

<b>LONDON BOROUGH OF CAMDEN</b>	<b>WARDS:</b> All
<b>REPORT TITLE:</b> Financial Reporting and External Audit Update	
<b>REPORT OF:</b> Executive Director Corporate Services	
<b>FOR SUBMISSION TO:</b> Audit and Corporate Governance Committee	<b>DATE:</b> 17 November 2022
<p><b>SUMMARY OF REPORT:</b> This report updates the Audit and Corporate Governance Committee on the status of financial reporting and external audit of accounts at Camden, in particular</p> <ul style="list-style-type: none"> <li>• Recapping on local government audit issues,</li> <li>• Updating on Camden’s Statement of Accounts and External Audit Report for 2019/20,</li> <li>• Updating on existing audit work and the Audit Plan for the 2020/21 accounts, and</li> <li>• Plans for addressing the reporting and audit backlog, meeting reporting deadlines within the reporting timetable.</li> <li>• Updating on the external auditor procurement for 2023/24 onwards</li> </ul> <p><b>LOCAL GOVERNMENT ACT 1972 – ACCESS TO INFORMATION</b> No documents that require listing were used in the production of this report.</p> <p><b>CONTACT OFFICER:</b> Peter Taylor Financial Reporting Manager 5 Pancras Square London N1C 4AG Telephone: 020 7974 6378 <a href="mailto:peter.taylor@camden.gov.uk">peter.taylor@camden.gov.uk</a></p>	
<p><b>RECOMMENDATION</b></p> <p>The Committee is asked to note the report.</p>	
<p><b>SIGNED:</b>      <b>Director of Finance</b></p> <p><b>DATE:</b>        <b>7 November 2022</b></p>	

## 1. Purpose of Report

- 1.1. This report updates the Committee on financial reporting and external audit issues in local government, the impact on the audit of Camden accounts, and the plans for tackling the backlog in reporting and audit work.

## 2. Background

- 2.1. The audit of Local Government has been under some scrutiny for the past few years due to concerns around the effectiveness and efficiency of the local audit process. Originating before the COVID pandemic, issues with local authority financial reporting and audit timeliness have since exacerbated.
- 2.2. As previously reported to this Audit & Corporate Governance Committee, reports such as the independent [Redmond Review](#) in September 2020, and others including from the [National Audit Office in 2021](#), raised concerns about increased requirements placed on auditors, and market conditions leading to a lack of resource nationally.

### Reporting Deadlines

- 2.3. Following the drive for more timely reporting and faster financial closing, reporting deadlines were brought forward in 2018 to 31 May (from 30 June) for draft accounts to be submitted to auditors and 31 July (from 30 September) for completion of audit and publication of audited accounts. However, the success of authorities and auditors meeting the statutory deadlines has fallen rapidly, despite extensions in 2019/20 to allow for issues resulting from the pandemic, as shown in the table below.

<b>Financial Year</b>	<b>Draft Accounts deadline</b>	<b>Audited Accounts deadline</b>	<b>Audited Accounts complete at deadline</b>	<b>Number of audits outstanding*</b>
2015/16	30-Jun-16	30-Sep-16	97%	1
2016/17	31-May-17	30-Sep-17	95%	1
2017/18	31-May-18	31-Jul-18	87%	4
2018/19	31-May-19	31-Jul-19	57%	13
2019/20	31-May-20	30-Nov-20	45%	51
2020/21	31-Jul-21	30-Sep-21	9%	201
2021/22	31-Jul-22	30-Nov-22	-	
2022/23	31-May-23	30-Sep-23	-	

\* as at 31 May 2022, source Public Sector Audit Appointments (PSAA)

- 2.4. The government has allowed a number of temporary extensions to reporting deadlines to deal with the backlog of audits as a consequence of the pandemic, and recently confirmed intentions to maintain deadlines at 31 May (for draft accounts) and 30 September (for audited accounts) from 2022/23 to 2027/28.

