

**External Audit 2021/22**

<b>Final Decision-Maker</b>	Audit, Governance and Standards Committee
<b>Lead Head of Service</b>	Mark Green, Director of Finance, Resources and Business Improvement
<b>Lead Officer and Report Author</b>	Mark Green, Director of Finance, Resources and Business Improvement
<b>Classification</b>	Public
<b>Wards affected</b>	All

**Executive Summary**

This report provides the committee with an update on progress with the audit of the 2021/22 financial statements.

**Purpose of Report**

Noting.

**This report makes the following recommendations to this Committee:**

1. That the report be noted.

**Timetable**

<b>Meeting</b>	<b>Date</b>
Audit, Governance and Standards Committee	24 July 2023

# External Audit 2021/22

## 1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
<b>Impact on Corporate Priorities</b>	We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. However, they will support the Council's overall achievement of its aims in demonstrating accountability and value for money.	Director of Finance, Resources and Business Improvement
<b>Cross Cutting Objectives</b>	There is no specific implication, however sound financial management does support the delivery of the Council's cross cutting objectives.	Director of Finance, Resources and Business Improvement
<b>Risk Management</b>	This is detailed within section 5.	Director of Finance, Resources and Business Improvement
<b>Financial</b>	The Statement of Accounts provides an overview of income and expenditure for the financial year to 31 March 2022, and details the council's assets, liabilities and reserves at this date. The work of the external auditor aims to provide independent assurance over this document.	Director of Finance, Resources and Business Improvement
<b>Staffing</b>	No implications identified.	Director of Finance, Resources and Business Improvement
<b>Legal</b>	Under section 151 of the Local Government Act (LGA 1972), the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including advising on the corporate financial position and providing financial information. It is a function of the Audit, Governance and Standards Committee to review and approve the annual statement of accounts and to consider if appropriate accounting policies have been followed and whether there are concerns arising from the	Team Leader (Contentious and Corporate Governance)

	financial statements or from the audit that need to be brought to the attention of the Policy and Resources Committee or Council.	
<b>Privacy and Data Protection</b>	No implications identified.	Director of Finance, Resources and Business Improvement
<b>Equalities</b>	The report is for noting and contains no recommendations that would propose a change in service, therefore no equalities impact assessment will be required.	Equalities & Communities Officer
<b>Public Health</b>	No implications identified.	Director of Finance, Resources and Business Improvement
<b>Crime and Disorder</b>	No implications identified.	Director of Finance, Resources and Business Improvement
<b>Procurement</b>	No implications identified.	Director of Finance, Resources and Business Improvement
<b>Biodiversity and Climate Change</b>	The implications of this report on biodiversity and climate change have been considered and there are no direct implications on biodiversity and climate change.	Biodiversity and Climate Change Manager

## **2. INTRODUCTION AND BACKGROUND**

### **2020/21 Statement of Accounts**

- 2.1 Members will recall that the audit opinion for the year to 31 March 2021 was eventually signed by the external auditors, Grant Thornton, in November 2022, over a year after the due date.

### **2021/22 Statement of Accounts**

- 2.2 The Council was required by statute to have its Statement of Accounts for the 2021/22 financial year audited by 30 November 2022. Draft accounts were presented to the Audit, Governance and Standards Committee in July 2022. The audit was originally due to start in August 2022, which would

have made the November deadline achievable. However, in practice the external auditors from Grant Thornton did not start work until January 2023.

- 2.3 In a report to the March 2023 meeting of this Committee, Grant Thornton stated: 'We are currently aiming to conclude our audit in April 2023, ahead of starting our work on NHS accounts, and to report our findings to the July 2023 Audit, Governance and Standards Committee'. However, as of the time of writing the 2021/22 audit has not been completed.
- 2.4 The matters holding up completion of the audit are set out on page 3 of the attached Audit Findings report from Grant Thornton. The key issues are as follows.

*Further information requested by Grant Thornton from the Council's external valuer*

- 2.5 The valuation of Property, Plant and Equipment and investment property assets is carried out by an external valuer, commissioned by the Council. Grant Thornton requested detailed information from the valuer in February 2023, including a large number of specific questions, which required individual responses.
- 2.6 After the valuer provided responses, a further set of queries followed on from the initial questions raised by Grant Thornton. The valuer has made every effort to address these.

