
Statutory Statement of Accounts & Annual Governance Statement 2021/22

Decision to be taken by: Audit and Risk Committee

Date of meeting: 15th March 2023

Lead director: Amy Oliver

Useful information

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

1. Summary

- 1.1. To seek the approval of the Committee for Council's Annual Governance Statement & Annual Accounts 2021/22.
- 1.2. To provide the Committee with an update from the External Auditor, which details their audit work and any recommendations.
- 1.3. To provide a further update on audit fees from 2023/24 onwards

2. Recommendations

- 2.1. The Audit & Risk Committee is recommended to:
 - Note the auditor's ISA 260 Report (the Audit Findings Report) to those charged with Governance and the recommendations contained within it, attached at Appendix A.
 - Approve the Statement of Accounts 2021/22, Appendix B
 - Approve the Annual Governance Statement 2021/22, Appendix B.
 - Approve the Letter of Representation submitted by the Director of Finance (S151), attached at Appendix C.
 - Delegate authority to approve any minor amendments to the Annual Accounts and the Annual Governance Statement to the Director of Finance, subject to a report to the Committee at the next meeting.
 - Note the further update on external audit fees from 2023/24 onwards and make any comments.

3. Background

- 3.1. The Accounts and Audit (England) Regulations 2015 require that the Council present its audited Statement of Accounts along with its Annual Governance Statement for approval annually by the 31st July. This is delegated to the Audit and Risk Committee by Council. For 2021/22, this deadline was extended to the 30th November 2022 due to issues being experienced in the local authority audit sector.
- 3.2. The draft statements were considered by the Audit and Risk Committee on the 20th July 2022.

- 3.3. Further progress updates on the external audit have been provided to the Committee on 28th September 2022, 22nd November 2022 and 18th January 2023. These updates have included the main items that have caused the delay in issuing the external audit opinion for the 2021/22 Statement of Accounts.
- 3.4. The Committee requested a further update on the increase in audit fees from 2023/24 onwards, which was presented to the Committee on 18th January 2023. This followed the Public Sector Audit Appointments Ltd (PSAA) notifying the sector to expect an increase of the order of 150% on the 2022/23 total fees for 2023/24 onwards (e.g. £100k would become £250k).

4. Statement of Accounts

- 4.1. The statutory accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the UK. Separate management accounts are presented to the Executive and to the Overview Select Committee, which set out the revenue and capital outturn for the authority. The financial position of the authority is presented in a different way in the Statement of Accounts. The outturn reports focus on the in-year financial performance in a format consistent with the Council's budgets, while the Statement of Accounts shows the in-year performance in a standard format adopted by all local authorities, including a balance sheet showing the financial position as at 31st March 2022.
- 4.2. Despite the wide variations in the way the position is presented, the key point is that both the outturn reports and the accounts are consistent.
- 4.3. As previously reported, the Committee should note that the national deadline of 30th November 2022 for the publication of 2021/22 audited accounts has not been met. Nationally, only 12% of opinions had been issued at that time, rising very slightly to 15% at the end of December. Some 34% of opinions from the previous year 2020/21 also remained outstanding. Further details of accounts and audit progress nationally can be found in the latest PSAA Audit Contract Monitoring Report Data Pack at <https://www.psaa.co.uk/wp-content/uploads/2023/02/Q3-2022-23-quality-monitoring-report.pdf>
- 4.4. These delays reflect the technical accounting, resourcing and audit challenges across the sector. These include the national accounting issue concerning infrastructure assets and the heightened focus on external audits following significant issues in some public and private sector organisations. It is also important to note there will not be any financial penalties incurred by the Council or auditors for not meeting the deadline.
- 4.5. During the external audit period, the need for certain amendments to the draft financial statements have come to light. These have been reflected in the final Statement of Accounts. However, it is important to note that none of these amendments have resulted in a change in the overall level of balances available to the Council to finance its ongoing operations.
- 4.6. The changes impacting the main statements and those that have required prior year adjustments are identified below:

- During the audit period updated pension fund valuation information was received, which affected the Comprehensive Income and Expenditure Statement and the Balance Sheet.
- Correction required to the valuation of Specialised Assets (those not available to purchase in the open market, for example schools, leisure centres and museums). This was due to the Council not complying with a particular national valuation requirement, which affected the Comprehensive Income and Expenditure Statement and the Balance Sheet. This also resulted in the requirement for prior years to be adjusted.
- Correction to two assets that were overstated in the accounts due to inputting errors or formulae errors, which affected the Comprehensive Income and Expenditure Statement and the Balance Sheet.
- Correction to depreciation for Infrastructure assets, to depreciate these assets on a component-by-component basis, rather than use a weighted average. This affected the Comprehensive Income and Expenditure Statement and the Balance Sheet.
- Correction to Infrastructure Asset spend, that was incorrectly classified as not adding value and written off to the Comprehensive Income and Expenditure Statement. This affected the Comprehensive Income and Expenditure Statement and the Balance Sheet.
- Classification adjustments to income and expenditure, due to internal recharges being classed as external income and spend. These affected the Comprehensive Income and Expenditure Statement.
- A further classification adjustment to income and expenditure, where the Council acts as an agent on other partners' behalf for an element of the Integrated Community Equipment Loan Services (ICELS) pooled budget. This affected the Comprehensive Income and Expenditure Statement.
- A classification adjustment to the Financial Instrument Notes to include long term debtors and short term creditors and debtors. This also resulted in the requirement for prior years to be adjusted.
- A classification adjustment to the Cash Flow Statement Investment Activities to remove Cash Equivalents. This also resulted in the requirement for prior years to be adjusted.

