

LONDON BOROUGH OF CAMDEN	WARDS: All
REPORT TITLE: External Audit completion letters for 2019-20 and 2020-21	
REPORT OF: Executive Director Corporate Services	
FOR SUBMISSION TO: Audit and Corporate Governance Committee	DATE: 4 April 2024
<p>SUMMARY OF REPORT: This report presents to the Audit and Corporate Governance Committee the audit completion letters of the external auditor, Mazars, for the 2019/20 and 2020/21 financial years.</p> <p>LOCAL GOVERNMENT ACT 1972 – ACCESS TO INFORMATION No documents that require listing have been used in the preparation of this report.</p> <p>CONTACT OFFICER: Peter Taylor Financial Reporting Manager 5 Pancras Square London N1C 4AG Telephone: 020 7974 6378 peter.taylor@camden.gov.uk</p>	
<p>RECOMMENDATIONS</p> <p>The Committee is asked to note the Annual Audit Letters from Mazars for the audits of the 2019/20 and 2020/21 financial years.</p>	
<p>SIGNED: Approved by Director of Finance</p> <p>DATE: 19 March 2023</p>	

1. Purpose of Report

- 1.1. The London Borough of Camden's external auditors, Mazars, are required to issue an Annual Audit Letter which summarises the important issues arising from the audit of the council following completion of the audit of each financial year.
- 1.2. Within its terms of reference the Audit and Corporate Governance Committee has responsibility for overseeing internal and external audit, and specifically to consider the external auditor's annual letter, annual audit plans, and other relevant reports reporting to those charged with governance.
- 1.3. This report presents to the Committee the Annual Audit Letters from Mazars relating to the 2019/20 and 2020/21 financial years, following completion of these audits.

2. Background

- 2.1. Camden has experienced significant difficulty and delay with the audit of accounts for the 2019/20 and 2020/21 financial years. A number of corrections were needed to Camden's accounts in 2019/20, most notably around the valuation of its Properties, Plant and Equipment (PPE), which required changes to classification of properties and subsequent professional revaluation. The national issues within the local audit sector, which have been well reported and discussed by the Committee, exacerbated the delays and resolution.
- 2.2. Limited audit resource and availability, together with wider local government issues including accounting for infrastructure assets, the emergence of Pension Fund liabilities requiring renewed actuarial valuations, and the potential impairment of schools and other buildings with the identification of Reinforced Autoclaved Aerated Concrete (RAAC), all contributed to an unprecedented delay in completing audits across the country, described by the Levelling Up Committee as a crisis in local audit.
- 2.3. The extended duration of the audits created their own issues for Camden locally, with turnover of staff both at Camden and Mazars. The delays have impacted on the production of subsequent accounts, with the backlog in reporting requiring simultaneous production of accounts whilst managing audits across multiple years, creating further complexity and pressures on resourcing.
- 2.4. The accounts and audit opinions for the 2019/20 and 2020/21 financial years have now been finally signed. The completion of work on the audits drawing a line from which both Camden and Mazars will be able to move forward, albeit with significant challenges in addressing the backlog in accounts.

Accounts Backlog

- 2.5. In the last few years, there has been a sector wide problem across local government with production of timely audited accounts. The background and history to this was reported to the committee in September 2023 setting out the

reasons for the local audit backlog, and in particular noting the increasing length and complexity of local government accounts, disbanding of the Audit Commission, lack of capacity in the audit market, pandemic and subsequent lockdown and the absence of a system leader as some of the key reasons for the build up of unsigned accounts.

- 2.6. As suggested in the report, new proposals have now been brought forward by sector leaders, which are currently being consulted on. The proposed approach has been set out as a three-stage process 1) Reset, 2) Recovery and; 3) Reform.
- 2.7. The **Reset** stage concerns outstanding financial statements for all years up to and including 2022/23 and proposes a statutory deadline of 30 September 2024 by which authorities must publish audited accounts. Auditors would have to provide audit opinions, whether unmodified, modified or disclaimed by this date. The reasons for modified or disclaimed audit opinions would have to clearly state if this was due to the backstop limiting the assurances gathered, rather than identification of financial issues.
- 2.8. The **Recovery** stage concerns all financial statements up to and including 2027/28 and aims to prevent a backlog from building up again, through building up assurance. A series of rolling statutory backstop dates for audited accounts are to be published as follows:
- 2023/24 accounts - 31 May 2025
 - 2024/25 - 31 March 2026
 - 2025/26 - 31 January 2027
 - 2026/27 - 30 November 2027
 - 2027/28 - 30 November 2028
- 2.9. The final **Reform** stage would look to address the systemic challenges to embed a more robust framework for timely financial reporting, building on recent reviews such as the Redmond Review including:
- Establishment of the Audit, Reporting and Governance Authority (ARGA) as a system leader for local audit.
 - Reforms to financial reporting requirements to better reflect the needs of users.
 - Implementation of recommendations from the thematic review of operational property asset valuation requirements by HM Treasury.
 - Publication of the planned Local Audit Workforce Strategy by the FRC to increase the number of skilled local auditors.
 - Completion of a Workforce Strategy by CIPFA and the Local Government Association for local government finance teams, particularly on Financial Reporting.
 - Development of a Local Audit Qualification by CIPFA to increase the number of key audit partners.
- 2.10. By their nature, the Reset and Recovery stages are short term, tactical measures which are, arguably, more straightforward to implement. The Reform stage requires a higher degree of collaboration and the alignment of strategic

