



<b>Committee</b>	Audit and Governance Committee
<b>Date</b>	11/03/2024
<b>Subject</b>	External Audit Update
<b>Cabinet Member</b>	Councillor Vince Langdon-Morris Cabinet Member with responsibility for Resources and Value for Money
<b>Report Author(s)</b>	Marie McKissock Interim Deputy Chief Finance Officer <a href="mailto:marie.mckissock@eastsoffolk.gov.uk">marie.mckissock@eastsoffolk.gov.uk</a>
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<b>Director</b>	Chris Bally Chief Executive <a href="mailto:chris.bally@eastsoffolk.gov.uk">chris.bally@eastsoffolk.gov.uk</a>

Key Decision?	No
Is the report Open or Exempt?	OPEN

Category of Exempt Information and reason why it is <b>NOT</b> in the public interest to disclose the exempt information.	N/A
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## Purpose/Summary

The Comptroller and Auditor General's Code of Audit Practice requires Ernst and Young LLP (EY) to report to this Committee on the work they have carried out in respect of East Suffolk Council. This report and related verbal updates at this meeting from Ernst & Young (EY), provides the Committee with an update on External Audit work including:

- A verbal update from EY to confirm the conclusion of the 2020/21 audit.
- An update on the proposed scale fee variation for 2020/21.
- To consider the Department for Levelling Up, Housing and Communities and National Audit Office's proposals in dealing with outstanding audits and receive a verbal update from EY on their plans for 2021/22 and 2022/23 in light of these consultations.
- Receive a verbal update on Value For Money work for 2021/22 and 2022/23.
- Note the Audit Plan for 2023/24 and receive a verbal introduction from the new audit partner.

## Recommendation(s)

That the Audit & Governance Committee

1. Note the proposed scale fee for the 2020/21 audit.
2. Note Ernst & Young's plans for the audit of 2021/22 and 2022/23 in relation to the consultations from the Department for Levelling Up, Housing and Communities and National Audit Office's proposals in dealing with outstanding audits.
3. Note the progress on Value for Money work for 2021/22 and 2022/23.
4. Note the Audit Plan for the 2023/24 audit of accounts.

## Strategic plan

How does this proposal support Our Direction 2028?

<b>Environmental Impact</b>	The Council has committed to delivering positive climate, nature and environmental impacts through the decisions we make and the actions we take. The Council's external audit, and in particular the Value for money review, ensures where possible that environment and energy efficient processes, materials and equipment are used in the Council's spending plans.
<b>Sustainable Housing</b>	The external audit of the Council's statement of accounts and value for money review includes the General Fund and Housing Revenue Account. These ensure the accounts give a true and fair view of the Council's financial position and of its income and expenditure in supporting safe, suitable and sustainable homes.
<b>Tackling Inequalities</b>	A significant amount of the work done by the Council's dedicated officer cohort is aimed at supporting those most at need and in protecting vulnerable people. Teams such as Communities and Leisure, Housing, Environmental Health and Economic Development are committed to improving the quality of life across the district.

<p><b>Thriving Economy</b></p>	<p>The Council’s budget supports its priority in ensuring economic development and regeneration activity and in turn enabling residents of East Suffolk to benefit from and contribute to a thriving economy. The Council is committed to delivering a number of projects including regeneration programmes in Lowestoft, Leiston and Felixstowe by increasing the economic viability of the district’s towns, ensuring residents benefit from Nationally Significant Infrastructure Projects (NSIPs) and supporting responsible tourism and the visitor economy.</p>
<p><b>Our Foundations / governance of the organisation</b></p>	<p>External Audit is an annual independent examination designed to form an opinion on the state of the Council’s financial management and its published annual accounts. The external auditors provide assurance to residents and councillors that the Council’s finances are soundly managed, and the annual accounts present a true and fair view of the Council’s income and expenditure. They are also required to report on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources as part of their Value for Money review.</p> <p>The Council adopted its ‘Our Direction 2028’ corporate strategy in November 2023. It is a clear articulation of the Council’s corporate priorities underpinned by financial sustainability and governance.</p>

