

**Full Council, 8 October 2024**

**Councillor Neil Hargreaves: Portfolio Holder for Finance and the Economy**

### **Finance Report**

As previously reported, the now abolished Audit Commission used to carry out council audits. In a botched privatisation the work was switched to commercial auditors. To the disgrace of the profession, firms of accountants then took on work which many failed to complete. After repeated warnings, and growing backlogs, the previous government belatedly produced a plan with an end date of end of September 2024 for audits to be signed but failed to enact it.

The current government has picked that plan up and in a statement from the Ministry of Housing, Communities and Local Government and Jim McMahon OBE MP published 31 July 2024 state: *'Secondary legislation will be laid when parliamentary time allows to set a statutory backstop of 13 December 2024 for the publication of audited accounts for all financial years up-to-and-including 2022/23. This will clear the backlog and enable a focus on recent accounts to provide the most up-to-date information.'*

The statement adds *'...only 1% of local bodies published audited accounts on time last year, with the backlog likely to increase to around 1,000 by the end of September'*.

And *'Due to the time constraints, not all audits will be completed in full by the December backstop. Where this is case, auditors will issue 'disclaimed' or 'modified' audit opinions. Auditors are likely to issue hundreds of 'disclaimed' audit opinions and disclaimed opinions will likely continue for some bodies for a number of years. Local bodies should not be unfairly judged based on disclaimed or modified opinions, caused by the breakdown in the system and the introduction of backstop dates that are largely beyond their control.'*

[Significant measures to tackle worsening backlog in local audit - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/news/significant-measures-to-tackle-worsening-backlog-in-local-audit)

UDC has accounts for years 2019/20 through 2022/23 awaiting audit completion by BDO. For following years, the new auditors are KPMG who have been working with the council to meet the 2023/24 audit backstop date of 28<sup>th</sup> February 2025. The backstop date is the date by which councils accounts must be audited by or they will be disclaimed. Disclaiming accounts are when the auditors are unable to produce an opinion on a set of accounts – it is a statement that protects auditors legally.

BDO has not engaged meaningfully on the audits for a long time and only in a meeting on the 26<sup>th</sup> September 2024 promised activity. This means the backlog of accounts from 2019/20 to 2022/23, due to be audited or finalised by BDO, is considered unlikely to meet the December 13<sup>th</sup> 2024 deadline. Therefore, with the inability to close off the previous accounts, the council moved onto working with KPMG for 2023/24.

However, if the previous accounts are 'disclaimed' by BDO then even if, as we anticipate, a totally satisfactory audit of the 2023/24 accounts is done, KPMG may still need to issue a modified opinion because of uncertainty over the unaudited brought forward balances. Obviously this cannot go on forever into subsequent years and it is anticipated that the 2024/25 and subsequent audits will return to the normal cycle of unqualified sets of accounts. It is important to note that this is a common situation across local government. KPMG have indicated that they are willing to work with the council to achieve this. Their staff have been here on the interim audit, which is where you build knowledge of the accounting processes and controls, and test them. Their staff had limited knowledge of the differences between council and commercial accounts and Mr Robinson has in effect been training the KPMG staff.

Council auditors are mostly appointed by a government procurement body called the Public Sector Audit Appointments Ltd. The BDO contract is with this body, not UDC. So the council had no contractual ability to enforce BDO to carry out the work or indeed remove them. However, BDO having withdrawn from the local authority market and lost the resources to complete any of the existing audits, through mutual agreement, BDO left after 2022/23 year, allowing KPMG to undertake the 2023/24 Audit.

To ensure there is the best quality of information for the accounts, and for auditing, Finance has gone back to third party data sources, for example 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. This is carrying out what the auditors would have done or requested. Any changes identified will be adjusted through the relevant year's accounts. The council is also conducting cut off testing, which is what auditors do at the year end – with the continual flow of transactions it is possible at the 31<sup>st</sup> March to post for example supplier invoices by mistake in the wrong year. 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 solely rely on a client's own audit work, it is normal to take a level of confidence from internal audit work, and 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.

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.

### **Housing Benefits**

This is a separate audit from the main accounts. BDO has finally completed the 2020/21 audit of the Housing Benefits and this allowed KPMG who took over the 2021/22 and 2022/23 Housing Benefit to complete theirs. Subject to final review, this means the council will have caught up on their side. This faster turnaround of audits is one advantage of KPMG having a dedicated well resourced audit team. It is also a tribute to the hard work of Caroline Saych, the Head of Revenues and Benefits and Faye Mills, her team leader.

### **BDO**

The council met this month with BDO to understand what it means by starting the planning stage of the 2021/22 and 2022/23 audits bearing in mind they have not completed the 2019/20 or even started the 2020/21 audits. This meeting gave far greater clarity and was the first positive meeting since 2020 and overall officers were pleasantly surprised by the reasonable dialogue. It is worth noting that BDO acknowledged that the KPMG audit is in full swing and therefore, there is limited capacity to do more than what is absolutely required to meet statute.

It appears to be a simple matter of finishing the Value for Money Audit aspect of its previous audits (2020/21 through 2022/23) and determining whether it is possible to finalise the 2019/20 Audit before the backstop date. The council will endeavour to support this to the fullest of its available capacity, while recognising that the Finance team is stretched. Additional contract resource has been agreed to push all the work on.

Finally, an extraordinary meeting of Audit and Standards has been called for 10th December 2024. This is to enable BDO to close off all outstanding years, 2019/20 through to 2022/23 by the 13 December deadline. It is likely that 2019/20 will be dealt with separately to the rest, but at the same meeting, as that audit had been completed but not signed because of the issue with the Annual Governance Statement, resolved long since.

All of the rest are likely to be fully disclaimed i.e. BDO will do no audit work on those accounts. However they are required to provide a Value for Money opinion for each year which at the moment they are proposing to do by way of a single report

Cllr Neil Hargreaves