

## **Audit Committee**

**29 November 2023**

### **Interim Auditor's Annual Report 2022/23**

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 arrangements to secure economy, efficiency and effectiveness in the use of resources during 2022/23.

#### **1. Recommendations**

1.1. Audit Committee note the 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 31 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 had to move onto NHS audits, however the Council received the Audit Certificate for 2020/21 on 13 October 2023.

#### 4. Proposals to clear the backlog and enable timely audits

- 4.1. The Draft Statement of Accounts for 2021/22 was published on 20 November 2023. Work is underway to prepare the Draft Statement of Accounts for 2022/23 and it is anticipated this will be complete by the end of February 2024. Explanatory notices have been published on the website as required.
- 4.2. The delayed publication of accounts and completion of audits is a national issue, with only 27% of audits for the 2021/22 year having been completed by September 2023 and an outstanding total dating from 2015/16 of 520 sets of local authority accounts, according to the Local Government Association.
- 4.3. As reported to the Audit Committee in August 2023, the Department for Levelling Up, Homes and Communities (DLUHC) is working with the National Audit Office and the Chartered Institute of Public Finance and Accountancy (CIPFA) to address the backlog. Though the proposals have not been finalised and would require changes to the Local Audit and Accountability Act 2014 and the Code of Audit Practice, a series of national deadlines will be set for local authorities and auditors. It is understood that auditors would be required to deliver an opinion, or a disclaimer opinion where it has not been possible to do sufficient work to deliver an opinion, on all outstanding local authority accounts by 31 March 2024. The statutory deadlines would return to those set prior to the Covid-19 pandemic from the audit of the 2023/24 financial year, with accounts for the current financial year required to be published by 31 May 2024 and audited by 30 September 2024.
- 4.4. For Medway, the approach being considered by the government would mean the auditors would be required to deliver audits of the Statement of Accounts for 2021/22 and 2022/23 simultaneously and have both conclude with an opinion delivered by the end of the current financial year. It remains our aspiration to return to the statutory timetable as soon as practicably possible, however the Council's Chief Operating Officer and Medway's Lead Audit Partner at Grant Thornton have agreed that it will not be possible to deliver the audit of these outstanding audits by the 31 March 2024 within the existing resources and fee structures. As such it has been agreed that these audits will not take place, and instead the Council and the auditors will work to ensure that the Statements and audit in respect of the 2023/24 financial year are completed to the statutory timeline.

#### 5. Value for Money Audit Update

- 5.1. Though the external auditor's work on the financial statements for 2021/22 has not yet taken place, 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 arrangements to deliver economy, efficiency and effectiveness in the use of resources for 2022/23.

5.2. Their interim report summarises the work carried out to date, the audit findings and the recommendations made for improvements. The executive summary set out at Page 3 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:

5.2.1. Financial Sustainability – Significant weakness identified, two key and two improvement recommendations made.

5.2.2. Governance – One significant weakness identified. Key recommendation from 2021/22 noted as not actioned and one improvement recommendation made.

5.2.3. Improving Economy, Efficiency and Effectiveness – No significant weakness in arrangements identified, but one new improvement recommendation made.

5.2.4. Medway Council's management responses to the individual recommendations are reflected in the Auditor's report.

## 6. Risk management

<b>Risk</b>	<b>Description</b>	<b>Action to avoid or mitigate risk</b>	<b>Risk rating</b>
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
<b>Likelihood</b>		<b>Impact:</b>	
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 PSAA 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.

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Appendices

Appendix 1 – Draft Interim Auditor's Annual Report on Medway Council 2022/23 (to follow)

Background papers

None