5. Annual Governance Statement

5.1. The Annual Governance Statement is presented here for approval. If approved, the Statement will be signed by the Chief Operating Officer and City Mayor and published with the Statement of Accounts.

5.2. This is an important statement that should assure the people of Leicester that the Council operates in accordance with the law and has due regard to proper standards of behaviour and that it safeguards the public purse.

5.3. The format of the Annual Governance Statement to a large extent is dictated by the Chartered Institute of Public Finance and Accountancy (CIPFA)/Society of Local Authority Chief Executives (SOLACE) framework 'Delivering Good Governance in Local Government'.

6. Letter of Representation

6.1. The letter of representation is a letter signed by the Director of Finance (S151 officer) and approved by the Audit and Risk Committee.

6.2. It is designed to give the external auditor assurance on the information included in the Statement of Accounts and to affirm that the primary responsibility for the content of the Statement of Accounts remains with the Council.

7. ISA 260 Report to those charged with Governance

7.1. The External Auditor's ISA 260 Report (the Audit Findings Report) presents the observations from the audit work undertaken that are significant to the responsibility of those charged with governance to oversee the financial reporting process. ISA is the International Standard on Auditing (UK). The report can be found at Appendix A.

7.2. It is an important report and details the conclusions of the external audit and makes recommendations. Management responses to the recommendations are contained within the action plan at appendix A to the report itself.

7.3. Members may recall that the interim draft audit findings were reported to the Committee on 22 November 2022.

7.4. The Committee is also asked to note that the Auditor's Annual Report, including commentary on the Council's arrangements to secure value for money, is delayed. This is expected to be issued within the next three months.

8. External Audit 2023/24 Onwards

8.1. As previously reported to the Committee, Public Sector Audit Appointments Ltd (PSAA) have already notified audited bodies to expect a major reset of total external audit fees in 2023/24. This is when the new five-year external audit contracts take effect. PSAA has advised councils to expect an increase in the order of 150% on the total fees for 2022/23 (so, for example, a £100k charge currently would become £250k in the future). Nationally, the PSAA said that estimated total fees for 2022/23 audits will be £50m and that the total fees for 2023/24 will be in the region of £125m.

8.2. These very significant fee increases reflect the difficulties and challenges in the external audit market, as noted earlier in the report. The audit firms have reportedly bid a rate for the work they are expected to undertake to deliver a Code of Audit Practice compliant audit. The Chair of the PSAA is on record as stating that the outcomes of the procurement reflect the backcloth of a troubled audit profession, a challenged local audit system and a sellers' market. It is notable that three national firms - PwC, Deloitte and BDO – chose not to bid. However, KPMG

has re-joined with the prospect of higher fees, having opted out of the current audit contracts five years ago.

8.3. The chief executives of the accountancy institutes CIPFA and the ICAEW have said that the procurement underlines concerns about market stability and that urgent action is needed to ensure the market is robust and attractive. They also said that an increase in fees is necessary to support high quality and timely audits, whilst recognising that the rise will be difficult for local authorities, which are already under severe financial pressure.

8.4. The PSAA reportedly called for “radical changes in the local audit system”. A more proportionate audit is an absolute prerequisite to achieve a more sustainable audit system, it suggested. Awarding new contracts would help to maintain the system for the next five years and buy time for changes to be developed to the local audit system.

8.5. The Council's estimated fees in 2022/23 are circa £180k. Applying a 150% increase as advised by the PSAA suggests fees from the 2023/24 audit onwards of around £450k.

8.6. It is important to note that whilst this is undoubtedly a significant forecast increase, the audit fees forecast for 2023/24 would represent 0.04% of the Council's 2023/24 gross expenditure budget, compared to the 2022/23 forecast audit fees currently representing 0.02%.

8.7. The Committee may also wish to note a recent announcement that local (external) audit is to be strengthened, as the new responsibilities of the Financial Reporting Council as the shadow system leader for local audit are set out. The Government press release with more details can be seen at <https://www.gov.uk/government/news/local-audit-bolstered-with-new-memorandum-of-understanding>

9. Financial, legal, equalities, climate emergency and other implications

9.1 Financial implications

The report is exclusively concerned with financial issues.

9.2 Legal implications

There are no direct legal implications arising from this report.

Kamal Adatia, City Barrister

9.3 Equalities implications

There are no direct equalities implications arising out of this report.

Equalities Officer, Surinder Singh, Ext 37 4148

9.4 Climate Emergency implications

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

Aidan Davis, Sustainability Officer, Ext 37 2284

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

N/A

10. Other Implications

<u>OTHER IMPLICATIONS</u>	<u>YES/NO</u>	<u>PARAGRAPH REFERRED</u>
Equal Opportunities	No	
Policy	No	
Sustainable and Environmental	No	
Crime and Disorder	No	
Human Rights / People on low incomes	No	
Corporate Parenting	No	
Health Inequalities Impact	No	

11. Background papers:

- Revenue and capital outturn reports presented the Overview Select Committee on 30th June 2022.
- The Draft Statutory Statement of Accounts 2021/22 presented at the Audit and Risk Committee on 20th July 2022.
- Financial Update Report presented at the Audit and Risk Committee on 28th September 2022.
- Statement of Accounts and External Audit Update Report presented at the Audit and Risk Committee on 22nd November 2022.
- Financial Update Report presented at the Audit and Risk Committee on 18th January 2023.

12. Summary of Appendices:

Appendix A - ISA 260 Report (the External Auditor's Audit Findings Report)

Appendix B - Annual Statement of Accounts & Annual Governance Statement 2021/22

Appendix C - Letter of representation

13. Consultations

All departments are consulted during the Authority's close down period.

14. 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

15. Is this a "key decision"? If so, why? No