

AUDIT COMMITTEE

Statement of Accounts Update

22 March 2023

Report of Chief Finance Officer

PURPOSE OF REPORT

To provide the Committee with an updated position regarding the conclusion of the audits of the 2019/20, 2020/21 and 2021/22 Statement of Accounts and the preparations for production of the 2022/23 Financial Statements.

This report is public.

RECOMMENDATIONS

The Audit Committee is recommended to note the following areas.

1. The progress of the audit of the 2019/20, 2020/21 & 2021/22 Statement of Accounts
2. The state of preparation in closure and production of 2022/23 Statement of Accounts
3. The s151 Officers proposal for the submission of the draft statement of accounts for 2022/23

1.0 INTRODUCTION

1.1 Members will be aware of the long standing issues in relation to the 2019/20, 2020/21 and 2021/22 Statement of Accounts. This paper seeks to inform Members on their current progress and provide updates on the Council's actions to prepare for production of the 2022/23 statements.

1.2 The position in regard to the Statement of Accounts audits broadly remains unchanged from previous updates, although a schedule of outstanding work required to conclude the 2019/20 and 2020/21 audits was provided by the External Auditor 01 March 2023. The position for each of the 3 years, as well as the Council's work to address the Auditors' request and the impact on the preparations for the production of the 2022/23 Financial Statement, is provided in the sections below.

2.0 2019/20 STATEMENT OF ACCOUNTS POSITION

2.1 In line with previous updates, the only significant matters that remain outstanding are the objection from a local Council Taxpayer in regard to Note 42: Contingent Liabilities and the impact of the national infrastructure assets issue as previously reported.

3.0 2020/21 STATEMENT OF ACCOUNTS POSITION

- 3.1 The Committee will recall that the External Auditor presented his plan for the audit of the 2020/21 Financial Statements for consideration by this Committee at its meeting 23 March 2022. As highlighted as part of the Statement of Accounts Update papers presented at previous meetings, a significant body of audit work has been performed but as noted in previously work in relation to Property Valuations is still yet to be concluded.
- 3.2 To reiterate previous update reports the Council's Housing Revenue Account dwellings are valued on the basis of Existing Use Value for Social Housing (EUV-SH) which was first introduced on 01 April 2001, following the introduction of Resource Accounting in the HRA. Values are then rebased annually, with periodic full revaluation exercises every 5 years, the fifth of which updated all values to 01 April 2020. This has resulted in a net increase in asset values of £5.391M in the year across the Council's estimated 3,600 dwellings.
- 3.3 All audit matters that have been brought to officers' attention to date have been addressed and any required revisions made to the draft 2020/21 financial statements. The Committee should note that given the potential volume and complexity of transactions relating to Property Valuations that any substantial issues reported at this late stage may well have a significant impact on the Council.
- 3.4 The Committee will also be aware that, as with 2019/20 statement, Note 42: Contingent Liabilities, was once again subject to formal objections by a local Council Taxpayer. The External Auditor is still considering the objections in accordance with regulatory guidance.
- 3.5 As noted above the impact of the national infrastructure assets issue will impact the 2020/21 Statements.

4.0 2021/22 STATEMENT OF ACCOUNTS POSITION

- 4.1 The draft 2021/22 Statement of Accounts were published on the Council's website ahead of the 31 July 2022 deadline. A link was sent to Council Members, and paper copies are available on request.
- 4.2 The External Auditor was due to present his Audit Plan setting out his approach to auditing the 2021/22 financial statements at the Committee 23 November 2022. Unfortunately, this was deferred as the plan was not submitted and a verbal update was provided instead. The External Auditors are yet to formally provide the Committee with a plan for the delivery of the 2021/22 Audit. Neither the s151 Officer nor key members of the finance team are aware of any substantial audit work having been undertaken on the 2021/22 Financial Statements to date.
- 4.3 The Committee should also note that, as with the 2019/20 & 2021/20 Statement of Accounts, Note 42: Contingent Liabilities, is subject to formal objections by local Council Taxpayer. The External Auditor is still considering the objections in accordance with regulatory guidance but it is hoped that the information supplied will assist in resolving all outstanding matters in this area. Further discussion is provided below.

