

EXTERNAL AUDIT UPDATE

Committee name	Audit Committee
Officer reporting	James Lake, Director of Pensions, Treasury & Statutory Accounts
Papers with report	None
Ward	All

HEADLINES

This report provides an update on various external audit activities.

RECOMMENDATIONS: That the Audit Committee:

1. **Note EY verbal update on 2022/23 Council Audit & Value for Money assessment;**
2. **Note EY verbal update on 2022/23 Pension Fund Audit;**
3. **Note update 2023/24 Council Audit; and**
4. **Note other audit updates**

Information

2022/23 External Audit Update

Audit Committee will be aware of the national issue relating to the backlog of public sector audits. Recently, the PSAA reported that only 5 out of 467 Local Government bodies had received a 2022/23 audit opinion by 30 September 2023, taking the total outstanding opinions to approximately 918.

At the 22 November 2023 Audit Committee, EY provided a verbal update based on their understanding at the time and highlighted that although proposals to address the backlog were referenced in a ministerial statement over the summer, no formal guidance had been received from the Department for Levelling Up, Housing & Communities (DLUHC) nor the Financial Reporting Council (FRC).

On 6 December 2023 EY wrote to the Council providing a further update on EY's approach and how they are prioritising their delivery to best prepare for implementation of the expected proposals.

They noted that challenges facing the existing framework for local authority audit were well-documented and have been highlighted by auditors, the Redmond Review, the National Audit Office, the Public Sector Audit Appointments Ltd (PSAA), the Local Government Association and Parliament and that the problem continues to grow.

Since the cross-system ministerial statement EY has invested significantly in engaging with DLUHC and the FRC, as well as other stakeholders to support the reset and recover the local

audit market. Whilst EY could not pre-empt the final ministerial guidance, their letter expected that the proposals would still seek to:

- Use legislation to set statutory deadlines (backstop dates) for account preparers and auditors to clear the backlog, acknowledging this will result in qualifications and disclaimers of opinions in the short term. This is currently expected to be 31 March 2024.
- Continue to require auditors to report on Value for Money, alongside existing statutory powers.
- Find a sustainable solution for the future, which may require:
 - Changes to the CIPFA code for preparation of accounts;
 - An audit approach that seeks to rebuild assurances on account balances over a period of time rather than in the first year following a qualification (disclaimer or scope limitation);
- Developing an escalated reporting framework for audit firms and local bodies to resolve issues ahead of statutory deadlines; and
- Continued investment in the capacity in the audit market.

Whilst EY wait for formal guidance their approach will be to:

- Maximise the completion of historic audits.
- Continue with 2022/23 Pension Fund audits.
- Continue with 2022/23 Value for Money reporting.
- Plan for 2023/24 audits.

Currently for 2022/23, other than the main Council audit, all other audit and assurance processes are underway.

- Teacher Pension – Completed
- Pension Fund – In progress
- Value for Money – In progress
- Housing Benefit Assurance Process – In progress
- Housing Capital Receipts – In progress

It is expected that no audit will take place of the Council's main 2022/23 Statement of Accounts and instead there is an acknowledgment this will result in qualification and disclaimer of opinion where an auditor cannot express an opinion, because they do not have the evidence to support any opinion.

The consequence reputational damage of such a qualification is not fully understood but in the context of government guidance, the well-publicised need for a system reset, the likely inclusion of nearly every public sector body, Hillingdon will not be seen as an outlier. Hillingdon will be able to report positively that it has received audit options on every other audit element.

Committee should note that planning work for the 2023/24 audit is underway with the interim audit scheduled to begin in February 2024. Draft accounts are planned to be published in line with statutory deadlines (currently 30 June 2024) and the main audit scheduled to start in July.

In line with the above expectations, EY has begun work on the 2023/24 interim audit and are in the process of data collection and system process interviews have been arranged.

Committee should note that in a January 2024, DLUHC suggested a compulsory deadline to have all outstanding accounts audited by the 30 September 2024. EY is working through the Ministerial letter to assess the impact. Once completed EY will again write to all their clients, but they do not expect it to alter their approach noted above.

2022/23 Value for Money

EY has been working through the Value for Money Assessment and will provide a verbal update to Committee on their progress.

2022/23 Pension Fund Audit

The audit of the 2022/23 Pension Fund is materially complete. EY will provide Committee a verbal progress update and give an indication of a completion date.

Other 2022/23 certifications

The 2022/23 certification exercise relating to the Teachers Pension has been completed with no material issues being reported by EY.

Audits have begun on the Capital Receipts Pooling and Housing Benefit Assurance Process. Completion is expected by the next Audit Committee.

FINANCIAL IMPLICATIONS

Public Sector Audit Appointments agreed fee for the Council 2023/24 audit is £403,723 and for the Pension Fund £81,688.

2022/23 Teachers Pension fee is estimated by EY at £15,500.

2022/23 Housing Benefit Assurance Process base fee is estimated at £21,500 + £3885-£4725 for each additional workbook tested.

2022/23 Capital Receipts Pooling fee is estimated at £9,500.

LEGAL IMPLICATIONS

The Secretary of State for Communities and Local Government delegated statutory functions (from the Audit Commission Act 1998) to PSAA on a transitional basis under powers contained in the Local Audit and Accountability Act 2014. In Hillingdon, EY has been appointed by the PSAA to carry out this function. Other legal implications are included in the body of the report.

The Accounts and Audit (Amendment) Regulations 2022:

BACKGROUND PAPERS

Pension Fund Audit Planning Report attached.