

Report for: Audit Committee 7th March 2024

Item number: 10

Title: Update on Outstanding Audit of Statement of Accounts 2020/21, 2021/22 and 2022/23

Report authorised by : Jon Warlow, Director of Finance (S151 Officer)

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Ward(s) affected: N/A

**Report for Key/
Non Key Decision:** N/A

1. Describe the issue under consideration.

This report provides update to the Committee on the outstanding audits relating to the Council's accounts for 2020/21, 2021/22 and 2022/23. It describes the Government's proposed "backstop" arrangements, and the Council's approach to uncompleted and outstanding 2020/21 external audit.

2. Cabinet Member Introduction

N/A

3. Recommendations

That the Audit Committee notes the position on the outstanding external audits of the Council's Statement of Accounts

4. Reasons for decision

N/A

5. Alternative options considered.

N/A

6. Background information

National:

All local government bodies' draft accounts must be prepared and certified by 31st May, by the Section 151 Officer, that they represent a true and fair view of the financial position of the Council.

The local government bodies are required to publish accounts with an auditor's certificate or opinion by 30 September or to explain the reasons for non-publication.

At the publishing date of 30 September 2023, only 5 out of 467 local government bodies' 2022/23 audit opinions had been given. This adds to the 456 opinions that are still outstanding from previous years.

The cumulative extent of delayed audit opinions emphasises how important it is that there is a successful conclusion to the intensive ongoing work to find a national solution.

Government, like all stakeholders involved, did not want this unresolved issue to continue into the next appointing period (2023/24-2027/28) for new external auditors and local authorities.

The first part of the solution was the introduction of a new fee regime. The procurement exercise for audit firms, in this second appointing period, clearly demonstrated the limited audit capacity available to meet the demands of the local government audit market. The procurement outcome was an increase of 151% on total fees for local audit work. This has seen the Council's audit fee for 2023/24 increased to £499k per annum.

The Government also released a 4-week consultation paper on the "backstop arrangement". The consultation opened for public participation on the 8 February and will close on 7 March 2024. Haringey Council is supportive of the proposals and will respond by the due date.

In simple terms, the proposal in the consultation paper is that the Accounts and Audit Regulations 2015 will be amended so that any audit from 2015/16 to 2022/23 that is not completed by September 2024, may be disclaimed by the Auditors if necessary.

The proposal also covers temporary changes to the code of practice on Local Authority Accounting for 2023/24 and 2024/25 to address matters around closing balances from 2022/23, valuation of assets, valuation of non-investments assets, defined benefit pension liabilities/assets, etc.

The regulations are likely to be issued after the consultation. It is anticipated that they will be issued around May 2024.

It is also expected that there will be a requirement for the outgoing audit firms to carry out Value for Money (VFM) audit and provide a single commentary on value for money (VFM) arrangements for local bodies for all outstanding years up to and including 2022/23. This is a crucial part of the backstop arrangement.

Haringey Council External Audit position

Haringey Council has prepared and published all its annual accounts (up to date) by the deadline, apart from recent two (which had slight delays due to delays in audit). The Council have had all annual accounts audited up to 2019/20.

The 2020/21 external audit by BDO was commenced in accordance with the normal timetable but remains uncompleted after almost 3 years. This is not because the council has not provided information or support to the audit but because of the external auditor's ongoing inability to adequately resource the audit for its completion.

The Council's draft 2021/22 and 2022/23 statements of accounts were prepared and published in accordance with the accounts and audit regulation 2015. The audit of these years' accounts have not commenced; and the external auditors have indicated that these two years' account cannot be completed by the proposed September 2024 backstop date.

It must be stated that this is not peculiar to Haringey. It is a national issue. Our Neighbours, Enfield, Barnet, and several other London boroughs are in similar situations - as the national statistics depict.

As a Council, we have tried to engage with the external auditors over these years to re-commence and finalise the audits. The Council's former Corporate Committee received update reports from the auditors, describing the circumstances responsible for their delays in re-commencing the audit.

The Director of Finance escalated the matter as far is possible within the external auditor firm on more than one occasion. He has further escalated the matter to PSAA and FRC and was advised that it is a national issue for which a solution is being sought.

Existing External Auditors Proposal:

In light of the government proposed backstop arrangement (still under consultation), the current external auditors, led now by a new BDO lead for the Haringey audit of 2020/21, has proposed to recommence the 2020/21 audit.

They have also advised that they would not be in position to undertake the consequent two years' audits (relating 2021/22 and 2022/23), and that they anticipate that there will be a disclaimer issued as part of the backstop arrangement.

