

Title of Report	External Audit 2020/21 and 2021/22 Progress Report
For Consideration By	Audit Committee
Meeting Date	19 April 2023
Classification	Open
Wards Affected	All
Group Director	Ian Williams, Finance and Corporate Resources

1. **Introduction**

- 1.1 The Audit progress report from the Council's external auditors sets out the position on the audit of the Council's and Pension Fund's financial statements for the years 2020/21 & 2021/22.

2. **Recommendation**

- 2.1 The Audit Committee is recommended to note the contents of the reports.

3. **Reasons for decision**

- 3.1 The external auditors are required to report to "those charged with governance" any matters arising from the annual audit of the Council's Financial Statements and those of the authority's Pension Fund before they can issue audit opinions on those statements.

4. **Background**

Policy context

- 4.1 The Audit Completion Reports (ACR) discharge the external auditor's responsibility under the International Standards of Auditing (ISA) (UK & Ireland) 260, communication of audit matters with those charged with governance. The draft ACR in respect of the Council's Financial Statement 2020/21 was presented to the Audit Committee in October 2022 along with the Final ACR for the Pension Fund. The ACRs for the Council's Financial Statements and those of the Pension Fund for 2021/22 are anticipated in the coming weeks and will be reported to the June 2023 Audit Committee.

Equality impact assessment

- 4.3 For this report, an Equality Impact Assessment is not applicable.

Sustainability

- 4.4 Not applicable - This report contains no new impacts on the physical and social environment.

Consultations

- 4.5 Not applicable

Risk assessment

- 4.6 Details of the auditor's assessment of risk associated with the audit of the accounts will be outlined in the ISA260 Report.

5. External auditor's Audit Progress Report

- 5.1 At the date of this report our audit of the 2020/21 statement of accounts (including the Pension Fund) is complete subject to finalising of procedures related to the infrastructure assets matter and the completion of concluding procedures by the auditors. The auditors anticipate issuing an unqualified audit opinion, and in accordance with the draft VFM commentary issued in January 2023, there are no Value for Money (VFM) matters to report. Our Auditor's Annual Report will be issued shortly after the audit opinion is issued.
- 5.2 While there has been significant progress in auditing the Council's accounts for the 2021/22 fiscal year, there are still a few audit procedures that are currently underway. Our team is actively working with the auditors to address any outstanding queries and ensure a timely resolution (see appendix 1, section 1).
- 5.3 Unfortunately, due to the protracted nature of the 2021/22 audit, a new national issue has arisen that may impact the timing of concluding the audit. The issue involves the Council's reporting of assets and liabilities related to its membership in local government pension schemes (the Hackney Pension Fund and LPFA). The draft accounts feature values derived from actuarial reports, which relied on estimates as of 31 March 2022, using information that was rolled forward from the last triennial review on 31 March 2019. However, on 1 April 2023, the Council received the latest triennial review from its actuaries, providing actual values as of 31 March 2022. These actual values are expected to be significantly different from the estimated values used for the draft accounts. As such, auditors cannot rely on the new triennial valuation until the Pension Fund auditor completes the necessary audit procedures on the supporting membership data. This is unlikely to commence until July 2023. This matter is currently being discussed at a national level and a resolution is being sought.
- 5.4 The auditors are presently in the process of preparing the Value for Money (VFM) commentary for 2021/22 and plan to deliver a draft to management by the end of

April 2023. As previously reported, the auditors have not uncovered any risks of significant weakness in VFM arrangements.

