



Chelmsford City Council Audit and Risk Committee

21st June 2023

Update on External Process

Report by:

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Purpose

This is an update on the backlog of external audit assessments nationally and at the City Council. A delegation is requested to Chair to review and agree the overdue 2020/21 Value for Money Assessment once completed by the Council's external auditor.

Recommendations

1. That the Committee notes the information on the current delays in external audit assessments of the Council
 2. That Committee approves a delegation for the Chair to review and agree the contents of the 2020/21 Value for Money Assessment once completed by the Council's external auditor.
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1. Introduction

- 1.1 As reported at previous committee meetings, there are significant delays to the external audits at Chelmsford Council and in nearly all local authorities nationally.
- 1.2 With the start of a new electoral cycle, it is appropriate to provide a position statement on the audit of Chelmsford accounts.
- 1.3 The lateness of the audits over the last few years has implications not just for the scrutiny of accounts, but also for the workload of the Council.

2. Background

The table below shows deadlines set by Government for the publication of draft accounts and their audit. It also identifies how City Council and external auditors have performed against those deadlines.

Year	Audit Firm	Draft Accounts published	Accounts statutory date for publication	Audit Sign off	Audit deadline
2017/18	EY	31/05/18	31/05/18	18/07/18	31/07/18
2018/19	BDO	31/05/19	31/05/19	4/02/20	31/07/19
2019/20	BDO	17/07/20	31/08/20	18/05/21	30/11/20
2020/21	BDO	26/07/21	31/07/21	9/03/23	30/09/21
2021/22	BDO	20/07/22	31/07/22	TBA	31/11/22
2022/23	BDO	15/06/23 target	31/05/23	TBA	30/09/23

Around 2015/16, the statutory publication and audit completion deadlines were moved forward to 31st May and 31st July respectively. This was in response to HM Treasury wishing to consolidate all public sector bodies into Whole Government Accounts.

The publication and audit deadlines have been moved back on several occasions reflecting mostly Covid driven issues. The deadline for 2022/23 has been brought forward post-pandemic to 31st May 2023, though it should be noted that this is in context nationally of most English local authority audits being several years behind. The audit deadline is 30th September for the next 6 years (ending 2027/28).

The City has one outstanding audit for 2021/22, having had its 2020/21 audit signed off on the 9th March 2023. The audit has not yet started for 2021/22 and the timetable to start has not yet been put forward to Council by BDO. When available, this timetable will need to be agreed by the S151 officer to ensure it is practical for the Council.

Nationally, the position regarding late audits is dire with (as of March 2023) only 16% of 2021/22 audits having been finalised. There is a significant number of authorities whose audits for accounts prior to 2021/22 have not yet been completed. In December 2022, it was identified nationally that there were 630 uncompleted audits stretching back in some cases as far back 2017-18.

The Council's auditors make a separate Value for Money (VFM) assessment each year on the Council finances. It must be completed 3 months after the statement of accounts audit. BDO are in the process of completing the 2020/21 VFM assessment. Given the difficulty of determining when the VFM assessment will finish and it relates to 2020/21, it is pragmatic to delegate to the Chair of Audit and Risk Committee authority to review and sign off the VFM assessment. Should a material matter be identified by the Auditor, it would be formally reported to the next available Audit and Risk Committee.

The table of deadlines above shows the Council has always met the publication deadlines. However, the committee has been previously advised by the S151 officer that this is increasingly difficult due to the disproportionate resources officers now must put into supporting the external audit process due to its demands and length. An audit used to last 5-10 weeks but now takes over 12 months. An example of this additional workload is that the 2021/22 accounts now have to be adjusted in the light of changes in pension fund assumptions on top of completing the 2022/23 accounts. If the 2021/22 accounts had been audited on time, this would not have been necessary. The 2022/23 publication of draft accounts is now expected to be 2 weeks late and take place in mid-June rather than 31st May. Feedback from other local authorities and CIPFA (the national accounting body for local authorities) has highlighted that the late publication of the 2022/23 accounts seems to be a common issue nationally.

