



Oldham
Council

Report to Audit Committee.

Update on General Matters

Portfolio Holder: Cllr Abdul Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Low Carbon

Officer Contact: Anne Ryans - Director of Finance

Report Author: Mark Stenson – Assistant Director of Corporate Governance and Strategic Financial Management

Email: mark.stenson@oldham.gov.uk

1 November 2022

Reason for Decision

It is felt appropriate to bring to Member's attention the following:

- a) The consultation undertaken on the planned Scale Fee for the external audit covering the financial year 2022/23 which is the final year of the present Audit appointment period.
 - b) The likely increase in Scale Fees from the financial year 2023/24 arising from the current procurement of external audit undertaken by Public Sector Audit Appointments (PSAA). The full cost of this increase is unlikely to be met from any of the additional money Government had previously set aside in the 2022/23 Local Government Finance Settlement and the indicative Spending Review covering 2023/24 and 2024/25.
 - c) An update on the procurement exercise undertaken by the Public Sector Audit Appointments (PSAA) and the estimated financial impact on the Council.
 - d) An update on the wider position regarding the submission of Local Government Statement of Accounts by the Statutory Deadline of 31 July 2022 nationally (the final year of the extension period with the deadline reverting back to 31 May for the 2022/23 accounts).
 - e) An update on the recruitment of an Independent Audit Chair to this Committee.
 - f) The recent Chartered Institute of Public Finance and Accountancy (CIPFA) Publication on Audit Committees.
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- g) The recent report published by the Public Accounts Committee outlining its concerns about the quality of local audit on local authority accounts.

Executive Summary

This report sets out several matters impacting on this Committee in undertaking its governance role within the Council. It covers external audit matters, the production of local authority accounts and recent key publications which have been publicised. These are covered in Sections 2-4 of the report as detailed below.

Recommendation

Members note the matters detailed in this report.

Update on General Matters**1 Background**

- 1.1 There are a few items detailed in this report which need to be brought to the attention of the Audit Committee and these are presented in this report. In respect of the CIPFA publication on Audit Committees and the on-going consultation to appoint the External Auditor, this report supplements the information highlighted in the update report from the External Auditor.
- 1.2 In respect of the proposed appointment of the External Auditor, a confidential report is included elsewhere on the agenda highlighting the detailed proposal from PSAA to appoint the External Auditor for Oldham Council for the period 2023/24 to 2027/28. This will enable the observations of the Committee to be incorporated into the comments fed back by the Council.

2 External Audit Matters**Consultation on the proposed 2022/23 External Audit Scale Fee**

- 2.1 The PSAA undertook a consultation on the proposed methodology to calculate the Scale Fee for the financial year 2022/23. The consultation closed on 30 September 2022. The proposed methodology for calculating the fee was identical to that used in 2021/22 and the Council response was supportive of this methodology. Assuming a similar charge for the financial year, it is estimated that the basic Scale Fee will be £105,000 with an additional charge of £20,000 proposed for extra work required under the Local Code of Audit Practice produced by the National Audit Office. These additional costs have emerged since the Service was last tendered by the PSAA.

2023/24 – 2027/28 Scale Fee

- 2.2 On 3 October 2022, the PSAA outlined the headline outcome of their procurement exercise to appoint the External Auditor for 470 Local Authorities, Police and Fire Authorities (this equates to 99% of Authorities). In the press release it highlighted that the prices submitted by the firms tendering for the work had increased over those received for the 2017 exercise. It indicated that on average the proposed Scale Fee from the financial year 2023/24 would increase by an average of 150%. The PSAA was aware that this would increase the pressure on Local Authority budgets and has highlighted the fee increases to the Department of Levelling Up, Housing and Communities (DLUHC). As detailed in paragraph 2.1 of this report the basic Scale Fee for the Council is £105,000. An increase of 150% is estimated to increase the Council's external audit fee to £250,000 from the financial year 2023/24.
- 2.3 Within the 2022/23 Local Government Finance Settlement and the indicative Spending Review for 2023/24 and 2024/25, DLUHC was aware of the risk of costs increasing and set aside an amount of £15m to cover the additional costs of local external audit. With an increase of 150% on average for all Local Authority external audit fees, this extra money will not cover the full cost of the increase. If DLUHC does reimburse the full costs of external audit, it is likely this will be financed from the current resource allocation to DLUHC reducing the amount of grant distributed to Councils or directly by individual Councils.
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PSAA Procurement Update

- 2.4 As advised above, on 3 October 2023, the PSAA issued an update on the outcome of the procurement for the 470 Local Government, Police and Fire Authorities who agreed the PSAA would undertake the procurement of external audit on their behalf. This highlighted that the PSAA had secured a proposed auditor for 99.5% of these organisations. This includes Oldham, and, elsewhere on the agenda in the confidential section, are details of the proposed appointment for the Council. Overall, as detailed in the table below, it is proposed to appoint the following external providers with the following percentages of overall work.

