



Audit, Governance & Standards

Thursday, 21st March, 2024

Committee

MINUTES

Present:

Councillors Jane Spilsbury (Vice Chair in the Chair), and Councillors Salman Akbar, Karen Ashley, Juma Begum, Andrew Fry, Chris Holz and Emma Marshall

Also Present:

J Murray (Grant Thornton)

Officers:

Peter Carpenter, Chris Green, Bernard Ofori-Atta and Nicola Cummings

Democratic Services Officers:

Mat Sliwinski

73. GRANT THORNTON - EXTERNAL AUDIT PROGRESS REPORT AND SECTOR UPDATE

The External Auditor from Grant Thornton presented a report on progress in delivering the external audit function for the Council and provided a wider audit sector update.

The External Auditor reported that progress had been made in respect of work on auditing the Council's financial statements. It was reported that in mid-February the auditors received updated workings from the Council on the transfer of balances from Council's old ledger system to the new TechnologyOne ledger. These updated workings were currently being reviewed by auditors; however, it was reported that unreconciled transactions were now reduced to only a minor value. It was stated that the auditors should now be in a position to verify the completeness and accuracy of the transfer of balances within the next couple of weeks.

An update was provided with respect of the 'backstop' date proposed by the Department for Levelling Up, Housing and Communities (DLUHC) which would set a deadline for when all outstanding local government audits up to and including 2022-23 financial year must be finalised. It was highlighted that there

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remained 700 audit opinions of local authority accounts for various financial years outstanding. In recognition of this situation, consultations by DLUHC and the National Audit Office (NAO) had been undertaken with audit sector stakeholders (including audit firms and local authorities).

At this stage, the Government proposed a backstop date of 30th September 2024 for when audits of local authority accounts up to and including 2022-23 financial year must be finalised. It was stressed that under this proposal if the statement of accounts was not finalised by the September date, then auditors would be required to issue a qualified opinion on that set of accounts. Further backstop dates were also set out under the Government's proposal with 31st May 2025 proposed as a backstop date for completion of accounts up to 2023-24 financial year.

It was reported that alongside DLUHC consultation, there was a consultation by the NAO on the Code of Audit Practice which set out potential changes to the work of auditors and how local authority accounts should be audited. Outcomes of either consultation had not yet been published and the implementation of backstop proposal would require a change in legislation.

It was reiterated that at this point, Redditch Borough Council's statements of accounts for financial years 2020-21, 2021-22, and 2022-23 had not been audited. The Council had not yet formally published its draft 2020-21 Accounts. It was noted that in the opinion of the External Auditor if the backstop date of 30th September 2024 was introduced, there would not be enough time to audit these outstanding accounts and backstop disclaimer opinions were likely to be issued for the three financial years. It was highlighted that this was a national issue given the number of unaudited accounts across the local government sector in England.

It was reported that the proposed fee variations for external audit work up to end of December 2023 were included in the report and related to the additional work undertaken by External Auditors in respect of 2020-21, 2021-22, and 2022-23 Value for Money and 2020-21 data transfer work. Public Sector Audit Appointments (PSAA) would need to first consider the proposed variation before it was confirmed. The External Auditor clarified that Redditch Borough Council was fully up-to-date in respect of the Value for Money work.

The Deputy Chief Executive and Section 151 Officer was invited to comment and in doing so noted that the Financial Compliance

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Report at agenda item 10 contained confidential appendices with Council's responses to the DLUHC and NAO audit consultations. The responses were confidential at the moment as the consultations results had not yet been published. It was currently hoped that the Council would have 2021-22 Accounts ready for audit by the end of May 2024 and 2022-23 Accounts by end of July 2024.

The Deputy Chief Executive and Section 151 Officer reported that in his response to the consultations he agreed with the backstop proposal in principle but disagreed with the backstop dates proposed as they did not provide enough time for local authority sector to complete outstanding accounts. It was highlighted that as the audit firms were directed to audit of NHS bodies over spring and June, there was only two and a half months left for public bodies' auditors to devote to local authority accounts before the proposed backstop date. It was noted that there was a serious reputational risk for the local authority sector and Redditch Borough Council in case the backstop dates were implemented as currently proposed.

