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# Financial Update Report

Audit & Risk Committee

Decision to be taken by: N/A

Date of meeting: 18<sup>th</sup> January 2023

Lead director: Amy Oliver, Director of Finance

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## Useful information

- Ward(s) affected: All
- Report author: Ben Matthews, Chief Accountant
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- Report version number: 1.0

### 1. Purpose of Report

- 1.1. To provide an update on the progress of the external audits for 2020/21 and 2021/22, including the infrastructure assets statutory override.
- 1.2. To provide an update on audit fees for 2022/23.
- 1.3. To provide an update on the appointment of the Council's external auditors and audit fees from 2023/24 onwards.

### 2. Recommended actions/decision

- 2.1. The Committee is asked to note the contents of the report and make any comments.
- 2.2. The Committee is asked to note the appointment of Grant Thornton as the Council's external auditor for a further five years from 2023/24.

### 3. Scrutiny / stakeholder engagement

N/A

### 4. Background

- 4.1. The Accounts & Audit (England) Regulations 2015 require that the Council presents its audited Statement of Accounts along with its Annual Governance statement for approval annually by the 31 July. This is delegated to the Audit and Risk Committee by Council. For 2021/22, this deadline was extended to the 30 November 2022 due to issues being experienced in the local authority audit sector.
- 4.2. The draft (unaudited) 2021/22 accounts were considered by the Audit and Risk Committee on the 20 July 2022 and further progress updates on the external audit were provided to the Committee on 28 September 2022 and 22 November 2022. These updates have also included the national accounting issue for infrastructure assets affecting the Council.
- 4.3. Since 1 April 2018, the Council has had its external audit provided by Grant Thornton. Grant Thornton were appointed by Public Sector Audit Appointments Ltd (PSAA) and have been the Council's external auditors up to and including the financial year 2022/23.

## **5. Detailed report**

### **Update on the progress of the closure of the external audit for 2020/21**

- 5.1. As previously reported to the Committee, a national accounting issue concerning the valuation of infrastructure assets (e.g. highways and footpaths) was delaying the closure of the 2020/21 audit and has also continued to delay the 2021/22 audit. Government has recently published legislation to resolve the national issue (for the time being) and the external auditors are now awaiting updated guidance before being able to finalise this matter.

### **Update on the progress of the external audit for 2021/22**

- 5.2. There are four main items causing the delay in issuing an external audit opinion for the 2021/22 Statement of Accounts, which are:

5.2.1. As previously reported, the national accounting issue concerning the valuation of infrastructure assets, detailed above.

5.2.2. An amendment required to the valuation of Specialised assets (those not available to purchase in the open market, for example schools, leisure centres and museums) due to the Council not complying with a particular national valuation requirement. This has also been previously reported to the Committee and has necessitated an amendment to previous years' valuations. We are liaising with the external auditors, including ensuring agreement on the approach taken to adjust previous years' valuations.

5.2.3. A further item regarding the valuation of Specialised assets, in particular how the valuation depreciation adjustment is arrived at. The Council's valuer and the valuer engaged by the external auditors have been unable to reach agreement on the methodology used for the valuation depreciation adjustment, to arrive at the theoretical 'market value' of these assets. Officers continue to liaise with the external auditors to seek an agreed solution.

5.2.4. In addition a query has been raised on the approach used for valuing Housing Revenue Account dwellings, in particular the method used for Beacon properties (sample houses). At the time of writing, officers are engaging with the Council's commissioned external valuers to understand if there has been any impact on the valuations as a result, which could require adjustment.

- 5.3. These are purely technical matters involving valuation of fixed assets, which do not result in a change in the overall level of balances available to the Council to finance its ongoing operations. Officers are continuing to work on these matters and liaise with the external auditors where appropriate, with the overall aim of bringing the final audited set of accounts for the Committee to approve at the March meeting.

- 5.4. The Committee should however note that the national deadline of 30 November 2022 for the publication of 2021/22 audited accounts has not been met. Nationally, only 12% of opinions had been issued, reflecting the technical and audit challenges across the sector, including the national accounting issue concerning

infrastructure assets. It is also important to note there will not be any financial penalties incurred by the Council for not meeting the deadline.

5.5. The Committee may also wish to note that the auditor continues to work on the Value for Money assessment, as previously reported.