5.0 OUTSTANDING MATTERS

Statement of Accounts 2019/20 & 2020/21

- 5.1 Members will recall from July and November's Committee meetings that the External Auditors had expectations to conclude all outstanding audits by December 2022, with a long stop date of March 23. As noted at paragraph 1.2 above on the 01 March 2023 the External Auditor provided a schedule of outstanding work required to conclude the 2019/20 and 2020/21 audits. The schedule contains thirty-two lines of enquiry and requests over one hundred sources of information covering a variety of areas such as audit planning, initial sample selection, Value for Money assessment as well as the on-going objections. Subject to a few points of clarification with the Auditors, at the time of writing over 80% of the information has been provided.
- 5.2 A member of the audit team is schedule to undertake the required work commencing 20th March for 3 weeks. Members will have to accept that this diversion of officer time to collate the information as well as support the member of the audit team will inevitably have a significant impact our preparations for 2022/23 close down and production of the Financial Statements.

Statement of Accounts 2021/22

- 5.3 The External Auditor has confirmed in his correspondence 01 March 2023 that with regret he will **NOT** be able to get through the 2021/22 audit before the end of March as he had previously communicated to the Audit Committee. Again, as noted at paragraph 4.2 neither the s151 Officer nor key members of the finance team are aware of any substantial audit work having being undertaken on the 2021/22 Financial Statements to date. This lack of work on the 2021/22 should be of concern to the Committee as this significant volume of work will need to be undertaken at some point which will severely impact staff, from both a well-being perspective and also prevent them from supporting other Council projects such as Eden, Mainway, OBR, Canal Quarter. In addition, the Council's incoming External Auditors KPMG will require both the 2021/22 and 2022/23 audits to be concluded before they can commence their work in 2023/24.

Objections to the Financial Statements

- 5.4 The Committee will recall that the 2019/20, 2020/21 and 2021/22 Statement of Accounts are subject to formal objections by local Council Taxpayer. In order to finally conclude the audit, the External Auditors requested that the Council seek assurance from a number of external third parties. Officers from Legal and Economic Growth and Regeneration services have been collating this information with two of the assurances requested having been presented to the External Auditors for consideration and, without any information to the contrary, are assumed to have been accepted by them.
- 5.5 Following a meeting in December with the remaining third party a number of additional items have now been provided and we await confirmation from the auditors either that they are satisfied, or, if not, what further assurances they require.
- 5.6 As this matter now appears to be concluding it is critical that, rather than the repetitive pattern of question, response, delay, further questions from the Auditor that has been experienced, he now clearly states what specific further assurances, he seeks to enable discussions to be concluded.
- 5.7 Whilst the delay in finalising the objection is extremely disappointing for all concerned it is hoped that the matter will finally be concluded. I am sure the Committee appreciates all efforts by Council officers in working to resolve this long running,

contentious and sensitive issue.

- 5.8 Committee Members should be aware that the annual Audit Fee does not contain an amount for dealing with objections and so the associated costs will be borne by the Council. Current estimates are an additional cost to the Council of c£31K.

6.0 PREPARATION FOR 2022/23 STATEMENT OF ACCOUNTS

6.1 In preparation for the production of the 2022/23 Statement of Accounts finance staff have undertaken a number of actions including.

- The Council's Accounting Policies & Critical Judgements have been reviewed and are presented elsewhere on this agenda for approval.
- Budget Holder Guidance Notes on Closure of Accounts 2023/24 highlighting all critical deadlines has circulated to relevant staff.
- Key members of the finance team have attended on-line training to ensure they are aware of the changes to the 2022/23 Code of Practice
- Internal planning documents have been revised to reflect the revised deadline and changes within the Code of Practice

6.2 Members should note that for 2022/23 the submission for the draft statement of accounts deadline has reverted to its pre COVID deadline of 31st May a reduction of 2 months from the previous 31st July. This change does place additional pressures on the finance team particularly given the requests from the External Auditors, and the additional officer time required to collate the information as well as support the member of the audit team with responses to questions and provision of further evidence.

