

Committee: Audit and Standards Committee

Date: 26th
September 2024

Title: External Audit Update

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Revenues and Benefits

Summary

1. The report provides an update on the Council's historic accounts (2019/20 through 2022/23), the interim Audit on 2023/24 and the Housing Benefit Audits.

Recommendations

2. To note the updates on the various External Audits.

Financial Implications

3. There are no implications beyond that not delivering on the 2023/24 Accounts deadlines (Draft production of the Statement of Accounts) and Audit would weaken the council's financial position and could lead to negative consequences including the potential arrival of Commissioners.

Background Papers

4. No background Papers

Impact

- 5.

Communication/Consultation	N/A
Community Safety	N/A
Equalities	N/A
Health and Safety	N/A
Human Rights/Legal Implications	N/A
Sustainability	N/A
Ward-specific impacts	N/A
Workforce/Workplace	N/A

Situation

6. The Council has no signed and audited accounts since 2018/19. The previous auditors (BDO) left the council's 2019/20 Accounts with minimal items not complete. The Audit Partner at the time stated that they had finished the Audit, subject to final review, most of the Value for Money and were halfway through the Annual Governance Statement (AGS). Unfortunately, the situation with the Leader (police investigation into conduct of the councillor) led them to leaving the audit temporarily. However, they never returned after then.
7. Subsequently, BDO withdrew from the local authority market and lost the resources to complete any of the existing audits. Through mutual agreement, BDO left after 2022/23, allowing KPMG to undertake the 2023/24 Audit.
8. BDO are legally required to complete or disclaim the historic Accounts by the backstop date of December 13th 2024. The council has contacted them but the explanations are not conducive to understanding their formal position and this means that KPMG cannot rely on their work for their work or the opening balances for 2023/24. This poses a fundamental problem for KPMG for the 2023/24 Audit so there is a very significant likelihood that they may need to disclaim it regardless of the quality of the audit.
9. It is worth noting that the National Audit Office last week published guidance to auditors on the implications of disclaimed prior opinions, which set out an understanding that it will not always be possible to return to clean opinions in 2023-24 due to the lack of historic assurance. This challenge as one can see is a national challenge, as there are a very large number of councils with the same issues.
10. BDO are however required to complete the Value for Money work for 2019/20 through 2022/23. The council has uploaded the 2019/20 requests provided at the beginning of summer but had to stop this to complete the work on the interim audit for KPMG. The council will return to this immediately after Interim Audit but it is challenging to support both audits with the same resource.
11. The 2019/20 and 2020/21 Accounts were produced. However, there has been an overall review by an additional interim resource to get the Accounts closed off and minor changes were made to 2020/21.
12. The council has been producing the 2021/22 through 2023/24 Accounts throughout the summer and intends to complete the latter by November 30th for Audit. There is a backstop date for the 2023/24 Audit to be finalized and signed and that is by 28th February 2025. Originally, there had been a later date of 31st May 2025 but it was felt that this would interfere with the production of the next set of draft Accounts. The council intends to support KPMG to achieve the February deadline and obtain any necessary resources to achieve this target date, if they are deemed necessary.
13. To ensure there is adequate quality in the Accounts, Finance has gone back to third party data sources, particularly in relation to Property, Plant & Equipment. These third party data sources include rental records for social

housing, Planning records, legal documentation, local service records and service manager knowledge. Any changes where identified will be adjusted through the relevant year's accounts.

14. The council is also conducting cut off testing. For 2022/23, the original level selected was for reviewing all transactions over £100,000 to determine whether the transaction is recorded correctly and in the correct period. For 2023/24, after further discussions with the auditors, this level has been reduced for £50,000. This type of testing is a standard process for auditors and while they cannot rely on our work, by completing it, we reduce the risk for our accounts and moreover, they can check all the workings, choose any evidence they wish and reproduce the tests saving them time.
15. KPMG started interim Audit at the end of July and due to it being Year One, it is taking longer than normal as we have had to produce walkthrough process notes for them. A walkthrough might be how an individual was set up on the council housing rent roll and then how the rent is calculated, followed by the raising of the debtor and the cash collection was undertaken, reconciled and recorded in the ledger. It will involve consideration of controls in place. The main audit will involve far more detailed testing but first of all, the council processes need to be assessed and recorded.
16. There has also been a collation and provision of the various documents required for the Value for Money conclusion.
17. KPMG will provide an update on progress of the Interim Audit at the meeting.

Housing Benefit 2020/21

17. BDO's 2020/21 Housing Benefit Audit was the first audit that needed to be completed after an individual passed away in post. BDO originally were not as responsive as required. This led to delays and stress in the team.
18. The council atypically produced all the workbooks for them. (The workbooks is where the council evidences the housing benefit that has been paid. The initial testing working books are where 20 claims of each are tested (council, BnB/TA and private). This gives the auditors the assurance that the council is following the regulations correctly. Any errors are found in the initial testing, then the council has to check another 40 claims of that potential error type (if error population less than 100, council can choose to have entire population tested to reduce extrapolation risk).
19. If there is an error from the previous year, then that is carried over and 40 additional claim checks of that area need to be undertaken.
20. Council received initial testing sample on 22nd May 2021. All initial testing workbooks were returned on 25th August 2021. BDO did not officially start till 1st February 2022.
21. All the completed testing workbooks returned on 1st April 2022. They tested a sample of what council had already checked for them and then they

rechecked every claim where there was an error and then also 10% of the sample.

22. There was a lot of queries and extra requests. However, it took them till June 11th 2024 to return the draft report. This was despite the lead officer requesting updates almost monthly. Eventually, they admitted there was no staff to undertake the work and they had to prioritise other audits. The Final Audit was submitted to the DWP on the 21st August 2024.

KPMG Housing Benefit 2021/22 and 2022/23

23. By comparison, KPMG, while reliant on the final audit report from BDO to be submitted managed with the hard work of the Housing Benefit Team Lead to produce the Draft reports for 2021/22 and 2022/23 by 24th April 2024. Unfortunately, they could not finalise much of their work till the previous audit had been completed for obvious reasons. They started the work 17th May 2023 and had to spend time validating the work BDO had sampled on a random basis. This faster turnaround of Audits is one advantage of KPMG having a specialist well resourced Audit team.
24. KPMG and the council are still reviewing the draft report and ensuring there are no errors. Certification by the Section 151 Officer is anticipated by the Committee date.
25. The council is hopeful that 2023/24 will move as rapidly and as successfully as the previous 2 audits with KPMG have been.
26. The difference on the subsidy for 2021/22 is provisionally £574 worse than expected, subject to final agreement with the S. 151 officer and DWP.
27. The difference on the 2022/23 subsidy final audited claim is £20 better off than expected, equally subject to the Section 151 officer and DWP approvals. It is important to note that the overall claim is for £11m and therefore, the differences in both audits are minuscule.

Risk Analysis

28.

Risk	Likelihood	Impact	Mitigating actions
This is simply an update. Therefore, there are no risks except to that we need to keep members updated on the Accounts.	N/A	N/A	Produce the Update.

1 = Little or no risk or impact

2 = Some risk or impact – action may be necessary.

3 = Significant risk or impact – action required

4 = Near certainty of risk occurring, catastrophic effect or failure of project.