

Report to: Governance and Audit Committee

Date: 16 October 2023

Subject: **External Audit Progress Report**

Director: Angela Taylor, Director Finance and Commercial Services

Author: Gary Dowson, Head of Finance

Is this a key decision?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for call-in by Scrutiny?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Does the report contain confidential or exempt information or appendices?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
If relevant, state paragraph number of Schedule 12A, Local Government Act 1972, Part 1:	
Are there implications for equality and diversity?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

1. Purpose of this Report

- 1.1 To provide an update on external audit matters that have occurred since the last meeting.

2. Information

2021/22 Audit of Accounts

- 2.1 As previously reported, the audit work is substantially complete. The Committee approved the accounts with any final changes to be shared with the Committee once the final points were cleared.
- 2.2 The statutory accounts for the Combined Authority are consolidated to include the accounts for West Yorkshire Police. Both organisations were required, in line with national guidance issued in the spring, to update their accounts for the revised disclosures arising from the additional information from the triennial valuation. This is now complete for West Yorkshire Police but work is still underway for West Yorkshire Combined Authority.
- 2.3 Mazars are continuing to address the revised pension position and expect to complete all of their work in early October 2023. As previously reported, the adjustments to the pension disclosures will have no impact on the results for the year.

- 2.4 It is proposed that final revised accounts and the updated report from the auditors be shared with the Committee when available. If there are material changes these will be brought to the January meeting for consideration and approval. The auditors will be in attendance at the meeting and will provide a verbal update.

2022/23 Audit of Accounts

- 2.5 The Committee is aware, from previous reports, of the delay to the conclusion of the 2021/22 audits and the impact that has had on auditor resource allocation to undertake the audit of the 2022/23 accounts.
- 2.6 It was always likely, therefore, that the audit of the 2022/23 accounts would not be able to take place until late summer/autumn and at this stage Mazars are still considering their approach to the audit. The usual planning document will therefore not be available until the January meeting of the Committee.
- 2.7 In line with a significant number of other local government organisations the Combined Authority has focussed on responding to the need to re-consider the 2021/22 accounts and ensure accuracy and attention to detail for the 2022/23 accounts, particularly given the likely timescales to start the audit work. Changes to 2021/22 accounts are likely to impact on 2022/23 accounts. In addition, there have been, and continue to be, resource and capacity constraints within the Finance team which have resulted in the need to prioritise other areas of work.
- 2.8 As a consequence of all of the above, draft financial statements are now expected to be complete no later than the end of October 2023 and will be brought to the January meeting of the Committee along with an update on audit timescales.

Financial Reporting and Audit in Local Authorities

- 2.9 A cross system statement on proposals to clear the backlog of local audit delays was issued in July and a follow-up letter was sent to all local authorities – attached as Appendix 1. This is clear that fundamental action is required to address the backlog of local audits across the sector. Proposals to introduce back stop dates by which audits must be concluded are under discussion with a consultation expected to be launched shortly. It is expected that in order to bring all outstanding audits to completion by a backstop date that audits would be limited in scope and/or receive modified opinions and potentially that some organisations would see very little audit work undertaken, in an attempt to ‘catch up’ and get back on track for the 2023/24 audits.

Proposed Fee Scale for 2023/24 Audits

- 2.10 Public Sector Audit Appointments (PSAA) is consulting on the proposed fee scale for 2023/24 audits. At this stage, it is expected that audit work under this fee scale will largely be undertaken from autumn 2024 onwards. However, as set out above there is currently a local audit system-wide discussion taking

place about the possible timetable for the audit work for 2023/24 and earlier years for which audit opinions are currently outstanding.

- 2.11 The consultation explains how PSAA proposes to calculate the audit fees which will make up the 2023/24 fee scale. The proposals involve managing the impact of a range of elements, including the additional fees now required for recurrent additional work, changes in local audit requirements (for example updated technical standards) and adjustments at individual bodies where local circumstances now require more audit work than previously. Consequently, the scale fee for each opted-in body better reflects the audit work required under the current Code of Audit Practice published by the National Audit Office and the regulatory expectations of the Financial Reporting Council (FRC). It is the intention that updating the fee scale in this way will have the benefit of making expected fees clearer for opted-in bodies much earlier in the audit cycle and reducing the volume of ongoing fee variations.
- 2.12 An update will be brought to the January meeting of the Committee following the 1st December 2023 deadline PSAA has to set the final 2023/24 fee scale.

Total Fees for 2023/24 Audits

- 2.13 PSAA has previously advised opted-in bodies to anticipate a major re-set of total fees for 2023/24, being an increase estimated in the order of 150% on total fees for 2022/23. They have now confirmed the increase required is 151%.
- 2.14 Whilst recognising the significant financial pressures on all types of local government bodies and understanding that any further cost pressure is unwelcome, PSAA has stated that the level at which they are proposing to set the 2023/24 fee scale is determined by both the audit work needed to deliver audits compliant with the requirements of the Code of Audit Practice, and market rates.

3. Tackling the Climate Emergency Implications

- 3.1. There are no climate emergency implications directly arising from this report.

4. Inclusive Growth Implications

- 4.1. There are no inclusive growth implications directly arising from this report.

5. Equality and Diversity Implications

- 5.1. There are no equality and diversity implications directly arising from this report.

6. Financial Implications

- 6.1. There are no financial implications directly arising from this report, although it is expected that audit fees will rise in the future and this will need to be reflected in future budgets.

7. Legal Implications

7.1. There are no legal implications directly arising from this report.

8. Staffing Implications

8.1. There are no staffing implications directly arising from this report.

9. External Consultees

9.1. No external consultations have been undertaken.

10. Recommendations

10.1. To note the position with regard to external audit work.

11. Background Documents

There are no background documents referenced in this report.

12. Appendices

APPENDIX 1 – Letter to local authorities on audit delays