

AUDIT COMMITTEE

Statement of Accounts Update

22 November 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, 2021/22 and 2022/23 Statement of Accounts.

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 and 2022/23 Statement of Accounts
2. The current proposals for addressing the significant issues within the Public Sector Audit regime.

1.0 INTRODUCTION

1.1 The position remains **unchanged** from previous updates in relation to the 2019/20, 2020/21 and 2021/22 Statement of Accounts. This paper seeks to remind Members of the current opposition in regard to those Financial Statements, updating Members of the status of the 2022/23 Financial Statements and providing some details of the current proposals to address the national audit backlog.

1.2 Details of the outstanding works for each of the financial years together with a summary of the progress and impact of the work currently outstanding is included in the paragraphs 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, both of these issues are discussed below.

3.0 2020/21 STATEMENT OF ACCOUNTS POSITION

- 3.1 As noted previously all audit matters that have been brought to officers' attention and requests for additional information to date have been addressed and any required revisions made to the draft 2020/21 financial statements.
- 3.2 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. 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 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.
- 4.3 No audit work has been undertaken on the 2021/22 Financial Statements

5.0 2022/23 STATEMENT OF ACCOUNTS POSITION

- 5.1 The draft 2022/23 Statement of Accounts were published on the Council's website ahead of the 31 July 2023 deadline as agreed with Audit Committee at its meeting 22nd March 2023. A link was sent to Council Members, and paper copies are available on request.
- 5.2 In accordance with regulation the Council published a notice on its website advising of the delay and has now published 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.
- 5.3 The Committee should also note that, as with the 2019/20, 2020/21 and 2021/22 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. Further discussion is provided below.
- 5.4 No audit work has been undertaken on the 2022/23 Financial Statements

6.0 OUTSTANDING MATTERS

- 6.1 The following paragraphs provide a summary of the significant issues that still remain outstanding, which should on completion allow the 2019/20 and 2020/21 audits to be concluded.

Objections to the Financial Statements

- 6.2 The Committee will recall that the 2019/20, 2020/21, 2021/22 and now the 2022/23 Statement of Accounts are subject to formal objections by a 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 collated 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.
- 6.3 Following a recent series of meetings, the remaining third party have proposed a solution which should finally conclude this long-standing matter. The proposal is subject to further work and agreement, but it is hoped this will be concluded Mid-January 2024.
- 6.4 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.

Infrastructure Assets Restatement

- 6.5 As initially reported to the Committee 25th May 2022 and subject of several updates, CIPFA was made aware of issues relating to the derecognition of parts of infrastructure assets. Specifically, where Councils have incurred on the replacement, or enhancement of existing infrastructure assets they may not be readily able to identify the cost and accumulated depreciation relating to the original asset components being replaced or enhanced.
- 6.6 This has been a long running and contentious issue and has caused significant delays to a considerable number of Councils across the Country, which now appears to have been resolved. The restatement exercise has now been completed and was presented to the auditors for review in August 2023 with a number of queries raised by the auditors.

Work to Support the Value for Money Conclusions

- 6.7 In addition to providing an opinion of the Council's Financial Statements the External Auditor is required to consider and report on the Council's arrangements for securing economy, efficiency, and effectiveness in the use of resources.
- 6.8 Information requested by the External Auditor to support their consideration is being collated across the Council. However, as the assessments relate to both 2019/20 and 2020/21 the information requested can stretch back to 2017/18 and earlier. It is hoped that all the documents and internal assessment will be available to present to the External Auditor shortly.

Statement of Accounts 2021/22 & 2022/23

- 6.9 Although a substantial amount of work has been undertaken to address the 2019/20 and 2020/21 Statement of Accounts neither the s151 Officer nor key members of the finance team are aware of any audit work having been undertaken on the 2021/22 Financial Statements to date.
- 6.10 As noted in previous updates this lack of work on the Financial Statements 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.

