

## **East Herts Council Report**

### **Audit and Governance Committee**

**Date of meeting:** 29 July 2021

**Report by:** Steven Linnett, Head of Strategic Finance and Property and Section 151 Officer

**Report title:** Receipt of the External Auditor's Audit Planning Report 2020/21

**Ward(s) affected:** All

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### **Summary**

The external audit will present their Annual Audit Planning Report to the Committee setting out their planned work on the council's external audit, the time line and indicative fees. The proposed timeline means the council will not publish audited accounts in compliance with the statutory deadline of 30 September 2021 as required by the Accounts and Audit Regulations 2015 (as amended) as audit work will not commence until October. This exposes the council to a number of risks as detailed in this report.

### **RECOMMENDATIONS FOR AUDIT AND GOVERNANCE COMMITTEE:**

- A) Receive and make any comments on the external auditor's Annual Audit Planning Report**
- B) Note that the Council will be unable to comply with the 30 September 2021 statutory deadline for publishing audited accounts as set out in the Accounts and Audit Regulations 2015 (as amended) as the audit work will not commence until October.**

**C) Note the risks that the late audit work exposes the council to.**

**1.0 Proposal(s)**

- 1.1 The external auditor issues their Annual Audit Planning Report setting out their planned audit work, their assessment of risk, an indicative time line and indicative fee levels.
- 1.2 The report and proposals are the external auditors and whilst Officers are consulted, they have no ability to change anything in the report.
- 1.3 The external auditor's Audit Planning Report for 2020/21 is attached at **Appendix A**. Members will note that the indicative timeline shows audit work commencing in October 2021 and being concluded in December 2021. This is as a result of systemic issues with the public authority audit market and affects all councils across England. As the audit work does not start until October this will cause the council to breach the requirement in the Accounts and Audit Regulations 2015 (as amended) to publish audited statement of accounts by 30 September. There are also a number of risks that this timeline presents for the council and these are detailed in section 5.0 below.
- 1.4 The external auditor has also indicated that they are seeking an increase in fees from Public Sector Audit Appointments (PSAA) although these have not yet been agreed by PSAA.
- 1.5 Members will obviously share the concern of officers that the Redmond Review pointed out there are major flaws in the system for auditing local authorities yet MHCLG has rejected some of the main recommendations in the Redmond Review and seems intent on defending the system which the accounting firms have pointed out and have signalled

previously. Letters from EY to the council are attached at **Appendix B**.

## **2.0 Background**

2.1 The Accounts and Audit Regulations 2015 (as amended) require local authorities to publish their audited statement of accounts by 30 September 2021. Where this is not achieved the council is required to publish (which must include publication on the website) as soon as reasonably practicable, on or after the 30 September 2021, a notice stating that it has not been able to publish the statement of accounts and its reasons for this.

## **3.0 Reason(s)**

3.1 The external auditor is required to present the Committee with their audit plan annually.

## **4.0 Options**

4.1 Members can ask questions and make observations to the external auditor but they cannot reject the Audit Planning Report.

## **5.0 Risks**

5.1 The delay to the completion of the audit until December 2021 exposes the council to a number of risks.

5.2 MHCLG require business rates return NNDR3 to be certified as agreeing with audited accounts by 30 September. Officers will inform MHCLG of the audit delay and request an extension but MHCLG may take the view that the delay is not acceptable and start to withhold grant payments and retained business rates payments which could mean the council having to

temporarily borrow for cash flow purposes which has an impact on the revenue account.

- 5.3 Resourcing the external audit queries whilst simultaneously producing the budget and MTFP will place considerable strain on staff in Strategic Finance and there is the risk that neither will be done as efficiently nor effectively as if they were done separately.
- 5.4 There is a risk that issues from the accounts audit could impact on the budget but the issue arises too late in the budget process for Officers and Members to take considered action thus requiring potentially damaging courses of action to be taken unnecessarily.
- 5.5 The Department of Work and Pensions (DWP) has already stated that it does not consider late audit work as an acceptable reason to extend the audit deadline for housing benefit subsidy claims and that late submission will result in the DWP withholding on-account subsidy payments. EY have been contracted to undertake the housing benefit subsidy audit and this has to be completed by 30 January and they are proposing that the work is undertaken by a specialist central unit which comes into existence in September. There is the risk that this unit does not meet performance expectations and the subsidy audit is late leading to the serious risk that the council will have cash shortages in February and March 2022 requiring further cash flow borrowing at additional cost to local taxpayers.
- 5.6 If both MHCLG and DWP withhold on account payments the cash flow impact could total £0.750 million per month, although the DWP use a system where the amount withheld increases every month so prolonged delay could have regressively more impact as time goes on.

## **6.0 Implications/Consultations**

### **Community Safety**

No

### **Data Protection**

No

### **Equalities**

No

### **Environmental Sustainability**

No

### **Financial**

These are contained in the main body of the report

### **Health and Safety**

No

### **Human Resources**

These are contained in the main body of the report

### **Human Rights**

No

### **Legal**

No

### **Specific Wards**

No

## **7.0 Background papers, appendices and other relevant material**

Appendices:

**Appendix A** – Audit Planning Report

## **Appendix B** – Letter from EY to the Council

### **Background Papers:**

None

### Reference Papers:

[Independent review by Sir Tony Redmond into the effectiveness of external audit and transparency of financial reporting in local authorities](#)

[Government Response to the Redmond Review](#)

### **Contact Officer**

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