



**Hampshire  
& Isle of Wight**  
FIRE & RESCUE AUTHORITY

## **HIWFRA Standards and Governance Committee**

Purpose: Noted

Date: **18 MARCH 2024**

Title: **EXTERNAL AUDIT UPDATE**

Report of Chief Financial Officer

### SUMMARY

1. The Authority is required to prepare and publish its accounts in accordance with the Accounts and Audit Regulations. The Authority's draft accounts for 2022/23 were published by the 31 May 2023 statutory deadline, however the national audit backlog has meant that the audit of the accounts has been delayed.
2. The purpose of this report is therefore to provide the Standards and Governance Committee with an update on the external audit of the Authority's accounts for 2022/23 and 2023/24.
3. A number of proposals have been put forward to address the audit backlog, the implications of which have been discussed with the Authority's external auditor, EY. In order to allow EY to focus on the timely reset of audit timescales it is likely that the auditor will focus on its VfM work for 2022/23 and the planning and completion of the audit of the 2023/24 accounts. As such, it is likely that the Authority will receive a modified audit opinion for the 2022/23 accounts. This opinion will be as a result of the impact of the national audit backlog and not due to any issues identified by the auditor with the accuracy or completeness of the Authority's unaudited 2022/23 accounts.
4. There are two other items on the agenda for this meeting relating to the external audit that will be presented by EY:
  - (a) The interim Value for Money report for 2022/23
  - (b) The audit planning report for 2023/24

## RECOMMENDATION

5. That the current position with the audit of the 2022/23 accounts and the implications of the strategy being proposed by EY for 2022/23 and 2023/24 be noted by the HIWFRA Standards and Governance Committee.

## BACKGROUND

6. The draft Statement of Accounts for 2022/23 was signed off by the Chief Financial Officer for publication on the statutory deadline of 31 May 2023, allowing the period of public inspection to commence on time.
7. The national backlog in audit work across the local authority sector however has meant that the audit of the accounts was not completed by the statutory deadline of 30 September 2023. Instead, the Standards and Governance Committee approved the unaudited accounts in September 2023 for publication alongside a notice explaining that the audit had not yet been completed. Alongside this, the committee received an [update](#) explaining the national backlog and the proposals to address the issues put forward by the Department for Levelling Up, Housing and Communities (DLUHC) in July 2023.
8. External auditors are also required to complete a Value for Money (VfM) assessment as part of the audit of the accounts. The Code of Audit Practice and associated guidance sets out how the auditor is required to report on whether an authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Further detail on the requirements including the approach being taken by the auditor in light of the audit backlog and proposals to address this is discussed in the interim 2022/23 VfM report, which is a separate agenda item.
9. Ahead of auditing the Authority's accounts, the external auditor produces an audit planning report, setting out the proposed audit approach and scope. This report from EY relating to the plans for the 2023/24 audit is a separate agenda item.

## PROPOSALS TO CLEAR AUDIT BACKLOG

10. A joint statement was issued on 8 February 2024 setting out cross-system proposals to clear the national audit backlog and put the local audit system on a sustainable footing.
11. A number of cross-system proposals have been developed and agreed by DLUHC, the Financial Reporting Council (FRC), the National Audit Office (NAO), the Chartered Institute of Public Finance and Accountancy (CIPFA),

the Institute of Chartered Accountants in England and Wales (ICAEW), and Public Sector Audit Appointments (PSAA).