3. National Arrangements Governing External Local Audit Provision

- 3.1 The Council, like nearly all English authorities, procures its auditors through a joint purchasing body: the PSAA.
- 3.2 The cost of the external audit fees fell dramatically from 2010 and the PSAA arrangements continued that trend.
- 3.3 However, for the latest procurement exercise running for 5 years from 2023/24, the fees increased from £88k per year to £186k. Reflecting that, some audit firms are no longer prepared to deliver to local audit services. It could be hoped this will deliver a higher level of resources for audits.
- 3.4 The regulatory body governing auditors, the FRC (Financial Reporting Council), does not allow any auditor to be judged on the timeliness of their audit. The measures of audit quality can only relate to meeting the regulatory determined standards of the audit process. The City Council nor PSAA can therefore neither penalize nor reward the auditor to finish on time. However, the new audit contracts do allow for the client not to pay the auditor until certain stages of the audit are complete.
- 3.5 The PSAA, when tendering for new contracts, found a number of audit firms withdrew from the local authority market. From 2023/24, the City Council's auditor

will be the firm EY.

4. Causes of National Problem of Audit Delays and national solutions

4.1 There is some disagreement between external auditors and local authority officers over the causes. Broadly, the causes are viewed to be:

- i) Staff shortages in the audit sector, which have been made worse as audit delays have made the job less attractive
- ii) The pandemic caused delays making existing pressures unmanageable
- iii) Overly complex local authority accounting rules
- iv) Requirements placed on the auditors by regulatory bodies which are not appropriate to public sector audits and excessively time consuming
- v) Inflexible audit approach not suited to local stance and risk, driven by over-prescriptive FRC regulation of auditors.
- vi) Failure of some Councils to provide quality and timely accounts which diverts limited audit resource
- vii) The earlier deadlines for audit which do not fit external audit firms' other workloads such, as the NHS
- viii) Local Authority audits are possibly given lower priority than other clients.

4.2 Various proposals are being considered to resolve the crisis and it now appears that the Government is strongly pushing for solutions to fix the problems. Additionally, the FRC has created a new post: the Director of Local Audit. They have shown a strong willingness to seek constructive solutions to the problem(s).

4.3 There have been several workshops, consultations, and a Parliamentary committee being run with stakeholders. Officers from the City Council have responded whenever asked. Indications from some of those stakeholders are that national initiatives could be announced soon.

4.4 It should be noted that the Council's officers have provided all information requested by the external auditor in a prompt manner. BDO have not identified the provision of information from the Council as a cause of the delays.

5. Summary

5.1 BDO have been consulted on the contents of this report.

5.2 The council's external audit process is significantly behind where it should be, and it seems likely to remain so for the foreseeable future.

5.3 The resolution of the audit delays will likely only come from actions taken at national level.

5.4 Unless solutions are found nationally to the audit backlog, Council staff will continue to find it difficult to complete the accounts by the earlier 31st May deadline.

5.5 The lateness of the audits will result in an increased number of restatements (changes) of previous year's figures, as new information comes to light. This creates additional workloads, and gives the impression that the accounts were incorrect when published, which is not the case.

5.6 Officers will present the draft audited 2022/23 accounts to the September Audit and Risk committee and will provide appropriate training relating to them.

5.7 Recommend a delegation to the Chair of Audit and Risk Committee giving authority to review and sign off the VFM assessment. Should a material matter be identified by the Auditor, it would formally be reported to the next Audit and Risk Committee.

List of appendices:

None

Background papers:

Nil

Corporate Implications

Legal/Constitutional:

The report needs to be presented to comply with the Accounts and Audit Regulations 2015

Financial:

None

Potential impact on climate change and the environment:

None

Contribution toward achieving a net zero carbon position by 2030:

None

Personnel:

None

Risk Management:

None

Equality and Diversity: None

Health and Safety:

None

Digital:

None

Other:

None

Consultees:

None

Relevant Policies and Strategies:

None directly relevant