## Asset Valuations and Accounting for Infrastructure

- 2.5. One of the most commonplace significant issues raised by auditors in 2019/20 was in the material accuracy of property asset valuations (£4.1bn on our balance sheet and the largest figure on that statement). Due to the pandemic valuation experts cited material valuation uncertainty in property valuations due to a lack of relevant recent market data upon which to base these, combined with limited ability to physically inspect properties. In addition, auditors have challenged councils on their own consideration of the valuations carried out by their experts. Auditors nationally have conducted significantly more detailed review and challenge of valuation methodologies, the underlying data and measurements and the assumptions being made by councils in order to satisfy themselves of the material accuracy of the valuations provided in accounts. Significant numbers of additional property valuations have been conducted as a result.
- 2.6. During late 2021, local authority auditors flagged a new concern on asset valuations, this time regarding the treatment of infrastructure assets (predominantly highways). The technical accounting issue concerns how councils depreciate and derecognise (write out) parts of infrastructure assets when they are replaced or renewed, and the resultant impact on the value of infrastructure on local authority balance sheets. As all local authorities are to a greater or lesser extent affected, auditors across the sector have effectively placed a moratorium on finalising opinions on any open accounts, including Camden's 2019/20 accounts, until a way forward is agreed nationally. To contextualise this on Camden's balance sheet infrastructure assets in 2018/19 (the last year audited) were £264m, which is 6.7% of total Property, Plant and Equipment (PPE) asset values.
- 2.7. CIPFA LASAAC<sup>1</sup>, who issue the Code of Practice on Local Authority Accounting across all four home nations, convened a working group with the aim of resolving these issues on at least a temporary basis. They issued an [urgent consultation](#) in May to assess the need for changes to the Code, and were expected to report on its findings by July. However, they issued a [statement](#) on 27 July stating that they had not yet been able to come up with a satisfactory solution that would address the concerns of all stakeholders. As a result all audits across England currently remain in stasis.
- 2.8. CIPFA subsequently reported in August that an update to the Code of Practice is being considered, which will be subject to due process and approval by both CIPFA and LASAAC, in full consideration and advice of the government's Financial Reporting Advisory Board. The update would suspend the need for local authorities to report gross cost and accumulated depreciation on infrastructure assets. CIPFA had anticipated that an updated Code would be available from mid-September, but at the time of writing this had not been issued.

---

<sup>1</sup> The Chartered Institute of Public Finance and Accountancy (CIPFA) and Local Authority (Scotland) Accounts Advisory Committee (LASAAC)

- 2.9. In addition, DLUHC (Department for Levelling Up, Housing and Communities) has proposed to put in place a statutory accounting override to allow local authorities to treat the value of any replaced component of infrastructure assets as nil, without the need to further evidence that this is the case. The proposed override also removes the requirement for authorities to make prior period adjustments to infrastructure asset balances.
- 2.10. The override will not include any provision for matters relating to gross cost or accumulated depreciation, as these matters are anticipated to be addressed through the Code, and as such the proposed solution requires both the accounting override and the revised Code of Practice to be in place.
- 2.11. The proposed accounting override was issued on 27 October with a call for evidence, which ends on 7 November, on the draft Statutory Instrument proposed to enact the override, seeking views from the sector on the proposal. The Statutory Instrument is not due to be enacted until late December, meaning that it will not be until later in January 2023 until both the Council and auditors can consider carrying out any procedures that they need to do as a result of the accounting override, identify and correct any associated disclosures in the accounts, and then conclude on the open accounts.

### **3. 2019/20 Accounts and External Auditors Report**

- 3.1. Due to the protracted audit for 2019/20 the Audit & Corporate Governance Committee has received several update reports from our auditors, Mazars, and from officers on the status of the 2019/20 audit as the audit has progressed.
- 3.2. Like many authorities, one of the main concerns raised by Mazars was around the valuation of Camden's PPE, and its treatment in the accounts. As a result of discussion with our auditors, the Council will be recategorising non-dwelling properties within the Housing Revenue Account (HRA) estate from Investment Properties to Other Land and Buildings. This is a technical accounting change that will not impact on the Council's business operations, but due to the size of valuation of these properties this will be a material adjustment to the accounts previously presented to Committee in February 2021.
- 3.3. The working assumptions, property valuation methodology and audit testing for this transfer have been presented and discussed with Mazars. The subsequent revised Statement of Accounts was expected to have been presented to Committee with the anticipated Audit Completion statement. However, due to the halt placed on audits due to the infrastructure accounting issue this has not been possible. Officers expect the audit to conclude and the revised accounts to be presented to Committee once the infrastructure accounting issue has been resolved.

### **4. Update on 2020/21 Audit**

- 4.1. This Committee received an Indicative Audit Strategy for the 2020/21 financial year and its accounts at its meeting on [8 December 2021](#). The strategy covered the approach expected to be taken by the external auditor, covering the key

areas of focus and the timeline for the audit. The strategy and planned timetable were dependent on the successful conclusion of the 2019/20 audit.

