

EXTERNAL AUDIT - FINANCIAL STATEMENTS 2022/23

REPORT OF: DIRECTOR OF RESOURCES AND ORGANISATIONAL DEVELOPMENT
Contact Officer: Assistant Director of Corporate Resources (and S151 Officer)
Rachel Jarvis, Email: rachel.jarvis@midsussex.gov.uk Tel: 01444 477244
Wards Affected: N/A
Key Decision: No
Report to: Audit Committee
19 March 2024

Purpose of Report

This report sets out to update the Audit Committee on the issues with External Audit and the impact on the 2022-23 Financial Statements.

Summary

4. The Audit Committee will be aware following the letter from Minister Hoare of 9 January (attached at Appendix A) that was previously circulated to the Committee, that the external audit sector is experiencing an unprecedented crisis regarding the delivery of local government audits. While subject to consultation, the outcome of which is awaited, the date of September 30 this year is set to be fixed as a 'backstop' to clear the backlog of outstanding audits. It aims to reset the system.

Therefore, by 30 September 2024, all 2022/23 Financial Statements will need to be published. In order to catch up on work, Ernst & Young (EY) has advised that they will be reducing the scope of the 2022/23 audit to just a Value for Money (VFM) Audit. This is a standard approach being planned across the Audit sector. As the consultation stands this would result in a disclaimed audit being issued. The wording to describe this is part of the current national consultation. Broadly this will note that the closing balance in the accounts has not been independently tested, though it will have been subject to the same rigour as is always undertaken when preparing our accounts.

5. If the consultation concludes as expected in late spring / early summer with no changes to the proposals, the council will bring its Financial Statements to Audit Committee in early September with this disclaimer from EY. This disclaimer will then unravel over the next two or three audits as the audit process rebuilds assurances, this is because opening and closing balances will formally be tested externally as well as internally.
 6. This approach is national in nature and not unique to Mid Sussex District Council. Further, we are pleased that this will only affect us for one year, where other local authorities have a larger number of backlogged accounts.
 7. EY has provided the council with its interim VFM report for 2022/23, which is provided at Appendix B. This is not a final report for the year, which can only be completed via the Auditor's Annual Report. For example, it excludes the fee aspect of the report which is yet to be resolved by the Public Sector Audit Appointments (PSAA) who are currently reviewing the fees given the reduced level of work. However, there is no expectation the conclusions within the VFM report will change.
-

Recommendations

6. **The Audit Committee is recommended to:**
 - i. **Agree the Value for Money Report;**
 - ii. **Note the trajectory for the External Audit situation nationally and the impact for Local Authorities.**
-

Background

7. The VFM audit of the Statements for the financial year 2022/22 is now concluded and the outcome is presented at Appendix A. There will be no further audit work undertaken by EY on the Financial Statements for 2022/23.
8. The council is in a better position than most having concluded the audit of its 2021/22 accounts in September 2023. At 31 December 2023, the backlog of outstanding audit opinions stood at 771 nationally [DLUHC – Local audit delays: joint statement on update to proposals to clear the backlog and embed timely audit, 8 February 2024].
9. The national issues in local public sector audits have been summarised in the recent reviews by the National Audit Office (NAO), the Public Accounts Committee, and the Redmond Review.
10. The NAO is proposing changes to the Code of Audit Practice to require local authorities to comply with the backstop date. To facilitate this, it is proposed External Auditors are permitted to provide a single commentary on value for money arrangements on all outstanding years up to and including 2022/23. For the council, this is only the 2022/23 Financial Statements, with the requirement to produce delay notices being withdrawn.
11. The introduction of the 'backstop' date is intended to allow those who prepare and audit local authority accounts to focus on more current financial periods. It has been noted that the disclaimed opinion caused by the introduction of backstop dates and those that indicate significant financial reporting or financial management issues need to be clear. In their cross system joint statement with the National Audit Office (NAO), the Financial Reporting Council (FRC), PSAA and CIPFA, DLUHC have advised that communications will be issued that explain what the different types of modified opinions mean so that local authorities like the council are not unfairly judged based on modified opinions that are beyond their control.

Financial Implications

12. None

Risk Management Implications

13. None

Equality and Customer Service Implications

14. None

Other Material Implications

15. None

Sustainability Implications

16. None

Appendices

- Appendix A – Letter from Minister Hoare – 9 January 2024
- Appendix B – Interim Value for Money Report

Background Papers

None