

AUDIT COMMITTEE

Statement of Accounts Update

23 November 2022

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

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. Public Sector Audit Appointments Ltd's provisional appointment of the Council's external auditor for the 5 year period 2023/24 to 2027/28.

1.0 INTRODUCTION

- 1.1 Members will be aware of the long standing issues in relation to the 2019/20 and 2020/21 Statement of Accounts. This paper seeks to inform Members on their current progress, provide updates on the progress of the 2021/22 audit and the national infrastructure assets issue highlighted at the Committee meeting 25 May 2022.
- 1.2 The position in regard to the Statement of Accounts audits broadly remains unchanged from previous updates, however, the position for each of the 3 years is provided in the sections below.

2.0 2019/20 STATEMENT OF ACCOUNTS POSITION

- 2.1 In line with previous updates, the only significant matter that remains outstanding is in regard to Note 42: Contingent Liabilities, which as the Committee will recall was subject to two formal objections by local Council Taxpayers. The External Auditor considered the objection in accordance with the National Audit Office's Audit Guidance Note 4 and has formally written to the objectors stating his grounds for not considering the objection.
- 2.2 In order to finally conclude the audit the External Auditors have requested that the Council seek assurance from a number of external 3rd 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. Although every endeavour has been made by officers to obtain the final source of assurance, supplementary information has been requested in regard to Council wide process which officers are currently assembling. This work is expected to conclude shortly and a meeting arranged with the 3rd party in early December to discuss and draw the matter to a close.

- 2.3 Whilst this is extremely disappointing for all concerned it is hoped that it will finally allow the audit to be concluded. I am sure the Committee appreciates all efforts by Council officers in working to finally resolve this long running, contentious and sensitive issue.

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 paper presented at the last meeting, a significant body of audit work has been performed but as noted in previous updates work in relation to Property Valuations is still yet to be concluded.

- 3.2 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.

4.0 2021/22 STATEMENT OF ACCOUNTS POSITION –

- 4.1 The draft 2021/22 Statement of Accounts have now been finalised and 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. Members, should note that it is expected that additional costs to the Council in dealing with these on-going objections is likely to exceed £20K

- 4.3 As noted previously the deadline for publication of audited accounts has been revised to 30 November 2022. As a result, during the period August to November, our External Auditors, should conduct an audit of the accounts, however, this work has yet to commence. Members will recall from July's Committee meeting that the External

Auditors had expectations to conclude all outstanding audits by December 2022, with a long stop date of March 23. The External Auditors plan is included elsewhere on the agenda. Although both officers and audit staff will work to ensure the deadline is achieved, the exact timing of the work will need to be carefully considered as this short time frame will provide a significant challenge and may well impact officers' ability to support key Council aspirations such as Outcomes Based Resourcing, delivery of its 2023/24 Budget and supporting policy framework requirements.

5.0 NATIONAL ISSUE - INFRASTRUCTURE ASSETS UPDATE

5.1 Members will recall from a previous update, the national issue regarding the derecognition of parts of infrastructure assets specifically where Councils have incurred costs on the replacement, or enhancement of existing infrastructure assets.

5.2 It is understood that the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Department for Levelling Up, Housing and Communities, have developed a solution for the recording of Infrastructure Assets. This would be enacted via Statutory Instrument on 30 November 2022 and have effect from 21 December 2022. Once the process is defined, we will ensure that all necessary revisions and amendments are actioned to allow this area of outstanding work to be concluded.

6.0 PUBLIC SECTOR AUDIT APPOINTMENT LIMITED AUDITOR APPOINTMENTS 2023/24 TO 2027/28

6.1 Under the Local Government Audit & Accountability Act 2014 ("the Act"), the Council is required to appoint an auditor to audit its accounts for each financial year. Whilst there was a range of options available to the Council, at its meeting 23rd February 2022, the Council formally opted into the national auditor appointment scheme administered by Public Sector Audit Appointments Limited (PSAA).

6.2 PSAA Ltd wrote to all s151 Officer and Chairs of Audit Committees (3rd and 17th October 2022) informing them of the provisional results of the formal procurement exercise. KPMG was successful in winning a contract and they propose appointing this firm as the Council's auditor for five years from 2023/24.

6.3 Formal consultation on the appointment closed on 14th November 2022 and, as the Council's s151 Officer, I wrote to PSAA Ltd (21st October 2022) confirming that there were no independence issues, or joint working arrangements that would prejudice or compromise the appointment and confirmed my satisfaction with the appointment.

6.4 Members should note that this appointment is still provisional and PSAA Ltd will provide formal notification on, or before 31st December 2022.

6.5 By way of background KPMG is one of the 'Big Four' audit firms and operates in over 100 countries with over 230,000 employees providing audit, assurance, tax, consulting and advisory services to the public and private sectors. KPMG employees around 16,000 people in the UK. Within the public sector they have 14 active Key Audit Partners supported by a team of 100 staff and a range of specialists.

6.6 KPMG undertakes a range of other public sector audit work including Local Audits in the NHS, central and local government audit work on behalf of NAO and Audit Scotland and a range of external audits in the education and social housing sectors. Prior to 2018, KPMG were the Council's appointed auditors.

7.0 OPTIONS AND OPTIONS ANALYSIS

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

8.0 CONCLUSION

8.1 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

Statement of Accounts 2019/20

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<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](#)

PSAA External Audit Procurement 2023/224 to 2027/28

[Agenda for Council on Wednesday, 23rd February 2022, 6.00 p.m. - Lancaster City Council](#)

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