Questions were asked regarding why delays and backlogs in audits were mainly affecting local authorities in England, rather than local authorities in Scotland or Wales, or other public sector bodies such as the NHS. It was responded that among the possible reasons for national differences in audit was that Scotland and Wales had regional audit offices, whereas the English equivalent, the Audit Commission, was abolished in 2012. It was noted that NHS accounts were standardised, for example the NHS Trusts being provided with pro-forma accounts templated by NHS England, making auditing of those accounts easier for the auditors. The NHS shared business service also mostly use the same ledger system which was of additional assistance when auditing those accounts. The complexity of auditing local authorities was usually greater due, for instance, to the authorities owning multiple buildings, having defined benefit pension schemes, investment properties and trading companies – factors which were usually not in scope when auditing NHS bodies.

The Head of Finance and Customer Services commented that the Council was due to submit additional data to the External Auditor in the next few days. It was hoped that following this, the Council's draft statement of accounts could be published on the Council's website in two weeks' time.

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Members discussed the report in detail and the following points were raised:

- Backstop dates and the effect on Council's ability to borrow – It was stated that the External Auditor expected that, if the Government's backstop proposal of 30th September 2024 was to be implemented, the Council would receive qualified opinions on its 2020-21, 2021-22, and 2022-23 statements of accounts. An additional question was asked with respect on how this would affect the Council's ability to borrow. It was responded that most of Council's borrowing was undertaken through Public Works Loans Board (PWLB) lending (public sector borrowing) and thus there would not be a significant effect on the Council's ability to borrow if it continued to rely on that option for its borrowing. It was added that rules might be tightened with regard to PWLB borrowing but the last change involved adding a percentage point interest on authorities who borrowed with a view of investing for profit.
- Streamlining the Council's auditing process – It was stated that monitoring of some items on the Council's balance sheet was possible and preferable on a quarterly basis as it enabled budget managers to take better view of their budgets and looking at creditors and debtors. However, the two biggest items of spending – property and pension valuations – could only be undertaken towards end of financial year. Therefore, it would be difficult to streamline monitoring of these two items.
- In the course of Member discussion of the above issue, a recommendation was proposed in respect of asking the Executive Committee to include appropriate balance sheet monitoring as part of its quarterly budget monitoring report, to enable all stakeholders to be appraised of the Council's overall financial position. This recommendation was seconded and, on being put to the vote, carried.
- Percentage fee increase on the base budget for 2020-21 audit – It was reported that for 2020-21, Public Sector Audit Appointments (PSAA) set a base scale fee for audit of £44,629. The Audit Plan, presented to the Audit, Governance and Standards Committee proposed an additional £2,500 with respect of External Auditor's work on data transfer and an additional £10,000 with respect of Value for Money work for 2020-21. Based on the time spent by auditors working in

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these areas, the External Auditor proposed that these fees should be increased to £11,170 and £19,028 respectively. This would amount to a total fee for 2020-21 audit work of £71,292. This was a circa 60 per cent increase on the original base fee. It was reiterated that these interim fee variations would need to be considered by PSAA for determination.

- It was noted that for financial years 2021-22 and 2022-23 there was a possibility of Council receiving a rebate on its audit fee for financial statement auditing as only Value for Money audit had been done for these years to date. Officers commented that the external audit fees at the moment were not competitive and that higher rates would likely contribute to auditors having greater resources to devote to local audits.
- It was noted that fee variations included in the report were for Redditch Council only.

RECOMMENDED

that the Executive Committee be asked that the Council, as part of its quarterly budget monitoring, include appropriate balance sheet monitoring so that all stakeholders are appraised of the Council's overall financial position.

The Meeting commenced at 7.00 pm
and closed at 8.29 pm