Regarding 2020/21, they have also made clear that they will have to re-test most of the areas that their previous two audit teams have tested before due to the passage of time and changes in auditing standards and methodology. While this is understandable professionally, the revisit of the audit would be resource intensive, cost and time consuming for the council, at a time when we are:

1. Preparing for year-end closing of the 2023/24 accounts, and preparation of statement of accounts by the deadline of May 2024.
2. Channelling resources to support the new auditors KPMG with the interim audit they commenced in December.

3. Supporting the new auditors with the VFM audit for 2023/24 which they are required to report on by 31st March 2024

It is worth noting that NHS audits remain a national priority for local authority external auditors and, as such, if the 2020/21 audit re-started now, they would most probably switch their resources to the commencement of NHS audits at the start of the new financial year.

Summary

As this report details, there are many issues that have been taken into consideration regarding ongoing work on the 2020/21 external audit, including:

1. Additional cost to the council of likely not less than £250k.
2. Significant disruption in our process to support audit of accounts of 2023/24.
3. Significant disruption to other services in the council and to each Haringey Schools' finance teams.
4. The lack of continuity with the audit of the subsequent two years as these will be disclaimed.
5. The need to focus on this year and the future without jeopardising this year's accounts preparation and putting us right back into the same situation as we are now.
6. The lack of assurance on finalising the 2020/21 audit by September in any event.
7. The fact that there is yet no plans for the audit of pensions fund account 2020/21, which is an integral part of the Councils' 2020/21 account.
8. That inevitably, with the expectation that disclaimers will need to be issued for 2021/22 and 2022/23, there will in any event be a lack of continuity in audit certificates until their expected recommencement for 2023/24.

The Director of Finance has therefore asked the outgoing auditors for a deferment in any recommencing of the audit of 2020/21, until the outcome of the national consultation is known. A further report will be presented to the Audit Committee at that time. It may well be that the outcome of this is that BDO issues a modified opinion or a disclaimer in respect of 2020/21, as it is presently expected that similar disclaimers will be issued for 2021/22 and 2022/23.

This will afford officers the time and resources to support the incoming auditors to complete their interim audit on the current year, complete the 2023/24 VFM report by March 31st, 2024, and focus on the audit of the 2023/24 accounts. Importantly it will also allow more officer capacity to support BDO in their work on the VFM reports for the three years 2020/21, 2021/22 and 2022/23.

7. Contribution to the Corporate Delivery Plan 2022-2024 High level Strategic outcomes?

N/A

8. Carbon and Climate Change

N/A

9. Statutory Officers comments (Director of Finance (procurement), Head of Legal and Governance, Equalities)

Finance

N/A

Procurement

N/A

Legal & Governance

9.1 Regulation 10(4) of the Accounts and Audit Regulations 2015 (as amended), extended the dates for publication of final audited accounts in relation to the financial years beginning in 2019 and ending in 2027, so that in relation to the financial years 2020/21, 2021/22 and 2022/23, the Council is currently required to publish the following documents by 30 September 2021, 30 November 2022 and 30 November 2023 respectively –

- (a) the statement of accounts together with any certificate or opinion, entered by the local auditor in accordance with section 20(2) of the Local Audit and Accountability Act 2014;
- (b) the annual governance statement approved in accordance with regulation 6(2); and
- (c) the narrative statement prepared in accordance with regulation 8.

9.2 In order to address the problem facing most local authorities whose accounts have not been audited as a result of a lack of resources in the Audit sector, the government is consulting (cf [Addressing the local audit backlog in England: Consultation - GOV.UK \(www.gov.uk\)](http://www.gov.uk)) on proposed amendments to the 2015 Regulations. The consultation is due to close on 7 March. Extracts from the consultation papers are set out below.

[Addressing the local audit backlog in England: Consultation - GOV.UK \(www.gov.uk\)](http://www.gov.uk) provides -

“The proposed changes to the 2015 Regulations would require Category 1 authorities to ensure that (subject to consideration of potential exceptional circumstances – see below) by 30 September 2024 they have published audited accounts for financial years 2015/2016 to 2022/2023.

“An authority’s ability to meet the requirement above would be contingent on an audit opinion being issued in time. For this reason, the NAO is proposing that the Code of Audit Practice be amended so

that auditors are required (unless specific circumstances apply – see below) to issue their opinion in time for the authority to publish its accounts by the specified date in the 2015 Regulations (in this case, 30 September 2024).

“Regulation 10(2) currently imposes a duty on authorities to publish a delay notice if an audit of accounts has not been concluded before the date specified. We propose to disapply this duty for accounts with outstanding audits for financial years 2015/2016 to 2022/2023. This is because, under these proposals, authorities would be required to publish audited accounts by the backstop date.

