

Non-Executive Report of the: Audit Committee Tuesday, 23 April, 2024	
Report of: Corporate Director, Resources	Classification: Unrestricted
Addressing the Local Audit Backlog and Update on Outstanding Audit of Accounts 2020/21, 2021/22 and 2022/23	

Originating Officer(s)	Ahsan Khan - Strategic Head of Finance (Chief Accountant) Abdulrazak Kassim - Director of Finance
Wards affected	All wards

Reasons for urgency

The attached report was not published five clear days in advance of the meeting. Therefore, before the report can be considered at this meeting, the Chair would need to be satisfied that it is necessary to consider the “Audit backlog and update on the outstanding Audit of Accounts reports”. The delay has been to ensure information has been fully collated for the report, including information from external sources.

Executive Summary

To provide the Audit Committee with a summary of the proposals for addressing the Local Audit Backlog in England which has recently been published for consultation and provides an update to the Committee on the outstanding audits relating to the Council’s accounts for 2020/21, 2021/22 and 2022/23.

Recommendations:

The Audit Committee is recommended:

1. To note the summary proposals for addressing the Local Audit Backlog in England
2. To note Deloitte’s briefing paper to the Council on Plans for Addressing the Backlog in Local Audits (Appendix A)
3. To note the position on the outstanding external audits of the Council’s Statement of Accounts for 2020/21, 2021/22 and 2022/23
4. To note the councils latest draft accounts for 2020/21, 2021/22 and 2022/23 (Appendix B, C and D respectively)

1. **REASONS FOR THE DECISIONS**

- 1.1 The recommendations are so as to fulfil statutory requirements.

2. **ALTERNATIVE OPTIONS**

- 2.1 To defer approval of the accounts if there should be significant reason too, but, ultimately, approval of the accounts is a statutory requirement.

3. **DETAILS OF THE REPORT**

Background

- 3.1 The backlog in the auditing of published draft accounts of local bodies in England has grown to an unacceptable level.
- 3.2 In July 2023, the Minister for Local Government published a cross system statement setting out proposals to tackle the local audit backlog. Since then, organisations involved in the regulation and oversight of local body financial reporting and audit (“system partners”) have been working collectively to agree a proposed solution to clear the outstanding historical audit opinions and ensure that delays do not return.
- 3.3 As a reminder the Council has yet to conclude the audit of the draft accounts for 2020/21 accounts and the 2021/22 and 2022/23 draft accounts audit have not commenced.

Addressing the Local Audit Backlog

- 3.4 To clear the backlog of historical accounts and ‘reset’ the system, the Department for Levelling Up, Housing and Communities (DLUHC) proposes putting a series of dates in law (the “backstop date”) by which point local bodies would publish audited accounts for all outstanding years.
- 3.5 These proposals were published for consultation with a deadline of submission by 7 March 2024, to which the council responded generally supportive of the proposals. The consultation comprises of the following:
- DLUHC’s intentions for amending the Accounts and Audit Regulations including a joint statement providing context and explanation of the proposals and how their various elements are intended to interact.
 - NAO intentions for amending the Code of Audit Practice;
 - CIPFA LASAAC proposals for temporary changes to the Accounting Code to reduce burdens on those who prepare and audit local body accounts (not yet issued).

The proposed measures consist of three phases:

- 3.6 **Phase 1: Reset** - legislating for a statutory backstop date for the publication of audited financial statements up to and including financial year 2022/23. The proposed date for accounts up to 2022/23 is 30 September 2024. Auditors should issue opinions based on the work they have completed by the backstop date – which may lead to a modified or qualified opinion – and are expected to prioritise to ensure that their audit work provides as much assurance as possible ahead of the date. Clear explanations of what the different types of audit opinions mean, especially to clarify that modified / disclaimed opinions attributable to the backstop date do not necessarily indicate significant financial reporting or financial management issues in the audited body. Reporting on Value for Money (VFM) arrangements will remain a high priority of the backstop arrangement, focussing on enabling auditors to produce a single commentary on VFM arrangements covering all outstanding periods for 2022/23 and earlier years.
- 3.7 **Phase 2: Recovery** - a series of statutory backstop dates covering the financial years 2023/24 to 2027/28 to allow auditors to rebuild assurance over a five-year period of local bodies' financial information, which has been subject to modified opinion as part of the reset. The backstop dates within the Recovery phase are proposed as follows:
- 2023/24: 31 May 2025
 - 2024/25: 31 March 2026
 - 2025/26: 31 January 2027
 - 2026/27: 30 November 2027
 - 2027/28: 30 November 2028
- 3.8 The acknowledged problem of the Reset phase is that for, authorities impacted by the backstop, auditors will not have the assurance from closing balances that would normally support opening balances for 2023/24. Auditors will therefore need to perform sufficient testing on opening balances to rebuild assurance. For VFM it is proposed that the Audit Code identifies that auditor's Annual Report is issued in draft to those charged with governance by 30 November each year (from 2023/24 onwards), irrespective of the position on the audit.
- 3.9 **Phase 3: Reform** - the FRC, alongside DLUHC and other system partners, will continue to work to address systemic challenges in the local audit system and embed timely financial reporting and audit. There are no firm proposals put forward at this stage for Phase 3, but commitments are made in the following areas;
- The government remains committed to establishing the Audit, Reporting and Governance Authority as system leader for local audit when Parliamentary time allows;
 - CIPFA LASAAC's has a workstream looking at long-term reforms to financial reporting based on the needs of accounts users;
 - HM Treasury will shortly be setting out the outcome of the thematic review into the valuation of non-investment assets;

- the FRC intends to publish its Local Audit Workforce Strategy during 2024, including plans to increase the supply of suitably skilled auditors, including changes to Key Audit Partner requirements;
- the government has successfully procured the development of a Local Audit Qualification which will shortly be launched by CIPFA;
- CIPFA and the Local Government Association are working on a workforce strategy for local government finance teams.

Deloitte's Briefing paper to the Council on Plans for Addressing the Backlog in Local Audits

- 3.10 The External Auditors Deloitte's, have prepared a briefing note to respond to the Corporate Director, Resources's report on the council's plans for addressing the backlog in the audit of the council's accounts for years ended 31 March 2021 through to 31 March 2023, which is included within Appendix A.

Tower Hamlets Council External Audit Position

- 3.11 Members will be aware that the Council has experienced great difficulty, historically, in getting its financial accounts through to completion of all the associated proper processes (The certificates for 2016/17 and 2017/18 accounts were finally issued in March 2023 and for 2018/19 and 2019/20 were finally issued in November 2023).
- 3.12 Delays in producing financial accounts and getting audit sign-off could lead to knock-on effects on the quality of the financial management, and possibly result in sub-optimal decision-making; and clearly, the greater the number of years outstanding since accounts were last completed, the greater the risk of errors arising in financial management.
- 3.13 Therefore, as reported to the audit committee in November 2023, senior finance management considered that it would be in the greater public interest to accelerate the production of accounts, in order to clarify and confirm the baselines of available resources again. At the time, the council was in the process of auditing 2020/21 accounts and had yet to publish draft accounts for financial years 2021/22 and 2022/23.
- 3.14 In order to accelerate the production of accounts for 2021/22 and 2022/23 officer time and resource focused on publishing draft accounts for these outstanding years. Therefore, the council was able to publish updated draft accounts for 2020/21 and draft accounts for 2021/22 in December 2023 and draft accounts for 2022/23 in February 2024. The statutory public inspection period for 2021/22 and 2022/23 draft accounts were also observed, concluding in March 2024. This has enabled the council to seize the initiative and will help facilitate a transition to normality in terms of production of the accounts from 2023/24 onwards.
- 3.15 It should be recognised that there were some risks to this approach and different risks to not adopting this approach, but senior management

considered them acceptable and proportionate in view of the greater public interest benefit. The risks to this approach are principally detailed below and relate to potential errors or deficiencies in the accounts, which may need to be reported in Deloitte's final audit reports.