- 5.5 The Council has had one objection to the 2021/22 accounts made by a local elector concerning the Council's use of Penalty Charge Notices (PCNs) in the Mount Pleasant Lane area. Specifically, the objection was related to the Hackney (Mount Pleasant Lane Area - Mount Pleasant Lane, Southwold Road and Springfield Gardens) (Traffic Management and Parking) (Experimental) Order 2020 (referred to as "the Springfield ETO"). The objector requested that our auditors make an application to the Court for a declaration that the income generated by the PCNs was contrary to law. They claimed that the ETO did not prohibit the movement of vehicles along Mount Pleasant Lane as intended, rendering the PCNs issued for driving through the road closure ultra vires. Additionally, they asked our auditors to issue a public interest report on the matter
- 5.6 After reviewing the objection to the accounts, our auditors recommended under section 27(6) of the LAAA that the Council consider two actions: (i) issuing an apology for the unlawful issuance of PCNs and (ii) establishing a voluntary scheme through which members of the public can claim a refund for PCNs issued for breaching the Mount Pleasant Lane road closure. The Council has since decided to refund all PCNs issued for this location during the period when the Springfield ETO contained the error.
- 5.7 The auditors have yet to receive instructions from the National Audit Office in respect of the Authority's Whole of Government Accounts (WGA) submission and therefore are unable to commence work in this area until such instructions have been received.
- 5.8 Audit fees currently stand at £174k for the Council audit, and £19k for the Pension Fund audit, however, the Council audit fee is anticipated to increase for the following;
- PPE & IP valuations
 - Impact of Covid -19
 - Group accounts
 - Increased regulatory requirements
 - Code changes to value for money
 - Revised auditing standard on accounting estimates
 - Additional work to address enhanced risks
- 5.9 The external auditors will present their reports at the Audit Committee meeting and take any questions from members of the Committee regarding the audit of the accounts.

6. **Comments of the Group Director of Finance and Corporate Resources**

- 6.1 As previously noted, the statement of accounts for 2020/21, including the Pension Fund, has been completed, pending finalisation of procedures by our auditors. We regret that the matter has not yet been resolved, but we would like to emphasise that this delay is due to a nationwide issue related to infrastructure assets, which is affecting the finalisation of external audits across the country.

- 6.2 As set out above, the work to finalise the audit of the Council's 2021/22 Accounts is almost complete. We anticipate that the auditors will be issuing draft Audit Completion Reports for the Councils Financial Statements and those of the Pension Fund in the coming weeks. Again it is disappointing that the audit opinion remains outstanding due to the national issues around the local government pension schemes as mentioned in section 5.3 and also the much discussed resource issue in the external audit market.
- 6.3. This is the fourth year that Mazars have audited the Councils account following the reprocurement of external auditing services via the Public Sector Audit Appointments Ltd (PSAA). It is pleasing to note that a good working relationship has continued with the auditors and officers of the Council. Whilst we are not as far advanced in terms of the audit for 2021/22 as was anticipated by both ourselves and our auditors when their Audit Strategy documents for 2021/22 were presented to Audit Committee in October 2022, Mazars and officers are working hard to conclude the process in the coming weeks, subject to the guidance on infrastructure assets.
- 6.4 I would like to place on record my thanks to the auditors for the way they have continue to work with my Officers
- 6.5 I would also like to thank all those officers involved with the preparation of the Statement of Accounts for the hard work that they have undertaken.

7. Comments of the Director of Legal, Democratic and Electoral Services

- 7.1 Section 151 of the Local Government Act 1972 provides that 'every local authority shall make arrangements for the proper administration of their financial affairs and shall ensure that one of their officers has responsibility for the administration of those affairs.'
- 7.2 The proper administration of the Council's affairs includes the obligation on the Council to have its accounts audited in accordance with the Audit Commission Act 1998.
- 7.3 The Council's Constitution gives the Audit Committee responsibility for adopting the annual statement of accounts and for considering whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit which need to be brought to the attention of the Council.
- 7.4 Consideration of this report by the Audit Committee is in pursuance of the above mentioned obligations and is part of the Council's fulfilment of its duties.

Appendices

- 1 External Audit Update Report

Background documents

In accordance with The Local Authorities (Executive Arrangements) (Meetings and Access to Information) England Regulations 2012 publication of Background Papers used in the preparation of reports are required.

Description of document (or None)

None

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