12. The joint statement noted that as at 31 December 2023 there were 771 audit opinions outstanding across the country and states that:

*“Timely, high-quality financial reporting and local audit of local bodies is a vital part of our democratic system. Not only does it support good decision making by local bodies, by enabling them to plan effectively, make informed decisions and manage their services, it ensures transparency and accountability to local taxpayers”.*

13. A package of measures has been proposed by DLUHC to address the issues, split into three phases:

- Phase 1: Reset involving clearing the backlog of historical audit opinions up to and including the financial year 2022/23 by 30 September 2024. Where auditors are unable to fully complete audit work by this date, a modified/disclaimed opinion would be issued to conclude the audit based upon the work that the auditors had been able to complete.
- Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles. Where auditors are unable to fully complete audit work by this date, a modified/disclaimed opinion would be issued to conclude the audit based upon the work that the auditors had been able to complete.
- Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

14. DLUHC has issued a [consultation](#) on phases 1 and 2. The NAO is consulting in parallel on changes to the Code of Audit Practice required to implement the proposed approach to support auditors to meet backstop dates and promote more timely reporting of their work on value for money arrangements. In addition, the CIPFA LASAAC Board is [consulting](#) on a number of temporary amendments to the Code of Practice for Local Authority Accounting to reduce the burdens on finance teams and auditors.

#### IMPLICATIONS OF THE PROPOSED CHANGES FOR HIWFRA

15. The DLUHC consultation closes on 7 March and therefore at the time of writing the final outcome of the consultation was unknown. The NAO and CIPFA consultations had also not closed at the time of writing. The Chief

Financial Officer has however been in discussion with EY about the likely implications of the proposals as put forward and EY's proposed approach.

#### Backstop dates

16. The DLUHC consultation proposes a Phase 1 backstop date of 30 September 2024 for the completion of all audits up to and including 2022/23. Discussions with EY have however highlighted that in order to best support the reset of audit timescales EY the auditor will focus resources on completing the 2022/23 VfM work and the planning and completion of audit work on the 2023/24 accounts. This approach will result in a disclaimed audit opinion for the 2022/23 accounts, which will also impact the 2023/24 accounts as the auditor will not be able to rely on audited prior year figures.
17. The Authority received an unqualified audit opinion in 2021/22 (the first year of the combined Hampshire and Isle of Wight Fire and Rescue Authority) and under the approach proposed by EY the disclaimed opinion on the 2022/23 accounts would be the result of the impact of the national audit backlog rather than any identified issues with the quality or accuracy of the published statement of accounts. The communication (nationally and locally) and the audit opinion will make this clear to readers of the accounts.

#### Changes to the CIPFA Code

18. Two temporary changes to the CIPFA Code for 2023/24 and 2024/25 are being proposed to support the reset of the local audit system. The consultation will close on 28 March 2024.
19. These changes will impact the Authority's accounts and relate to the simplification of requirements for the revaluation of operational property and the reduction in disclosure requirements relating to pension assets and liabilities.
20. Property, Plant and Equipment (PPE) assets and net pension liabilities are the two largest items on the Authority's balance sheet and both involve estimation and judgement by specialists. Although significant numbers on the Balance Sheet, statutory accounting requirements for local authorities mean that changes in valuation do not impact the Authority's revenue budget or council tax requirement.
21. The simplification of the requirements in these two areas is therefore likely to be beneficial in reducing officer and auditor resource requirements without negatively impacting the revenue budget, albeit due to the timing of the consultation work has already been in progress by external specialists relating to the 2023/24 accounts.

## VALUE FOR MONEY REPORT 2022/23

22. The auditors are required to complete a Value for Money (VfM) assessment as part of the audit of the accounts. The Code of Audit Practice and associated guidance sets out how the auditor is required to report on whether an authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
23. The interim commentary on VfM arrangements for 2022/23 is a separate report on the agenda and will be presented by EY.