External Provider	% of overall work
Grant Thornton LLP	36.00
Mazars LLP	22.50
Ernst Young LLP	20.00
KPMG LLP	14.00
Bishop Fleming	3.75
Azets Audit Services	3.25

- 2.5 Overall, there are two new providers entering the Local Authority external audit market. Bishop Fleming is a top 30 accountancy and audit firm based in the West Midlands and the Southwest. Azets Audit Services is a top 10 accountancy and audit firm with 80 offices nationwide and the firm has experience of auditing Scottish Councils.
- 2.6 It is interesting that Grant Thornton LLP remains the largest provider of audit to Local Government bodies. It is slightly disappointing that despite the fees charged increasing, that neither PricewaterhouseCoopers or Deloitte's have re-entered the market place. A private report elsewhere on this Agenda outlines the impact of the procurement on Oldham Council outlining the consultation on the detailed Audit appointment which is underway.

Update on Local Authority Accounts

- 2.7 A presentation by an Independent Consultant who had analysed the draft Statement of Accounts for 2021/22 for those Authorities which have published their accounts by the extended statutory deadline of 31 July 2022, has identified that 81 out of 321 Local Authority entities did not publish their accounts in accordance with the extended statutory deadline. This indicates a position whereby a significant proportion of Local Authorities are experiencing capacity issues in completing this task. With the change of deadline to 31 May 2023 for the completion of the 2022/23 accounts, it would not be unreasonable at this stage, to assume the number of Authorities who are unable to meet the future statutory deadline is likely to increase. This, combined with the information presented at paragraph 4.3, which highlights the pressures in achieving audit deadlines, indicates that the Local Government finance sector is experiencing some challenges.

3 Independent Chair

- 3.1 As agreed with this Committee an exercise has been undertaken to recruit an Independent Chair to the Audit Committee.
- 3.2 Two interviews were held with applicants who met the criteria and one of these applicants has accepted the post. This is currently going through the formal
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appointment process within the Council, and it is anticipated that by the next meeting this Committee will have an Independent Chair in place.

4 Publications

CIPFA Publication on Audit Committees

4.1 During the summer of 2022, CIPFA refreshed its publication on good practice for Audit Committees in Local Government. Overall, the document has 6 sections of which 5 are of interest to this Committee. The relevant sections are:

- Guidance for a Local Authority Member
- Guiding the Audit Committee
- CIPFA Position Statement for Audit Committees (2022)
- A self-assessment of Good Practice
- Evaluating the Effectiveness of the Audit Committee

4.2 Although not included in the current work plan elsewhere on the Agenda, it is considered sensible for the Assistant Director of Corporate Governance and Strategic Financial Management, to review this publication and, where appropriate, report back to this Committee and incorporate the work into the next update of the Committee's work programme.

Public Accounts Committee

4.3 The Public Accounts Committee has produced their regular report on the Whole of Government Accounts for the financial year 2019/20. This outlined the Committee's concerns about Local Authority audit and observed the "pandemic exacerbated failures in the local audit market with only 45% of 2019/20 Local Government Audits in England and Wales and just 9% of 2020/21 audits issuing an audit opinion within the statutory deadline". If this is combined with the findings reported in Section 2.4 of this report it highlights a sector with capacity issues in both producing the accounts and then auditing them.

4.4 In relation to the 2021/22 audit, due to the 2020 Code of Audit Practice, the Council's auditors have been required to issue a letter (attached as Appendix 1 to this report) highlighting a delay in issuing the Auditor's Annual Report.

5 Options/Alternatives

5.1 N/A

6 Preferred Option

6.1 N/A.

7 Consultation

7.1 N/A

8 Financial Implications

8.1 N/A

9 Legal Services Comments

9.1 N/A.

10 Cooperative Agenda

10.1 N/A.

11 Human Resources Comments

11.1 N/A.

12 Risk Assessments

12.1 N/A.

13 IT Implications

13.1 N/A.

14 Property Implications

14.1 N/A.

15 Procurement Implications

15.1 N/A.

16 Environmental and Health & Safety Implications

16.1 N/A.

17 Equality, community cohesion and crime implications

17.1 N/A.

18 Equality Impact Assessment Completed?

18.1 None.

19 Key Decision

19.1 N/A.

20 Forward Plan Reference

20.1 N/A.

21 Background Papers

21.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref: Background papers are included as Appendix 1
Officer Name: Mark Stenson
Contact: mark.stenson@oldham.gov.uk

22 **Appendices**

22.1 Appendix 1 Correspondence from Mazars on delay in issuing the auditor's report.



Cllr Islam
Audit Committee Vice Chair
Oldham Metropolitan Borough Council
Civic Centre
West Street, Oldham
OL1 1UT

Direct line: +44 (0)7721 234043
Email: Karen.murray@mazars.co.uk
Date: 30 September 2022

Dear Cllr Islam

Audit letter – Delay in issuing the Auditor’s Annual Report

The 2020 Code of Audit Practice requires us to issue our Auditor’s Annual Report within 3 months of issuing our opinion on the financial statements, and before 30th September. Where this is not possible, we are required to write to you setting out the reasons for the delay in an ‘audit letter’. For the purposes of compliance with the Accounts and Audit Regulations (2015), this letter constitutes the ‘audit letter’.

As a result of an extension to the accounts and audit timetable for 2021/22, our Auditor’s Annual Report will not be issued by 30 September 2022. We anticipate issuing this no more than three months after the date of the opinion on the financial statements.

Yours sincerely

Karen Murray
Partner

For and on behalf of Mazars LLP