

## **External Audit**

<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 and 2022/23 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	25 September 2023

# External Audit

## 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, 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	Director of Finance, Resources and Business Improvement

	financial statements or from the audit that need to be brought to the attention of the Cabinet or Council.	
<b>Privacy and Data Protection</b>	No implications identified.	Director of Finance, Resources and Business Improvement
<b>Equalities</b>	No implications identified.	Director of Finance, Resources and Business Improvement
<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>	No implications identified.	Director of Finance, Resources and Business Improvement

## 2. INTRODUCTION AND BACKGROUND

- 2.1 Audits for the 2021/22 and 2022/23 accounts are still to be completed. Whilst this is in no way an acceptable position for the Council, it is worth pointing out that it is part of a broader crisis in local government audit. As of July 2023, local audit completions for the financial year 2021/22 were reported as being approximately 27 percent, with the combined total of outstanding local audits dating back to 2015/16 totalling nearly 520<sup>1</sup>.
- 2.2 As a result of this crisis in local audit, the government and the National Audit Office are proposing to set a series of statutory deadlines for accounts preparers and auditors to clear the backlog of delayed audits for financial

<sup>1</sup> Local audit delays - Cross-system statement on proposals to clear the backlog and embed timely audits, Department of Levelling Up Housing and Communities, 18.07.2023

years 2015/16 to the present. It is recognised that this will involve a trade-off between bringing accounts up to date and validation of those accounts, with auditors likely to disclaim an opinion on many statements of account.

- 2.3 Current indications are that the statutory deadline for completion of 2021/22 accounts is likely to be 31 March 2024. As set out below, the council and our auditors are confident that Maidstone's 2021/22 accounts will be signed off well in advance of this date.
- 2.4 Details of the position on the current outstanding audits for Maidstone Borough Council are set out below.

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

- 2.5 The Council was originally required by statute to have its audited Statement of Accounts for the 2021/22 financial year approved by the Audit, Governance and Standards Committee by 30 November 2022. Draft accounts were presented to the Committee in July 2022 and the audit was originally due to start in August 2022, which would have made the November deadline achievable. However, in practice the audit did not start until January 2023.
- 2.6 In a report to the March 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, the 2021/22 audit had not been completed by July and it is still not complete.
- 2.7 The principal matters holding up completion of the audit are as follows.

#### *Requirement to update valuation of pension assets and liabilities*

- 2.8 We were informed of this additional requirement on 12 June 2023. Grant Thornton's rationale was as follows. When the Council's draft 2021/22 accounts were 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 2022. This is the conventional way in which pension assets and liabilities are recorded if there is no recent comprehensive triennial valuation available.
- 2.9 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. An update to the IAS19 report and corresponding adjustments to the accounts would therefore have been superfluous, in the view of the S 151 Officer. In addition, it would have involved further delay to finalisation of the accounts and additional expense.
- 2.10 However, Grant Thornton considered that local authorities with open 2021/22 audits should 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. This was a blanket policy adopted by Grant Thornton for all audit clients in the same position as Maidstone, and did not allow individual Grant Thornton audit partners any discretion to form a view as to whether such an update is in fact necessary.

- 2.11 As set out in a report to this Committee in July, obtaining an updated IAS19 report would lead to additional costs for the authority and further delay to completion of the audit. The requirement would not have arisen at all if Grant Thornton had completed their audit work for 2021/22 in a timely way. Grant Thornton's position on this matter is contrary to advice given by the National Audit Office in its Supplementary Guidance Note SGN03.
- 2.12 At its meeting on 24 July, the Committee asked Grant Thornton to reconsider their position. However, the firm has indicated it is not prepared to do so. Accordingly, the S 151 Officer has concluded with reluctance that, in the interests of obtaining a clean audit opinion, the authority must accede to our auditor's request.

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

- 2.13 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 requiring individual responses.
- 2.14 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.
- 2.15 This area is now given a very high priority generally by auditors and 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. In practice, we are in the position of having to react to successive rounds of detailed questions.

*Current position*

- 2.16 Grant Thornton now indicate that they hope to be able to sign off the accounts in time for them to be presented to the November meeting of this Committee.

### **2022/23 Statement of Accounts**

- 2.17 The Council was required by statute to have its audited Statement of Accounts for the 2022/23 financial year approved by the Audit, Governance and Standards Committee by 30 September 2023. This was a tighter deadline than for 2021/22, as the latest iteration of the Accounts and Audit Regulations envisaged accounts preparation getting more up to date following the Covid 19 pandemic. Although the government has subsequently announced its

intention of introducing hard deadlines for completion of audits, the technical position remains that audited accounts for 2022/23 are due by the end of September. Unfortunately, the ongoing delay in audit of the preceding year's accounts means that Grant Thornton have not yet commenced work on the 2022/23 audit, so the 30 September deadline will be missed.

2.18 The Committee has already seen draft unaudited accounts for 2022/23, as they were presented to the Committee in July 2023. The audit is now likely to start in January 2024 and Grant Thornton currently estimate that it will be complete in time for the accounts to be brought to the Committee at its March 2024 meeting.

---

### **3. AVAILABLE OPTIONS**

3.1 Committee members are asked to note this report.

---

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

4.1 The report is for noting only.

---

### **5. RISK**

5.1 Risks have been considered with reference to the Council's risk management framework. 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.

---

### **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 were published on the Council's website for the 2021/22 accounts and will be published for the 2022/23 accounts when the audit commences.

---

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

7.1 To be discussed at the meeting.

---

### **8. REPORT APPENDICES**

None.

---

### **9. BACKGROUND PAPERS**

None.