7.0 ADDRESSING THE AUDIT BACKLOG

- 7.1 Given the much-publicised crisis with Public Sector Audit regime and the significant number of audit opinions remaining (918 September 2023) and number of regulations and public sector bodies including the National Audit Office (NAO), Department for Levelling Up Housing and Communities (DLUHC), Chartered Institute of Public Sector Accountancy (CIPFA), the Financial Reporting Council (FRC), the Local Government Association (LGA) and Public Sector Audit Appointments (PSAA) have brought forward a series of proposals which they hope will address the situation.
- 7.2 The NAO and DLUHC intend to set a series of statutory deadlines for both Councils and Auditors to have the outstanding Financial Statement signed off. Auditors would be required to provide as much assurance for a particular year by the relevant date and report using the usual process. There will therefore be substantial scope for audit qualifications and disclaimers where information in the Financial Statements cannot be supported by sufficient, appropriate evidence gathered before the deadline. This recognises that when outstanding audits are eventually signed off, they will offer little assurance about an authority's current financial position. Members should note that no indicative dates have been provided.
- 7.3 As pointed out in paragraph 6.10 a big problem will be the impact on the opening balances of the Financial Statements of accounts for subsequent years. DLUHC is considering measures to deal with the knock-on effects, with an objective of ensuring there is appropriate assurance in place for opening balances for the start of the new PSAA contract period (i.e., 1 April 2023).
- 7.4 The various organisations are working in the following areas:
- NAO – Consideration of a replacement Audit Code
 - DLUHC – Consideration of need for legislation to effect statutory deadlines and manage knock-on effects.
 - CIPFA – Provision of guidance for Councils following any amended regulations for statutory deadlines, and for s151 officers certifying accounts in light of potential qualifications or disclaimers.
 - FRC – Publication of guidance on its regulatory approach to local audits, stating the importance of timeliness and compliance with statutory deadlines as an additional measure of audit quality; use of supervisory role to ensure commitment from audit firm leaders and to escalate any pervasive concerns about an audit firm's resilience, risk management and ability to deliver timely audits; suspension of plans for audit quality reviews for 2021/22
 - PSAA – Reassessment of fees for historical audits (including full compensation for audit work carried out in good faith before the introduction of statutory deadlines and/or reimbursement of prepayments for work that will not now be done)
 - Audit firms – Work with other system members to secure professional commitment to the proposals.
 - Chief Executives, s151 officers and Audit Committees – Working co-operatively to approve the final accounts by the statutory deadline.
 - LGA – Support for Councils to understand their role in relation to External Audit and that of auditors and help to communicate those messages to Members and Officers.

Longer-Term Change

- 7.5 There will be an escalated reporting framework for audit firms and local bodies to resolve issues ahead of statutory deadlines. DLUHC will look to publish a list of Councils and audit firms that did not meet statutory deadlines.
- 7.6 The FRC intend to produce a workforce strategy by the end of this calendar year, which will identify gaps and barriers across the local audit system that are hindering the development of future capacity and agree actions and solutions to unblock them.
- 7.7 All parties will consider whether the level of work required for the current reporting and disclosures obligations on Councils, and the subsequent level of audit and oversight, is proportionate to its value to the user of the accounts, given the potential financial or governance risks are relatively low. In the coming months, an assessment will be made whether this work is proportionate to risk and a wise use of taxpayers' money (particularly for non-investment assets).
- 7.8 The Comptroller & Auditor General (Head of the NAO) is considering changes to the Audit Code relating to certain balances in the accounts while a broader solution is sought. CIPFA is exploring changes to the Accounting Code for the medium term, in order to enable a more proportionate approach to the accounting requirements for non-investment assets and pension valuations for a local authority context. This work will be advised by the HM Treasury thematic review of the valuation of non-investment assets.
- 7.9 The FRC has committed to set out annually its planned regulatory programme, areas of focus and how its inspection activity serves the public interest through alignment with the significant financial, accounting and governance risks facing local bodies. In particular, it will set out how it will review auditors' work on operational assets and pensions valuation, the rationale for doing so and examples of good practice.
- 7.10 In light of these proposals there is an expectation that the External Auditors will provide the Committee with a detailed plan for resolving the outstanding issues.

8.0 DETAILS OF CONSULTATION

- 8.1 The report provides the Committee with an update on the progress of the audit of the Statement of Accounts 2019/20 to 2022/23 Statement production and so consultation has been limited to discussion with the current and incoming External Auditors.

9.0 OPTIONS AND OPTIONS ANALYSIS

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

10.0 CONCLUSION

- 10.1 Members should note the progress and matters arising to date.

<p>CONCLUSION OF IMPACT ASSESSMENT (including Health & Safety, Equality & Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing): No implications directly arising.</p>
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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

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>

Statement of Accounts 2022/23
[Statement of Accounts - Lancaster City](#)

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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, 26th July 2023, 6.00 p.m. - Lancaster City Council](#)

[Agenda for Audit Committee on Wednesday, 24th May 2023, 6.10 p.m. - Lancaster City Council](#)

[Agenda for Audit Committee on Wednesday, 22nd March 2023, 6.10 p.m. - Lancaster City Council](#)

[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](#)