- There are some disclosures, which are notes of a more informational nature (regarding revenue from contracts with customers, remuneration of officers, and related party transactions) where, due to time constraints, comprehensive collation of all required data could either not be achieved, or satisfactorily demonstrated. These disclosures are very unlikely to impact on financial management and decision-making for the Council and these shortcomings will be better addressed from 2023/24 onwards.
- Due to time constraints, there was not time to prepare group accounts. Officers considered this will have negligible impact on the quality of financial management and decision-making for the Council and again will be better addressed from 2023/24 onwards.
- More substantially, we knew that information on scheme members feeding into our actuarial valuations was flawed in some respects. Further work is required to improve the quality of this data and that it would take some months to complete. Therefore, the consideration applied was that we shouldn't hold up everything else, and the correlating benefits, for this one item.

3.16 Subsequently, with 2023/24 year-end fast approaching the focus of officer time and resource quickly then turned to.

- Preparing for year-end closing of the 2023/24 accounts and preparation of draft statement of accounts.
- Channelling resources to support the new auditors Ernst Young (EY) to onboard and scope the audit for 2023/24.
- Support the councils outgoing auditors Deloitte's to complete the necessary VFM work for outstanding years 2020/21, 2021/22 and 2022/23, which remains a crucial part of the backstop arrangement.

3.17 As a consequence, it is likely that the audit of 2020/21, 2021/22 and 2022/23 accounts will not fully complete by the proposed backstop date of 30th September 2024. It may well be that the outcome of this is that Deloitte's issue disclaimers in respect of years 2020/21, 2021/22 and 2022/23. It must be stated that the expectation is this will not be peculiar to Tower Hamlets and more a national trend, to help reset the system nationally and importantly find a way to catch up, when a true-up will be required with our new auditors EY from 2023/24 onwards.

4. EQUALITIES IMPLICATIONS

4.1 There are no equalities implications arising from this report.

5. OTHER STATUTORY IMPLICATIONS

- 5.1 Approval of the accounts, once Members are satisfied, is a statutory responsibility that falls to Audit Committee.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

- 6.1 There are no direct financial implications arising from this report.
- 6.2 Audit costs will be met from current allocated budgets.
- 6.3 This whole report presents matters that are directly concerned with fulfilment of the role and responsibilities of the s151 officer.

7. COMMENTS OF LEGAL SERVICES

- 7.1 Regulation 10 of the Accounts and Audit Regulations 2015 requires a local authority to publish their statement of accounts not later than 31 July of the financial year immediately following the end of the financial year to which the statement relates, or, for the financial year starting in 2019, not later than 30 November. These dates have not been kept.
- 7.2 Regulation 3 of the Accounts and Audit Regulations 2015 requires a local authority to have a sound system of internal control which ensures that the financial and operational management of the authority is effective.
- 7.3 Save as mentioned above, the matters set out in this report comply with the above legislation.

Linked Reports, Appendices and Background Documents

Linked Report

- There have been various updates provided to this committee since July 2019 from both Deloitte and officers, but this report, taken together with the Deloitte reports presented on this agenda, are self-contained.

Appendices

- Appendix A: Deloitte - Briefing Note on Plans for Addressing the Backlog in Local Audits
- Appendix B: 2020-21 Draft Statement of Accounts
- Appendix C: 2021-22 Draft Statement of Accounts
- Appendix D: 2022-23 Draft Statement of Accounts

Local Government Act, 1972 Section 100D (As amended)

List of “Background Papers” used in the preparation of this report

List any background documents not already in the public domain including officer contact information.

- NONE.

Officer contact details for documents:

N/A