## Justification for recommendations

### 1. Background

- 1.1. The Comptroller and Auditor General's Code of Audit Practice requires the Council's external auditors, Ernst and Young LLP (EY), to share and discuss their audit plan at an early stage. It also requires them to report to this Committee on the work they have carried out in respect of East Suffolk Council to discharge their statutory audit responsibilities and identify any governance issues with the audited body.
- 1.2. EY completed their audit work in relation to the 2020/21 Statement of Accounts and issued their audit certificate on 18th December 2023, details of which can be seen in their 2020/21 Auditors Annual Report shown in Appendix A. This provided an unqualified opinion on the 2020/21 accounts stating, 'the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended'.
- 1.3. They did however highlight that significant weakness in governance arrangements had been identified in relation to the non-compliance with the rent standard in relation to the Council's Value for Money arrangements. Further details of this can be found in Appendix A.
- 1.4. Although the Audit for 2020/21 is now completed, this still leaves the 2021/22 and 2022/23 accounts unaudited. The Council is not alone in this delay, with the backlog of outstanding audit opinions in England standing at 771 as at 31 December 2023.

### 2. Introduction

- 2.1. This report provides an update to Committee on the work currently being undertaken by EY for the Council.
- 2.2. A verbal update will be provided by EY on the following:
  - Conclusion of the 2020/21 audit, along with the fee proposal (See Appendix B and Financial Considerations at section 4.1 below).
  - Plans for 2021/22 and 2022/23 in light of the Department for Levelling Up, Housing and Communities and the National Audit Office consultations. See section 3 for details of the consultations.
  - Value For Money work for 2021/22 and 2022/23.
  - Introduction from EY Partner David Riglar, due to take over from the 2023/24 audit onwards.
- 2.3. Appendix C details the audit plan for 2023/24.

### 3. Proposal

- 3.1. To clear the backlog of historical accounts and 'reset' the system, the Department for Levelling Up, Housing and Communities (DLUHC) proposes putting a date in law (the "backstop date") – 30 September 2024 – by which point local bodies would publish audited accounts for all outstanding years up to and including 2022/23.

- 3.2. The National Audit Office (NAO) is proposing changes to the Code of Audit Practice to require local auditors to comply with backstop dates by giving their opinions in time for audited accounts to be published, and to allow them to provide a single commentary on value for money (VFM) arrangements for local bodies for all outstanding years up to and including 2022/23.
- 3.3. The duty for local bodies to publish a delay notice where the audit has not been concluded by the deadline will be withdrawn. This is because, with a backstop in place for both local bodies and auditors, authorities would be required to publish audited accounts by 30 September 2024. The introduction of a backstop date is intended to allow those who prepare and audit local body accounts to focus on more current financial periods.
- 3.4. The backstop date is likely to be a factor in local auditors issuing a modified or disclaimed opinion on outstanding accounts if they do not have enough time to complete all audit work before that date. It is important that local bodies, residents and other accounts users can distinguish between modified and disclaimed audit opinions caused by the introduction of backstop dates and those that indicate significant financial reporting or financial management issues.
- 3.5. Auditors have a responsibility under auditing standards to clearly communicate the reasons for their opinion within their report, including where the backstop date causes a modified or disclaimed opinion. System partners will consider guidance for auditors to remind them of these responsibilities. System partners will also issue communications that explain what the different types of modified opinions mean and that clarify that local bodies should not be unfairly judged based on modified opinions caused by the introduction of a backstop date that are largely beyond their control.
- 3.6. To ensure that delays do not re-emerge once the backlog of local body audit opinions has been cleared and 'recover' the system, DLUHC proposes to put further backstop dates into law for the publication of audited accounts by local bodies. These would cover the 5-year audit appointments awarded in 2022 by Public Sector Audit Appointments (PSAA) for financial years 2023/24 to 2027/28. As it is anticipated there would be modified and disclaimed opinions on outstanding accounts from the 30 September 2024 backstop date, this measure is designed to enable auditors to rebuild assurance over several audit cycles rather than in a single year, reducing the risk of the backlog re-emerging. This means there would also likely be modified or disclaimed audit opinions for several years.
- 3.7. Further details on the proposals can be found as follows:  
<https://www.gov.uk/government/consultations/addressing-the-local-audit-backlog-in-england-consultation/local-audit-delays-joint-statement-on-update-to-proposals-to-clear-the-backlog-and-embed-timely-audit>
- 3.8. In relation to these proposals there are currently two consultations:
  - DLUHC is seeking views on changes to the Accounts and Audit Regulations 2015 to introduce backstop dates for the publication of audited accounts