“The proposal to set the backstop date at 30 September 2024 reflects the need to ensure sufficient time for auditors to issue opinions, including modified or disclaimed opinions due to the backstop, and for bodies to publish accounts containing those audit opinions once the legislation has come into force.

“The NAO’s consultation proposes that the Code of Audit Practice would introduce exemptions from the proposed statutory deadline for auditors in certain circumstances. These would include, for example, if the auditor is unable to issue their opinion where there are outstanding objections to the accounts that could be material to that opinion.

“Where there is an outstanding objection of this nature, we consider it may be desirable to create an equivalent exemption for Category 1 authorities. This consultation also seeks views on other exceptional circumstances in which Category 1 authorities might be exempted from the 30 September 2024 backstop date.

“Our intention is to publish a list of Category 1 authorities and audit firms which meet statutory deadlines for the publication of audited accounts and those which do not, making it clear any instances where unaudited accounts had also not been published by the required date.

“Under these proposals, the existing requirements in the 2015 regulations relating to the publication of unaudited accounts and to public inspection periods would continue to apply in their current form (see ‘Part 5’ of the Regulations).

“Under these proposals, the published, audited accounts must also be approved in accordance with regulation 9(2) and therefore the approval must be given before the backstop date.

“Further context on these aspects of the proposals can be found in the [Joint Statement](#) (especially paragraphs 5 to 14 and 25 to 46) as well as the [draft regulations](#) (PDF, 179 KB).”

[Local audit delays: Joint statement on update to proposals to clear the backlog and embed timely audit - GOV.UK \(www.gov.uk\)](#) provides -

“To clear the backlog of historical accounts and ‘reset’ the system, the Department for Levelling Up, Housing and Communities (DLUHC) proposes putting a date in law (the “backstop date”) – 30 September 2024 – by which point local bodies would publish audited accounts for all outstanding years up to and including 2022/23.

“The National Audit Office (NAO) is proposing changes to the Code of Audit Practice to require local auditors to comply with backstop dates by giving their opinions in time for audited accounts to be published, and to allow them to provide a single commentary on value for money (VFM) arrangements for local bodies for all outstanding years up to and including 2022/23.

“The duty for local bodies to publish a delay notice where the audit has not been concluded by the deadline will be withdrawn. This is because, with a backstop in place for both local bodies and auditors, authorities would be required to publish audited accounts by 30 September 2024. The introduction of a backstop date is intended to allow those who prepare and audit local body accounts to focus on more current financial periods.

“The backstop date is likely to be a factor in local auditors issuing a modified or disclaimed opinion on outstanding accounts if they do not have enough time to complete all audit work before that date. It is important that local bodies, residents and other accounts users can distinguish between modified and disclaimed audit opinions caused by the introduction of backstop dates and those that indicate significant financial reporting or financial management issues.

“Auditors have a responsibility under auditing standards to clearly communicate the reasons for their opinion within their report, including where the backstop date causes a modified or disclaimed opinion. System partners will consider guidance for auditors to remind them of these responsibilities. System partners will also issue communications that explain what the different types of modified opinions mean and that clarify that local bodies should not be unfairly judged based on modified opinions caused by the introduction of a backstop date that are largely beyond their control.” [Emphasis added]

- 9.3** If the proposed amendments to the 2015 Regulations are brought into force, this will mean that, the Council will be required to publish by 30 September 2024, all outstanding (a) statements of accounts together with the certificate and opinion, entered by the local auditor in accordance with section 20(2) of the Local Audit and Accountability Act 2014; (b) the annual governance statement approved in accordance with regulation 6(2); and (c) the narrative statement prepared in accordance with regulation 8. For the financial years beginning in

2023 to 2027, the applicable publication dates would be respectively by 31 May 2025 and annually (on specified dates) thereafter.

- 9.4** While it is anticipated that the Council will be required to publish all outstanding statements of accounts together with any certificates or opinions entered by the local auditor (plus the other documents listed in paragraph 9.1) by the “backstop date” of 30 September 2024, the question remains as to how the outstanding audits will be managed. The consultation papers (cf text underlined above) note that - “The backstop date is likely to be a factor in local auditors issuing a modified or disclaimed opinion on outstanding accounts if they do not have enough time to complete all audit work before that date.”. Accordingly, in the event that the Council’s Auditors are unable to complete audits for the years 2020/21, 2021/22 and 2022/23 in time, it is envisaged that the auditors will issue modified or disclaimed opinions.

Equality

N/A

10. Use of Appendices

None

11. Background papers

[Local audit delays: Joint statement on update to proposals to clear the backlog and embed timely audit - GOV.UK \(www.gov.uk\)](#)