



CORPORATE GOVERNANCE COMMITTEE – 21 NOVEMBER 2022

UPDATE ON THE EXTERNAL AUDIT OF THE 2021/22 STATEMENT OF ACCOUNTS, ANNUAL GOVERNANCE STATEMENT AND PENSION FUND ACCOUNTS

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose of Report

1. The purpose of this report is to provide an update on the external audit of the 2021/22 financial statements and an update on the appointment of the external auditor from 2023/24.

Background

2. The Accounts and Audit (Amendment) Regulations were updated in March 2021, amending the original 2015 Accounts and Audit Regulation deadline for the publication of draft accounts, from the end of May to the end of July, to allow additional time due to the impact of the Covid-19 pandemic. The revised dates apply to the 2020/21 and 2021/22 financial years only. The Council completed the draft 2021/22 financial statements ahead of the deadline and these were published on the Council's website on 30 June 2022. A copy of the draft financial statements can be accessed here: <https://www.leicestershire.gov.uk/about-the-council/council-spending/payments-and-accounts/statement-of-accounts>
3. A copy of the external auditors, Grant Thornton UK LLP, Audit Plan for 2021/22 was presented to the Corporate Governance Committee in September 2022. This followed the indicative Audit Plan for 2021/22 reported to the Committee in May 2022.
4. In September 2021, Public Sector Audit Appointments (PSAA) formally invited all principal local government bodies to opt into the sector led scheme for the second appointing period, which will provide external audit arrangements for five years from the financial year commencing 2023/24. Following a report to the County Council in December 2021, and a report to the Corporate Governance Committee on 5 November 2021, the County Council opted to join the PSAA sector led procurement exercise.

External Audit Progress Update

5. The external audit of the financial statements started in August 2022, as planned, with the audit opinion intended to be reported to the Corporate Governance Committee in November 2022, as reported in the final Audit plan.
6. No issues with County Council or Pension Fund financial statements have been reported so far. However, there will be a delay in the auditor being able to report their final audit opinion to the Committee due to a national issue relating to the technical accounting treatment of Infrastructure Assets (highway assets). A potential solution has been consulted on by central government with new legislation due to be laid before parliament in December 2022 that should resolve this matter.
7. Subject to the new legislation being passed, currently timetabled as 'coming into force on the 25 December 2022', it is anticipated that the auditor will be able to report their audit opinion on the financial statements to the next meeting of the Corporate Governance Committee on 27 January 2023.
8. Notwithstanding this issue the auditor anticipates that the audit of the financial statements will be substantially complete by the end of November 2022 as planned.
9. The external auditor has provided an audit update attached as an Appendix to this report. A representative from Grant Thornton UK LLP will attend the meeting in order to present the audit update and answer any questions.
10. Within the auditors update they provide assurance to the Committee that the delay in providing their opinion is outside the control of both the authority and the auditors, and that the Council will still be able to meet its statutory duty to publish its accounts by the 30 November, by publishing the draft accounts and including a note stating that the audit has been delayed.

External Auditor Appointment 2023/24

11. In December 2021 the County Council opted to continue to be part of the PSAA sector led body arrangements for the second appointing period for the five years from 2023/24.
12. In October 2022 PSAA announced the outcome of their procurement exercise offering contracts to six suppliers; retaining the services of three existing suppliers, Grant Thornton, Mazars and Ernst & Young, and three new suppliers, KPMG, Bishop Fleming and Azets Audit Services.
13. Later in October 2022 PSAA notified the County Council of their proposal to appoint Grant Thornton UK LLP to continue as the external auditor for the County Council and the Pension Fund. Grant Thornton UK LLP have also been proposed to continue as the external auditor for Nottingham City Council with whom the County Council shares the same finance and human resources system, and jointly operates East Midlands Shared Services (EMSS), which provides audit efficiencies for both the Council and the External Auditor.
14. PSAA have also advised that bid prices received in this procurement reflect a significant increase compared to their previous procurement in 2017. At this stage

their advice to opted in bodies is to anticipate a major re-set of total fees for 2023/24 involving an increase of the order of 150% on the total fees for 2022/23. This reflects the pressures in the audit market around capacity and increased regulatory requirements on audit firms. PSAA have stated that ‘we appreciate that the extent of this likely increase in audit fees will pose a significant funding challenge for local bodies already facing a daunting range of financial pressures. We have raised this with DLUHC for consideration’.

15. The proposed fees for 2023/24 will be notified by PSAA by November 2023. An increase of 150% on the current 2021/22 total fees (£115,000) would revise the total audit fees to around £290,000 for 2023/24 onwards. As a result, additional growth will be included in the new MTFS 2023-27 proposals, subject to any additional funding from central government.
16. The Director of Resources has confirmed acceptance to PSAA of their proposed auditor appointment.

Recommendations

17. The Committee is asked to note the update on the external audit of 2021/22 and the appointment of external auditors from 2023/24.

Circulation under the Local Issues Alert Procedure

18. None.

Equality and Human Rights Implications

19. There are no discernible equality and human rights implications.

Background papers

External Audit Final Plan – 30 September 2022

<https://politics.leics.gov.uk/documents/s171435/External%20Audit%20Final%20Plan%20-%202021-22%20covering%20report.pdf>

Indicative External Audit Plan and Audit Risk Assessment 2021/22 – 13 May 2022

https://politics.leics.gov.uk/documents/s168977/External%20Audit%20Plan%20Risk%20Assmt%202021-22_Final.pdf

Appointment of External Auditor – 5 November 2021

https://politics.leics.gov.uk/documents/s164447/Auditor%20Appt%20Update%20CGC%205Nov21_Final.pdf

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Appendices

Appendix - External Auditor's Report