit.

3.5 We acknowledge that it is not a good position for both councils to only have their last audited statements being for 2019/20 – some 4 years ago. However, there are mitigating measures/processes in place that the Committee should consider in their assessment of any risk involved in this situation:

- Internal audit undertake annual audits of the key financial processes and controls. Internal audit's work programme and outcomes are reported regularly to this committee.
- Published quarterly budget monitoring reports are taken to Cabinet showing forecast spend and income for revenue and capital budgets and for the General Fund and HRA.
- The committee reviewed the 2021/22 Annual Governance Statement at its meeting in May 2022 (JAC/21/27) and the 2022/23 Statement in July 2023 (JAC/23/03). The preparation and publication of this Statement is a requirement of the Accounts and Audit Regulations 2015 and requires the councils to conduct a review of the effectiveness of its system of internal controls in preparing the annual statement.
- External audit work is currently progressing on the statutory annual "value for money" reporting for the financial year 2021/22.

#### **4. BACKGROUND DOCUMENTS**

4.1 <https://www.psa.co.uk/2023/10/psaa-announces-the-number-of-audit-opinions-completed-for-the-2022-23-audits> (Ctrl and click to follow the link)

4.2 [LUHC audit inquiry: s151 officers say 'compromises' needed to clear audit backlog as array of failings are highlighted - Room 151](#) (Ctrl and click to follow the link)

4.3 [DLUHC to implement its new proposals to clear audit backlog by year-end - Room 151](#) (Ctrl and click to follow the link)