

Audit and Governance Committee

12 June 2023

Update on preparation of the Statement of Accounts for 2022/23 and the External Audit for 2020/21 and 2021/22 Statement of Accounts

For Review and Consultation

Portfolio Holder: Cllr G Suttle, Finance, Commercial and Capital Strategy

Local Councillor(s): All

Executive Director: A Dunn, Executive Director, Corporate Development

Report Author: Heather Lappin

Job Title: Head of Strategic Finance

Tel: (01305) 221713

Email: Heather.Lappin@dorsetcouncil.gov.uk

Report Status: Public

Brief Summary:

This report comes to the Audit and Governance Committee with information on the delay to the preparation of the 2022/23 Statement of Accounts and gives an update on the external audit of the accounts for 2020/21 and 2021/22.

Recommendation:

Committee is asked to:

1. Note the update on the preparation of the 2022/23 accounts and the audit update of the 2020/21 accounts and 2021/22 accounts.

Reason for Recommendation:

Although this report does not seek approval for the delay to the publication of the Statement of Accounts for 2022/23, it is important that the committee has an understanding to the reasons behind the delay in publication of the accounts, and the delays in the completion of the 2020/21 and 2021/22 audit.

1. Executive Summary

- 1.1 The Audit and Governance Committee will be aware that the 2022/23 Statement of Accounts are due by current regulations for completion in draft form for submission to Deloitte as our external auditors by 31 May 2023.
- 1.2 This is two months earlier than has been the case for the past few years. This report sets out the reasons why this deadline was not able to be met, the revised timetable for closedown and audit, as well as the steps being taken to resolve this ongoing position.
- 1.3 The Committee will be aware that for Dorset Council the audit of the 2020/2021 and 2021/2022 accounts has not yet been completed. This is an issued mirrored nationally, and the issuing of local authority opinions has been a matter of some concern with circa 630 outstanding opinions relating to 2021/22 or prior years still pending.

2. Financial Implications

All covered within this report.

3. Natural Environment, Climate & Ecology Implications

None

4. Well-being and Health Implications

None

5. Other Implications

None

6. Risk Assessment

6.1 HAVING CONSIDERED: the risks associated with this decision; the level of risk has been identified as:

Current Risk: Medium

Residual Risk: Medium

7. Equalities Impact Assessment

None

8. Issues impacting on completion of the publication of the 2022/23 Statement of Accounts

- 8.1 As the committee has been informed, there have been several issues nationally over the last few years, relating to the completion of the external audit of the Statement of Accounts.

The issuing of local authority opinions has been a matter of some concern with circa 630 outstanding opinions relating to 2021/22 or prior years still pending.

There have been two recent consultations on this matter – a call for evidence from the Public Accounts Committee, and another from Department of Levelling Up, Housing and Communities (DLUHC).

The first, from the Public Accounts Committee, which was on the timeliness of local auditor reporting, and followed on from earlier inquiries into local audit in England in 2021 which found that the national system was close to breaking point, further exacerbated by the pandemic and ongoing impact on resource availability.

The DLUHC consultation, request for views, asked whether the 31 May deadline should remain for making accounts available for public inspection. Dorset Council, along with the Local Government Association (LGA), SCT, the Association of Local Authority Treasurers (ALATs) and others responded to this, saying that the 31 May deadline should not be used as it is unrealistic, given the significant and ongoing audit delays.

Then, on 3 March 2023, the Levelling Up, Housing and Communities (LUHC) Committee launched an inquiry into local audit. The inquiry will “scrutinise the role of audit in local accountability and democracy and the extent to which accounts provide a clear picture of the financial sustainability and resilience of a local authority.”

The inquiry is also likely to explore how local authority financial reporting could be made more accessible, the role of local audits in acting as ‘red flag’ for action by councils to address financial issues, and how auditors in local government could work together to share best practice.

- 8.2 Despite representation to the recent consultation with DLUHC, the Department and the Chartered Institute for Public Finance and Accountancy (CIPFA) chose to revert to the earlier deadline to produce

the 2022/23 draft Statement of Accounts for local authorities for public inspection in England as the 31 May 2023.

Although CIPFA does recognise that the period of public inspection should be a matter for local authority consideration and not set nationally for a prescribed period.

8.3 Prior to signing the draft accounts the Section 151 Officer must consider whether they have sufficient information available to ensure that the statement of accounts give a true and fair and free from material misstatement. The internal review at the end of May highlighted three key issues:

- (i) The finance team are dealing with a number of audit issues from 2020/2021 and 2021/2022. These outstanding audit issues have not been resolved and any consequences on these will have on prior years and thus potential any adjustments to prior years accounts.
- (ii) End of Year Valuations: The contractor assigned to undertake the valuations for the 2022/2023 period of 350 of the Councils land and building assets. This work has not been completed in line with the agreed timetable. The national contractor attributes the delay to significant resourcing issues of their own. The Council in terms of mitigation has appointed additional national and local contractors who had in themselves limited additional capacity to assist to close this work down at pace.
- (iii) Deloitte have advised that due to the delays to the prior years audits which are due to the national issues, they are unable to commence the 2022/2023 audit.

8.4 As a result of discussions with the relevant parties, the committee is asked to note that it was not possible to issue the draft Statement of Accounts by 31 May 2023, and the revised date now being July 2023. A notice on the Dorset Council website has been issued to inform of the public inspection period.

9. Update on the 2020/21 and 2021/22 External Audit

9.1 In recent verbal reports to the committee, the external auditors have provided updates on the 2020/21 and 2021/22 audits.

In January 2022, the ISA260 for the 2020/21 Accounts went to the Audit and Governance Committee. Shortly after that meeting there became a national issue relating to the valuation of infrastructure assets. They are assets that are used to deliver services but cannot be sold. Such assets include highways, footpaths, bridges, coastal defences, water supply and drainage systems. Issues were raised nationally by auditors in relation to the derecognition (removal of the carrying amount) of parts of the infrastructure assets when replacement expenditure is undertaken.

- 9.2 In January 2023, CIPFA issued guidance on a temporary solution which features a temporary relief to not report gross and accumulated depreciation. As part of this review the council are working with Deloitte to review the depreciation values for the current infrastructure assets that are held. The English regulations apply to statements of accounts for financial years beginning on or before 1st April 2024, and to those accounts which have not already been certified by the local auditor.
- 9.3 The impact of this issue has then created the delay in the external audit for 2021/22.

10. Appointment of External Audit for 2023/24 onwards

- 10.1 The Committee will also be aware that for the 2023/24 Statement of Accounts, following a procurement exercise run by the Public Sector Audit Appointments (PSAA), Grant Thornton are the Council's appointed auditors. This will require a handover between auditors. Officers have already begun discussions with Grant Thornton and Deloitte relating to this matter, as a key focus now is how we turn the curve and resolve this position to consistently meet future deadlines.

The delay in the 2022/23 audit by Deloitte will mean that there will again be a cross over with the audit of that year and the closedown of 2023/24 accounts. This will need to be managed carefully alongside the handover of audit. The S151 officer will engage with the Finance Team and the Auditors this September to map that process and timing out to ensure that the council meets the 31 May 2024 deadline for 2023/24 Accounts.

11. Summary and Conclusions

- 11.1 The Section 151 Officer will inform the Committee that the capacity and capability with the Finance Team is of a good standard, with good processes and approach to closedown of the Statutory Accounts for 2022/23. As such, the key to 2023/24 will be resolving the outstanding technical issues and preparing the ground for upcoming changes such as

the pension fund accounting and infrastructure asset reporting. This will be a key focus of the Finance leadership team.