- The NAO is seeking views on changes to the Code of Audit Practice to support auditors to meet backstop dates and promote more timely reporting of their work on value for money arrangements

3.9. Further details on this consultation can be found at <https://consult.levellingup.gov.uk/local-audit-and-conduct/addressing-the-local-audit-backlog-in-england>. The consultations close on 7<sup>th</sup> March 2023.

3.10. The Council intends to reply to the consultation in support of the proposals in order to resolve the current issues of outstanding audits, as in all reality there is no other practical solution, but also expressing concern over how local authorities can be assured this situation will not arise again in the future. The Council will also seek clarification on how assurance will be given to opening balances in future years accounts and would like some explanation on the opinions and wordings that will be provided to Council's whose accounts have not been audited due to no fault of their own.

#### **4. Financial Implications**

4.1. In relation to the 2020/21 financial year, EY have proposed a fee variation which is attached as Appendix B. The fee variation proposed is £ £111,690 in addition to the base scale fee of £69,964. This gives a total revised fee of £181,654. EY have sent a copy of this proposed fee to Public Sector Audit Appointments (PSAA) who will determine the final fee payable. A more detailed breakdown of the proposed fee can be found in the attached letter, Appendix B.

#### **5. Legal Implications**

5.1. The Local Audit and Accountability Act 2014 made the Comptroller and Auditor General responsible for the preparation, publication and maintenance of the Code of Audit Practice. The Code sets out what local auditors are required to do to fulfil their statutory responsibilities under the Act. As part of this Act, EY have a duty to report to this Committee on the work they have carried out in respect of East Suffolk Council to discharge their statutory audit responsibilities and identify any governance issues with the audited body as per the Comptroller and Auditor General's Code of Audit Practice.

#### **6. Risk Implications**

6.1. The Auditors work and subsequent reports seek to identify significant risks within the Council and highlight any areas of significant concern.

#### **7. Options**

7.1. This report is for information, providing an update on EY's work to date for 2021/22, 2022/23 and proposals for 2023/24 and consequently no other options have been considered.

#### **8. Recommendations**

8.1. That Audit & Governance Committee Notes:

- The proposed scale fee for the 2020-21 audit.
- Ernst & Young's plans for the audit of 2021/22 and 2022/23 in relation to the consultations from the Department for Levelling Up, Housing and Communities and National Audit Office's proposals in dealing with outstanding audits.
- The progress on Value for Money work for 2021/22 and 2022/23.

- The Audit Plan for the 2023/24 audit of accounts.

**9. Reasons for Recommendations**

- 9.1. To understand the current position of the Council in relation to outstanding audits and how these may be addressed, and to gain assurance that future year audits will be conducted as prescribed in the Audit Plan provided by EY.

**10. Conclusions/Next Steps**

- 10.1. The Council will await the conclusion of the audit fee for 2020-21 by PSAA, along with the consultation results from DLUHC and NAO and report back to this committee accordingly.

## Areas of consideration comments

### Section 151 Officer comments:

No additional comments.

### Monitoring Officer comments:

No comments

### Equality, Diversity and Inclusion/EQIA:

There are no direct implications arising from this report.

### Safeguarding:

There are no direct implications arising from this report.

### Crime and Disorder:

There are no direct implications arising from this report.

### Corporate Services implications:

*(i.e., Legal, Finance, Procurement, Human Resources, Digital, Customer Services, Asset Management)*

There are no direct implications arising from this report.

### Residents and Businesses consultation/consideration:

There are no direct implications arising from this report.

## Appendices:

<b>Appendix A</b>	Auditors Annual Report 2020-21 Final
<b>Appendix B</b>	Additional Fee Letter to S151 and TCWC
<b>Appendix C</b>	Audit Plan 2023/24

## Background reference papers:

None