This area is now given a very high priority by auditors generally, and we are not aware of any specific issues at Maidstone different to those at other local authorities. However, this means that the level of audit scrutiny in 2021/22 has been much greater than in previous years. If the level of information required had been signalled to the council or to the valuer at the start of the audit process, a more structured approach to meeting the auditor's requirements could have been adopted

*Updated valuation of pension assets and liabilities*

- 2.7 Grant Thornton advised us on 12 June 2023 that the draft accounts for 2021/22 would need to be adjusted to incorporate an updated valuation of pension assets and liabilities. When the Council's draft 2021/22 accounts were originally prepared, the most recent triennial valuation of the pension scheme available was that carried out as at 31 March 2019. The draft accounts therefore incorporated values for the pension assets and liabilities based on a report (known as the IAS19 report) from the scheme actuary in which the 2019 values were rolled forward to 31 March 2022. This is the conventional way in which pension assets and liabilities are recorded if there is no recent comprehensive triennial valuation available.
- 2.8 Subsequently, we have received the results of the 31 March 2022 LGPS triennial valuation. In Maidstone's case, the assumptions used by the actuary in their original IAS19 report were actually close to the actual position as set out in the triennial valuation. This was because the Council

had experienced no major changes, such as a workforce restructure, in the profile of its employees and former employees.

2.9 However, Grant Thornton considers that local authorities with open 2021/22 audits should now go back and seek an updated IAS 19 report from their actuary, to allow for an informed assessment of whether adjustments to draft accounts are necessary in light of the actual position as set out in the triennial valuation. This is a blanket policy adopted by Grant Thornton for all audit clients in the same position as Maidstone, and does not allow individual Grant Thornton audit partners any discretion to form a view as to whether such an update is in fact necessary.

2.10 It should be noted that Grant Thornton's position on this matter is contrary to advice given by the National Audit Office in its Supplementary Guidance Note SGN03, which states:

**'Auditors should not seek to obtain revised figures** unless there is clear evidence that information is now available that the actuary should have been aware of and incorporated into the IAS 19 reports when they were originally prepared. Examples of such events would include, but not be limited to, actuaries failing to update mortality assumptions to reflect the impact of COVID-19, or an authority failing to notify the actuaries of a large restructuring/redundancy programme at the time'.

2.11 Obtaining an updated IAS19 report, as requested by Grant Thornton, will lead to additional costs for the authority and further delay to completion of the audit. It is worth noting that the requirement would not have arisen at all if Grant Thornton had completed their audit work for 2021/22 in a timely way.

2.12 We did not commission an updated IAS19 report immediately in response to Grant Thornton's request on 12 June, as there is no indication that it would have been received and the audit work arising completed in time for the firm to complete their 2021/22 audit by the date of this meeting, as it had promised. Instead, we have requested that Grant Thornton reconsider their position.

### **Current position**

2.13 The attached Audit Findings report from Grant Thornton does not specify a date by which they hope to complete their 2021/22 audit. There are no significant practical implications from continuing to delay publication of audited accounts, such as fines or penalties. However, further delay is likely to impinge on the audit of the 2022/23 accounts.

2.14 A continued requirement to invest time and resource in addressing audit issues also detracts from other functions of the finance team, including budget planning and regular preparation of management accounts. More generally, delays such as this in the publication of audited accounts contribute to the nationwide erosion of confidence in sound local government financial management.

2.15 The Grant Thornton audit partner has been invited to this meeting so that members may raise any questions.

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### **3. AVAILABLE OPTIONS**

3.1 Committee members are asked to note this report.

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### **4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS**

4.1 The report is for noting only.

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### **5. RISK**

5.1 Risks have been considered with reference to the Council's risk management framework. As explained in paragraph 2.13, there are no direct financial or regulatory risks arising from failing to complete the audit. However, there is a potential reputational risk for the Council arising from delays in signing the accounts.

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### **6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK**

6.1 Members of the public have legal rights to inspect, ask questions about and challenge items in the Council's accounts. Details of this were published on the Council's website.

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### **7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION**

7.1 To be discussed at the meeting.

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### **8. REPORT APPENDICES**

- Appendix A: Grant Thornton report, Audit Findings for Maidstone Borough Council 2021/22
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### **9. BACKGROUND PAPERS**

None.