

AUDIT COMMITTEE

1 AUGUST 2023

INTERIM AUDITOR'S ANNUAL REPORT ON MEDWAY COUNCIL 2021/22

Report from: Phil Watts, Chief Operating Officer

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Summary

This report presents the interim findings of the Council's External Auditors, Grant Thornton, in their audit of the Council's Statement of Accounts for the financial year 2021/22.

1. Recommendations

1.1. Audit Committee note the Draft Interim Auditor's Report at Appendix 1.

2. Budget and policy framework

2.1. The Audit Commission's Code of Audit Practice and International Standards of Auditing require the results of the external audit to be reported to those charged with governance. This Committee has been delegated the responsibility for considering all reports by the external auditor including all performance reports and the annual audit letter.

3. Background

3.1. Historically, local authorities have been required to publish their Statement of Accounts to the period 31 March, by the 31 May the same year, with external audits of those accounts required to be completed by 31 September in the same year. Primarily as a result of audit delays arising from the Covid-19 pandemic, the Accounts and Audit (amendment) Regulations 2022 were introduced from 22nd July 2022; this extended the deadline for the publication of final audited accounts to 30th November for 2021/22 accounts and then 30th September for 2022/23 accounts and the following 5 years. Therefore, the deadline for publishing unaudited accounts has reverted back to the 31st May for the 2022/23 accounts.

3.2. At its meeting in March 2023, the Audit Committee was presented with the Statement of Accounts and the Audit Findings Report from Grant Thornton in

respect of the 2020/21 financial year. The report confirmed that the work was substantially complete with a few final issues to be resolved. In the interim period the Grant Thornton audit teams have had to move onto NHS audits and the Council has not yet received the Audit Certificate for 2020/21. The Auditors resumed Medway's audit in July and it is hoped they will be able to conclude the audit and update Members at the August meeting of the Audit Committee.

- 3.3. As the work on the 2020/21 audit has not yet concluded, Medway Council has not yet published its Draft Statement of Accounts for 2021/22 or 2022/23 and has published explanatory notices on the website as required. We anticipate publishing the Draft 2021/22 Statements later in the Summer and publishing the 2022/23 Statements in the Autumn. The delayed publication of accounts and completion of audits is a national issue and our aspiration is to return to the statutory timetable as soon as practicable.
4. Interim Auditor's Annual Report – Arrangements to secure economy, efficiency and effectiveness in the use of resources (Value for Money/VfM)
 - 4.1. Though the external auditor's work on the financial statements for 2021/22 has not yet begun, the National Audit Office requires Auditors to report any concerns promptly rather than wait for all other audit work to conclude. As such Grant Thornton have carried out the work required to assess the Council's use of resources and have produced the Interim report provided at Appendix 1 to this report.
 - 4.2. The Interim report summarises the work carried out to date, the audit findings and the recommendations made for improvements, along with management's response to those recommendations. The executive summary set out at Page 4 of Grant Thornton's report sets out the conclusions in respect of each of the three criteria on which the assessment is based, as follows:
 - 4.2.1. Financial Sustainability – No significant weaknesses identified; two new improvement recommendations made.
 - 4.2.2. Governance – One new significant weakness identified; one new key recommendation and one new improvement recommendation made, in addition to improvement recommendations made in September 2022 which still apply.
 - 4.2.3. Improving Economy, Efficiency and Effectiveness – One significant weakness identified; key recommendation from September 2022 still applies.
 - 4.3. Medway Council's management responses to the individual recommendations are reflected in the Auditor's report.
 - 4.4. It is understood that a final Auditor's Annual Report will be issued later in 2023 when the result of the Ofsted reinspection of Medway's Children's Services is known.

5. Proposals to clear the backlog and enable timely audits

- 5.1. On 18 July 2023, Local Authorities received a letter from Lee Rowley, Parliamentary Under-Secretary of State for Local Government and Building Safety outlining proposals for clear the backlog and embed timely audits. The letter and proposals are provided for Members at Appendices 2 and 3 to this report.
- 5.2. The documents propose that a series of statutory deadlines will be set for accounts preparers and auditors to clear the backlog of delayed audits from 2015/16 to present (Audit Committee members note Medway's 2020/21 audit is substantially complete), with auditors then required to provide as much assurance as possible for these outstanding years, but where necessary limiting their opinion where they cannot provide sufficient assurance. These deadlines are likely to result in qualifications and disclaimers of opinion for some affected local authorities.
- 5.3. The documents set out that engagement on the proposals will take place over the Summer, with changes to relevant codes and standards expected to be made in time for implementation from the end of December 2023.

6. Risk management

Risk	Description	Action to avoid or mitigate risk	Risk rating
Audit fee in excess of budget	The Council's budget reflects the scale audit fee agreed by the PSAA, however any additional fee levied would represent a budget pressure.	Officers work to produce accurate statements and work closely with Grant Thornton to support the audit process.	BIV
Unfavourable opinion received on the Statement of Accounts	The external auditor is unable to provide an opinion that the Council's Statement of Accounts are free from material misstatement	Officers have produced the Statements working to the requirements of the Code and are working closely with Grant Thornton, dealing with audit issues and providing responses as	BIII

Risk	Description	Action to avoid or mitigate risk	Risk rating
		quickly as possible.	
Likelihood		Impact:	
A Very likely		I Catastrophic	
B Likely		II Major	
C Unlikely		III Moderate	
D Rare		IV Minor	

7. Financial implications

- 7.1. External Audit fees are set by Public Sector Audit Appointments Ltd and the cost of the scale audit fee of for Medway of £109,687 is built into the Council's revenue budget.
- 7.2. On 28 July 2021 the Audit Committee considered the External Audit Plan and Audit Fee for 2020/21, and the Committee agreed to note that for 2020/21 the proposed fee is a further £80,400 above the Scale Fee, taking the fee to £190,087. Any additional fees agreed by the Chief Operating Officer will need to be met within existing revenue budgets.

8. Legal implications

- 8.1. Auditors are required to comply with the Statement of Auditing Standards, and thus provide an opinion on the Council's Statement of Accounts.

Lead officer contact

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Appendices

Appendix 1 – Draft Interim Auditor's Annual Report on Medway Council 2021/22
Appendix 2 – Minister Rowley letter to local authorities on local audit delays
Appendix 3 – Local audit delays – cross-system statement on proposals to clear the backlog and embed timely audits.

Background papers

None