purpose across a range of diverse stakeholders in a complex environment. This stage represents the most ambitious (and most needed) level of change, but also comes with the highest degree of uncertainty and greatest risk of inertia.

Consultation

- 2.11. In total three consultations are planned, with a focus on the first two stages, reset and recovery. A DLUHC led consultation looking for responses to amending the law to introduce the backstop dates. A NAO consultation seeking views on changing the Code of Audit Practice to amend the requirements on auditors (primarily in meeting the backstop dates and providing VFM opinions) and a CIPFA consultation on updating the Code of Practice on Local Authority Accounting for local authority account preparers.
- 2.12. The first two consultations went live in February and closed on **7 March 2024**. The third was launched by CIPFA shortly after, with a closing date of **28 March 2024**. Sector leaders have committed to issuing final proposals as soon as possible, this is expected to be in April 2024. Camden are responding to all three consultations and whilst officers are supportive and understanding of the reasons for the backstop dates, they are keen to accentuate the following in our responses:
- The current system which saw the Audit Commission abolished and replaced with private sector audit contracts has broken down, with costs driven down to unsustainable levels, insufficient audit expertise and resources, and a general undermining of the value of local government audit.
 - The need for all system players to have clear responsibilities and commitment to the proposals for them to be effective.
 - A need to review the role of Public Sector Audit Appointments to ensure more effective contract management with auditors.
 - Reflecting that these proposals are part of a wider trend of diluting generally accepted audit practice in local government, such as with capital flexibilities and capitalisation directives, as fixes for issues arising from issues with local government financing.

Potential Backstop implications for Camden

- 2.13. The council has made positive steps to now conclude the accounts for 2019/20 and 2020/21 but given the wider pressures in the audit market there may not be sufficient time or capacity in the system to finalise both 2021/22 and 2022/23 accounts by the hard backstop date of September 2024. We await the outcome of the formal consultation and discussions are ongoing with Mazars and other councils about how we can make best use of limited external auditor time. However, if the backstop dates are approved, we may have to prioritise completion of 2021/22 accounts by September 2024, meaning that 2022/23 accounts could be issued with a disclaimer due to the backstop limiting the assurances gathered, rather than the identification of any specific financial issues.

- 2.14. It should be noted that while there have been significant delays in the conclusion of our two most recent audits, there has been nothing to suggest that we are in a precarious financial position or that there is anything of fundamental concern with our financial position. Regardless of the eventual position on the 2022/23 accounts, the council will still prepare and publish a complete set of accounts for that year.
- 2.15. A fuller update and audit plan will be provided to this committee in June 2024 following closure of the consultation and outcome of the discussions with our external auditors.

3. Annual Audit Letters

- 3.1. The external auditor issues a report of their findings with their audit opinion for both the Council and Pension Fund accounts. These are then included within the Statement of Accounts and republished as the final audited Statements.
- 3.2. Simultaneously the auditor issues a signed Letter of Completion to those charged with governance confirming the conclusions they have reached, and listing any adjustments that have been incorporated into the accounts during the audit process. Again, there are separate letters for both the Council and Pension Fund audits.

