

AUDIT & SCRUTINY COMMITTEE

11 July 2023

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| REPORT TITLE: | Delayed audit of 2021/22 accounts |
| REPORT OF: | Tim Willis, Interim Resources Director |

REPORT SUMMARY

This report is a summary of the background and reasons for the delayed external audit of the 2021/22 accounts. The unaudited accounts were published in July 2022 but the audit is planned to complete in September 2023.

RECOMMENDATIONS

That the Committee note this report.

SUPPORTING INFORMATION

1.0 REASONS FOR RECOMMENDATIONS

1.1 Local Government accounts have traditionally been completed in accordance with the law/statutory instruments. Timely finalisation enables transparency and ensures good governance. A variety of factors have disrupted the normal annual rhythm of this work. This report sets out some of those factors.

2.0 OTHER OPTIONS CONSIDERED

2.1 None.

3.0 BACKGROUND INFORMATION

3.1 The process of finalising Brentwood's accounts is governed by the law (the Local Audit and Accountability Act 2014) accompanied by statutory instruments. The "draft" (i.e. unaudited) accounts are published; then there is a 30 working day period of inspection, during which time the public are entitled to inspect the accounting records of the Council and raise an objection to the Council's accounts. The external audit of the accounts is completed with an audit opinion, and the final accounts are then signed and published.

3.2 Prior to 2017/18 the deadline for completing the process outlined above was 30 September. Thereafter, the Accounts and Audit Regulations 2015 required that the process be completed by 31 July each year. This entailed draft accounts publication by 31 May, followed by the six week inspection period, and external audit done and published by 31 July.

3.3 The way in which external audit was procured changed in 2018/19, whereby a new agency (Public Sector Audit Appointments) procured audit contracts for nearly all local authorities. To add to the complexity, additional requirements of new International Financial Reporting Standards, along with increased expectations from the Financial Reporting Council, had combined to produce a significant increase in audit work, particularly on asset and pensions valuations. The Covid-19 pandemic also had a significant impact on local authorities' and external audit firms' ability to carry out the work in accordance with the statutory timetable.

3.4 The outcome of the above has been late audits across the sector. For example, the National Audit Office found that whereas some 97% of accounts were finalised by the deadline for 2015/16, only 45% were completed for 2019/20 – despite the deadline being extended to 30 November. The Government extended the deadline to 30 September for the 2020/21 and 2021/22 accounts. However, only 9% of 2020/21 accounts were complete by this date. The deadline for 2021/22 accounts was subsequently changed to 30 November 2022, but only 12% of accounts were signed off by this date, and only 19% by the end of May 2023. Further regulations announce in July 2022, now in force, require 2022/23 accounts (and for five years hence) to be finalised by 30 September 2023 and draft, unaudited accounts to be published by 31 May 2023.

3.5 A report by the Public Accounts Committee concluded that DLUHC's oversight of local government finance relied on a system of local accountability, which was being hampered by "shockingly late" audit opinions.

3.6 This history, together with the ongoing difficulties of recruitment and retention of staff in both local authorities and audit firms and the complex technical challenges of local government audit requirements, presents serious challenges to all concerned. It is testament to Brentwood's finance team that it has published draft accounts by 31 May 2023; but the external auditors (EY) are not able to tell us when these accounts will be audited. At the time of writing, they have yet to start the audit of the 2021/22 accounts. It is understood that DLUHC are aware of the sector-wide problems of meeting the 2021/22 and 2022/23 deadlines, as well as the legacy issues of a backlog of audits: some authorities have five years' worth of outstanding audits. The sector is awaiting news of any new plan.

3.7 In the meantime, Brentwood is liaising with EY to plan for the audit of the 2021/22 accounts over July and August with a view to finalising the audited 2021/22 accounts by 30 September 2023. Whilst ten months late, this will undoubtedly be better than average across the whole of local government. For 2022/23 the draft accounts were published by the required date of 31 May 2023 and the inspection period is in progress, so everything has been done from the Borough's perspective, but the final accounts publication date is unknown, which is entirely dependent on the timing of their external audit.

4.0 FINANCIAL IMPLICATIONS

4.1 Delays to the publication of accounts has a detrimental impact on transparency with the public, through the lack of timeliness of reliable financial information. It also undermines

the reputation of each local authority, and the sector as a whole, when managing external partnerships (the Council itself would not be reassured by doing business with a company whose accounts were late being published). Late finalisation of audits and subsequent accounts can also undermine the Council's ability to present data to support grant claims that can be relied upon, by both the Council and supporting body.

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5.0 LEGAL IMPLICATIONS

5.1 Contained within the body of the report.

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6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 The finance team is resourced to manage the rhythm of the financial year – to produce draft accounts and support their audit over March to September; then to focus more on budget monitoring, budget preparation and medium term financial planning over October to February. The severely disrupted timetable of accounts production and audit can have an adverse impact on other aspects of the team's work.

7.0 RELEVANT RISKS

7.1 Delayed audit does not have an impact on the Council's financial sustainability.

8.0 ENGAGEMENT/CONSULTATION

8.1 None.

9.0 EQUALITY IMPLICATIONS

9.1 None.

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10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 None.

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