- 4.2. It had not been possible to issue the draft 2020/21 Statement of Accounts until there was some certainty over the opening position, and the audit plan has had to be revised to accommodate the delays to the 2019/20 completion. Officers have now issued the draft 2020/21 statement of accounts and the 2020/21 audit is currently underway and Mazars expect that they will be able to complete their audit procedures this calendar year.
- 4.3. Work has also taken place earlier in the year on the interim audits, with Mazars looking at initial risk assessments and analytical reviews, system walkthroughs, and documenting of controls. In order to advance the backlog of audit work, auditors and officers have been conducting interim audit testing for both the 2020/21 and 2021/22 financial years simultaneously. Auditors have sought to review processes in place, sampled data and sought supporting evidence for both years in order to progress onto the audit of the 2021/22 accounts as soon as they are made available.
- 4.4. As one of the key lessons learnt from the 2019/20 audit, the Council has undertaken a significant amount of work in improving its supporting data and documentation in producing its accounts. As the 2020/21 accounts were presented to auditors, officers also provided a set of supporting documentation, known as audit deliverables, to enable auditors to quickly complete checks and evidence transactions within the statements. This has improved the audit process for both the external auditor and officers within Camden.
- 4.5. The National Audit Office Code of Audit Practice was revised for 2020/21. Auditor's work on the Value for Money (VFM) arrangements now require the auditor to provide a commentary on VFM in a new Auditor's Annual Report, which is separate from their reports on the financial statements, and work on this has also commenced. The Auditor's Annual Report will be issued within three months of giving their opinion on the financial statements and will be published on the Council's website in line with the Code.
- 4.6. Mazars will provide a verbal update on audit progress to the Committee.

Expectation for 2021/22 accounts and meeting reporting deadlines from 2022/23

- 4.7. It will take time for officers and auditors to deal with the backlog of audit work that is due. The 2021/22 accounts cannot be finalised until the 2020/21 audit has concluded and the opening figures verified. The 2021/22 accounts were due for publication and inspection on 31<sup>st</sup> July 2022, but this has not been possible. The Council has published notification of this delay on its [website](#), as required by regulation. The accounts will be published with revised dates for public inspection, and presented for audit, as soon as possible.
- 4.8. The expectation is for the 2021/22 accounts to be made available to auditors and the public in the New Year, with the 2021/22 audit following in the first quarter of 2023. The 2021/22 accounts will need to be audited and signed off

before work commences on the 2022/23 accounts in April 2023, with the intention for the Council to manage within the statutory reporting and auditing timeframes from 2022/23. However, this timetable is contingent on the audit of all the preceding years statements of accounts being completed without any new significant issues arising and therefore timescales remain subject to change and allow little scope for delay.

## 5. Update on PSAA Audit Procurement

- 5.1. At its meeting on 24 January 2022 the Council agreed to 'opt in' to the Public Sector Audit Appointments (PSAA) procurement and appointment process for the 5 year period covering the accounts from 2023/24 to 2027/28. 99% of eligible authorities in total opted into the scheme across England and Wales.
- 5.2. PSAA concluded the procurement process at the start of October, with the market share as presented in the table below. Deloitte and BDO have exited the market, with KPMG re-entering, together with new providers Azets and Bishop Fleming.

<b>Audit Firm</b>	<b>% Share 2023-28</b>	<b>% Share 2018-19</b>
Grant Thornton	36%	41%
Mazars	23%	20%
Ernst & Young	20%	28%
KPMG	14%	-
Bishop Fleming	4%	-
Azets Audit Services	3%	-
Deloitte	-	6%
BDO	-	5%

- 5.3. The bid prices received by PSAA showed a significant increase compared to the previous procurement in 2017. The audit industry has faced major challenges in the intervening period, and local audit faces several distinctive difficulties which have resulted in a less competitive market. PSAA have advised bodies 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. For context, the scale fee for the Council's main audit (before any fee variations for additional work) is currently £126K. While PSAA have raised this as a concern to DLUHC for consideration this will likely be a pressure for Camden in its financial planning for 2023/24 onwards.
- 5.4. Following on from the procurement, PSAA have conducted the preliminary appointment process, which is currently being consulted on with individual authorities. Mazars have been appointed by PSAA as external auditor for Camden for the 5 year period from 2023/24 (pending findings from the consultations, which centre around issues of independence). This was expected as PSAA highlighted as a positive the consistency of auditor in its considerations for appointments. Assuming the appointment is confirmed, following the change in Audit Partner at Mazars from Camden's 2019/20 to 2020/21 accounts, this presents an opportunity to reset and improve working

arrangements, relationships and expectations from both parties over the medium term.

**6. Finance Comments of the Executive Director Corporate Services**

6.1. This is a report of the Executive Director Corporate Services and his views are incorporated into this report.

**7. Legal Comments of the Borough Solicitor**

7.1. Legal Services have been consulted on the Report and have no specific comments.

**8. Environmental Implications**

8.1. There are no environmental implications.

**9. Appendices**

9.1. None

**REPORT ENDS**