## RISKS ANALYSIS

24. External audit of the financial statements is an important element of the overall assurance provided to the Standards and Governance Committee. The absence of a full external audit for one year does therefore present some risk. However, there are a number of factors that reduce the risk:
  - (a) The accounts are prepared by a specialist, professionally qualified finance team. The team have the capacity and technical skills to maintain an up-to-date knowledge of the requirements and changes to the Accounting Code. The Chief Financial Officer signs off the accounts as a true and fair view of the financial position of the Authority.
  - (b) The Shared Services Partnership is audited under standard ISAE 3402, which examines the integrity of financial systems and processes. This is a separate activity to the external audit and has continued.
  - (c) There is a system of internal control within the Fire and Rescue Service and Authority that has continued to operate effectively during the year. The Authority (via the Standards and Governance Committee) receives and approves the Annual Governance Statement each year.
  - (d) Internal audits have continued and progress on audits and resulting actions have been regularly reported to the committee.
  - (e) The interim value for money assessment has been completed and is covered as a separate item on this agenda. This covers arrangements for ensuring economy, efficiency and effectiveness in the service.
25. These mitigations reduce the risk of the absence of a full 2022/23 audit.

## AUDIT PLANNING REPORT 2023/24

26. The auditors produce an audit planning report setting out the proposed audit approach and scope in accordance with requirements. This year, the report needs to take into consideration (a) the national audit backlog and (b) the proposals to reset the system and their implications.
27. The outline audit planning report for 2023/24 is a separate report on the agenda and will be presented by EY.

## SUPPORTING OUR SAFETY PLAN AND PRIORITIES

28. Ensuring that funding is appropriately accounted for is vital for all public sector organisations. The accounts and audit process is an important pillar in this and helps provide transparency, accountability and assurance to members of the public on the Authority's financial arrangements in support of the delivery of the Safety Plan.

## RESOURCE IMPLICATIONS

29. The fees for external audit are set by Public Sector Audit Appointments (PSAA) Ltd, the national appointing person for principal local government and police bodies for audits. A scale fee is set by PSAA based on known audit requirements and the auditor is then able to propose changes to the audit fee (a 'scale fee variation') where audit requirements have changed.
30. It is likely that the proposed approach will see a reduction in audit fees (i.e. a fee below the scale fee) for 2022/23 given that a full audit will not have been completed by EY.
31. The audit of the accounts for 2023/24 is the first under the new five year contract and includes a significant increase in audit fees. The higher scale fee has been built into the budget, although there is a risk of higher than budgeted costs if additional audit work is required that PSAA determine is outside of that covered by the scale fee. This will not be known fully until the audit is completed but is likely to include work associated with the new auditing standards ISA 315 *Identifying and assessing the risk of Material Misstatement*.

## IMPACT ASSESSMENTS

32. This report presents an update on the status of the 2022/23 and 2023/24 accounts and audit process. Any financial decisions taken during the years in question and any future decisions relating to the delivery of services will be subject to separate impact assessments.

## LEGAL IMPLICATIONS

33. The Accounts and Audit Regulations set out that the Authority's requirements in relation to its draft and audited accounts. The proposals set out by DLUHC include changes to the Accounts and Audit Regulations, with which the Authority will be required to comply.
34. The CIPFA Code of Practice on Local Authority Accounting sets out how the Authority must prepare its accounts. The Authority will need to ensure that its accounts reflect any changes as a result of the current consultation.

## CONCLUSION

35. A number of well publicised national issues have resulted in a significant backlog in local authority audits. The Authority published its draft accounts for 2022/23 on 31 May 2023 in accordance with the statutory deadline, however the national audit backlog has meant that the audit of the accounts has not yet taken place.
36. The Department for Levelling Up, Housing and Communities (DLUHC) has worked with other system partners on proposals to address the backlog. A consultation on the first two phases of these proposals closes on 7 March 2024 and is accompanied by proposed changes to both the CIPFA Code and audit code.
37. The national backlog and the proposals to address the issues have an impact on the Authority. This report sets out the potential implications of the proposals.
38. The report recommends that the Standards and Governance Committee notes the current position and the likely implications of the proposed audit approach.
39. The auditor's interim Value for Money report for 2022/23 and audit planning report for 2023/24 are separate agenda items to be presented by EY.

## BACKGROUND PAPERS

Standards and Governance Committee [Statement of Accounts 2022/23](#)

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