### **External audit fees 2022/23**

5.6. Acknowledging the significant pressures in the wider audit market and evolving arrangements in the local audit system, it has been difficult for Public Sector Audit Appointments Ltd (PSAA) in setting fee scales without full information on all audit requirements or information on audits for the preceding year. Therefore, they have set the 2022/23 scale fee using the 2021/22 audits as a baseline with adjustments for recurrent fee variations and a 5.2% inflationary increase (the inflation will be funded from a surplus that would otherwise have been distributed to opted-in bodies).

5.7. This results in a scale fee for the Council in 2022/23 of £128,947; however, it is important to note this fee does not include the fee for additional work that is still to be agreed. The additional work normally relates to the auditing of grant claims and commenting on the Council's value for money arrangements.

### **External audit appointment and fees from 2023/24**

5.8. As approved by Council and supported by this Committee, the Council has opted-in to the sector led procurement of external audit contracts through PSAA from 1 April 2023. When developing appointment proposals, the PSAA considered information provided by both opted-in bodies and audit firms, seeking to balance a range of factors including:

- Auditor independence, the most critical of all the factors;
- Joint/shared working arrangements and information from bodies, where they have prioritised those requests that are most relevant to the auditor's responsibilities;
- Their commitments to the firms under the audit contracts;
- Bodies' main offices and firms' geographical preferences;
- The status of prior years' audits; and
- Continuity of auditor where appropriate.

5.9. As part of this arrangement, officers have accepted the proposal of Grant Thornton as the Council's external auditor for a further five years from 2023/24.

5.10. Furthermore, the PSAA have already notified audited bodies to expect a major re-set of total fees in 2023/24 (when the new five year audit contracts take effect) due to the current complexities and fragility of the local audit market making the procurement of the new contracts very challenging. They have so far advised us to expect an increase of the order of 150% on the total fees for 2022/23. However, the actual total fees will depend on the amount of work required, which is still to be established and the PSAA will consult on the 2023/24 fee scale in early autumn 2023.

## **6. Financial, legal, equalities, climate emergency and other implications**

### **6.1 Financial implications**

The report provides an update on the progress with the external audit of the Council's accounts. The items identified as causing the delays to the audit relate to technical asset valuation matters. They do not affect the overall level of balances available to the Council to finance its ongoing operations.

Ben Matthews, Chief Accountant, ext. 37 4840

### **6.2 Legal implications**

There are no direct legal implications arising from this report. The issues concerning the closure of accounts for 2020/21 and 2021/22 are not unique to Leicester, and the consequences of this are well explained in the main body of the report. Audit and Risk Committee have been updated on these issues so that they can discharge their functions transparently.

Kamal Adatia, City Barrister

### **6.3 Equalities implications**

There are no direct equality implications arising out of this Financial Update report.

Equalities Officer, Surinder Singh, Ext 37 4148

### **6.4 Climate Emergency implications**

There are no significant climate emergency implications directly associated with this report.

Aidan Davis, Sustainability Officer, Ext 37 2284

### **6.5 Other implications (You will need to have considered other implications in preparing this report. Please indicate which ones apply?)**

N/A

## **7. Background information and other papers:**

7.1. The Draft Statutory Statement of Accounts 2021/22 presented at the Audit & Risk Committee on 20<sup>th</sup> July 2022.

7.2. Financial Update Report presented at the Audit & Risk Committee on 28th September 2022.

7.3. Statement of Accounts and External Audit Update Report presented at the Audit & Risk Committee on 22nd November 2022.

7.4. Appointment of External Auditor for 2018/19 presented at the Audit & Risk Committee on 6<sup>th</sup> December 2017

<https://cabinet.leicester.gov.uk/documents/s89333/AR%20External%20Audit%20Update%201819%20FINAL%202.pdf>

7.5. Decision to opt into National Scheme for Auditor Appointments managed by PSAA Report presented at the Audit & Risk Committee and Full Council in November 2021.

<https://cabinet.leicester.gov.uk/documents/s126380/PSAA%20external%20audit%20opt-in%20-%20ARC%20and%20Council%20-%20final.pdf>

7.6. PSAA publication 2022/23 audit fee scale

<https://www.psaa.co.uk/appointing-auditors-and-fees/list-of-auditor-appointments-and-scale-fees/2022-23-auditor-appointments-and-audit-fee-scale/2022-23-audit-scale-fee/>

## **8. Summary of appendices:**

None

**9. Is this a private report (If so, please indicate the reasons and state why it is not in the public interest to be dealt with publicly)?** No

**10. Is this a “key decision”? If so, why?** No