6.3 Given that audit work does not appear to be near completion on 2020/21 statements and there has been no apparent work on 2021/22 statements the s151 Officer would ask the Committee to consider the benefit of stretching the already limited capacity of the finance team to achieve the earlier submission deadline, particularly given that there are limited expectations that the External Auditors will be in a position to fulfil their contractual obligations and conclude the audit by 30th September. Although disappointing not achieving the 31st May deadline does not carry any penalty for the Council. The Council must however publish a notice on its website advising of the delay and once available they must publish the formal Notice of the Commencement of the Period for the Exercise of Public Rights. This is the 30 day period during which any person interested or any journalist may, on reasonable notice, inspect and make copies of the accounts or any Local Government Elector may raise an objection to any item of account.

6.4 A revised deadline would allow the team some capacity to assist the auditors in concluding the 2019/20 and 2020/21 as well as starting the 2021/22 audit, whilst working on the production of the 2022/23 Statements. This approach has been discussed with the Chief Executive and the Finance Portfolio Holder who are supportive of the suggestion, given the on-going delays and frustrations. The Department for Levelling Up, Housing and Communities are recently consulted on the extending this deadline to 30th June, with an announcement due shortly.

7.0 DETAILS OF CONSULTATION

7.1 The report provides the Committee with an update on the progress of the audit of the Statement of Accounts 2019/20 to 2021/22 and preparation for the 2022/23 Statement production and so consultation has been limited to discussion with the External Auditors.

8.0 OPTIONS AND OPTIONS ANALYSIS

8.1 As the report is for noting no alternative options are put forward, but the Committee could make supplementary recommendations regarding any matters arising.

9.0 CONCLUSION

9.1 Members should note the progress and matters arising to date.

CONCLUSION OF IMPACT ASSESSMENT

(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing):

No implications directly arising.

LEGAL IMPLICATIONS

S27 of the Local Audit and Accountability Act 2014 makes provision for an elector of the Council's area to make an objection to the local auditor in respect of the grounds set out at paragraph 3.4 of this Report. On receipt of an objection the local auditor must decide (a) whether to consider the objection, and (b) if the auditor does so, whether to take action within paragraph (a) and (b) of s27(1) in response.

In considering any objection, the auditor will need to have regard to the provisions of the 2014 Act and the code of audit practice applicable to the Council. The Local auditor must in carrying out functions under the 2014 Act, have regard to guidance issued by the Comptroller and Auditor General under paragraph 9 of Schedule 6 of the 2014 Act. This includes the Auditor Guidance Note 4.

An objector aggrieved by a decision of a local auditor not to consider the objection or not to apply for a declaration under s28 of the 2014 Act may within 6 weeks from notification of the decision require the auditor to provide written reasons for the decision and within 21 days from receipt of the written reasons may appeal against the decision to the court.

FINANCIAL IMPLICATIONS

There are no financial implication flowing directly from this report.

However, Member's should be aware of the additional audit fees that may accrue because of the objection to the financial statements.

OTHER RESOURCE IMPLICATIONS, such as Human Resources, Information Services, Property, Open Spaces

No implications directly arising.

SECTION 151 OFFICER'S COMMENTS

This report forms part of the Chief Finance Officer's responsibilities, under his role as s151 Officer.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS

Contact Officer: Paul Thompson
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Statement of Accounts 2019/20
<http://www.lancaster.gov.uk/the-council-and-democracy/budgets-and-spending/statement-of-accounts>

Statement of Accounts 2020/21
<http://www.lancaster.gov.uk/the-council-and-democracy/budgets-and-spending/statement-of-accounts>

Statement of Accounts 2021/22
<https://www.lancaster.gov.uk/the-council-and-democracy/budgets-and-spending/statement-of-accounts>

External Audit Plan 2020/21
[Agenda for Audit Committee on Wednesday, 23rd March 2022, 6.10 p.m. - Lancaster City Council](#)

Statement of Accounts Updates
[Agenda for Audit Committee on Wednesday, 23rd November 2022, 6.10 p.m. - Lancaster City Council](#)

[Agenda for Audit Committee on Wednesday, 25th May 2022, 6.10 p.m. - Lancaster City Council](#)

[Agenda for Audit Committee on Wednesday, 23rd March 2022, 6.10 p.m. - Lancaster City Council](#)

[Agenda for Audit Committee on Wednesday, 24th November 2021, 6.10 p.m. - Lancaster City Council](#)

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