2019/20

- 3.3. The audit letters from Mazars are presented in **Appendices A** (2019/20 Council letter) **and B** (2019/20 Pension Fund).
- 3.4. The Statement of Accounts and Draft Audit Completion Reports for the 2019/20 financial year were presented to Committee at its meeting on 15 June 2023. At that point the Committee approved the Statement of Accounts and delegated authority to the Executive Director Corporate Services to agree any final amendments to the Statement as a result of the audit closure processes.
- 3.5. The audit letters for 2019/20 follow on to report final changes that were brought to light during the audit closure process during final review. In the Council letter these comprise:
- additional disclosure required to be added to the Related Party Transactions note
 - correction to the Dedicated Schools Grant note to split balances brought forward
 - correction to Trust Funds note
- 3.6. The letter also notes that there was no Accounting Policy on Expected Credit Losses, and no comparator figures (prior year) within the Reconciliation of Financial Liabilities note. These will be in place in 2021/22.
- 3.7. The letter also reports an identified internal control matter, being that rent reviews on commercial properties have not all taken place within an internal policy-set three year period. On discussing with the Commercial Property Lead

this was acknowledged, and additional resource is being brought in to manage a backlog in commercial rent reviews.

- 3.8. Within the Pension Fund there are two unadjusted misstatements reported, being:
- Extrapolation of an over-recovery of contributions in the year, and
 - Variance in investment balance between the reported custodian value and the final fund manager reported value for Partners Group as a result of timing
- 3.9. The Pension Fund letter also makes reference to missing disclosures relating to Level 3 Property investments, those being investments whose valuation is derived with the least observable market data or pricing. These property investments were classed as Level 3 for that year only as a result of Covid and the impact on available market data.

2020/21

- 3.10. The audit letters from Mazars are presented in **Appendices C** (2020/21 Council letter) **and D** (2020/21 Pension Fund).
- 3.11. The Statement of Accounts and Draft Audit Completion Reports for 2020/21 were presented to Committee on 21 September 2023. Again, the Committee approved the Statement of Accounts and delegated authority to the Executive Director Corporate Services to agree any final amendments to the Statement as a result of the audit closure processes.
- 3.12. The following items were subsequently identified during the final audit review processes, and adjusted in the accounts:
- additional disclosure added to the Related Party Transactions note (as with 2019/20)
 - correction to Trust Funds note (as identified in 2019/20)
 - correction of Covid grant misrepresented as Housing Benefit Subsidy
- 3.13. Additionally, in concluding their opinion on Value for Money (VFM), Mazars consider there to be a significant weakness in arrangements for ensuring that effective processes and systems are in place to support statutory financial reporting requirements. This is disappointing to receive and is being taken very seriously by senior officers.
- 3.14. For 2020/21 there is a new VFM reporting requirement whereby the auditor will present a separate report to the council laying out their findings in this space. Mazars note that the council has taken action to improve the timeliness and quality of its draft statement of accounts, and that a number of the issues identified within the 2019/20 accounts have been addressed. Nonetheless, a weakness in financial reporting has been reported, and they recommend that in order to address this the council should:
- address the agreed internal control recommendations;
 - implement a robust quality control procedure for its draft accounts; and

- improve the responsiveness to audit queries.
- 3.15. In response to these recommendations, Council officers have discussed with Mazars the approach for dealing with audit queries for the 2021/22 audit and have agreed a set of principles for both parties. Camden have also already appointed an additional interim staff member charged with undertaking quality review and providing robust assurance on the draft accounts and supporting papers.
 - 3.16. The internal control recommendations from the 2020/21 audit completion report have been acted on already, and these will be demonstrated to the auditor during the course of the 2021/22 audit.
 - 3.17. The letter lists the adjustments and unadjusted misstatements from draft to final accounts. These include changes implemented in 2019/20 that, due to holding multiple accounting years open, have also impacted on the 2020/21 accounts, as well as adjustments required due to changes in reporting guidance.
 - 3.18. Within the Pension Fund there are two unadjusted misstatements reported, being variances in investment balance between the reported custodian value and the final fund manager reported value for Partners Group and Harris, as a result of timing.
 - 3.19. The Committee is asked to note the four Annual Audit Letters from Mazars which concludes the work on the 2019/20 and 2020/21 financial years.

4. Finance Comments of the Executive Director Corporate Services

- 4.1. This is a report of the Executive Director Corporate Services and his views are incorporated into this report.

5. Legal Comments of the Borough Solicitor

- 5.1. The Borough Solicitor has been consulted and has no comments to add.

6. Environmental Implications

- 6.1. There are no environmental implications.

7. Appendices

Appendix A: Mazars Audit Completion Letter 2019/20 – Council

Appendix B: Mazars Audit Completion Letter 2019/20 – Pension Fund

Appendix C: Mazars Audit Completion Letter 2020/21 – Council

Appendix D: Mazars Audit Completion Letter 2020/21 – Pension Fund

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