Audit Committee Report

Milton Keynes City Council

6 December 2022

PUBLIC SECTOR AUDIT APPOINTMENT (PSAA) – PROCUREMENT OUTCOME, 2022/23 AUDIT FEE SCALE & TECHNICAL UPDATE ON INFRASTRUCTURE ASSETS

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Exempt / confidential / not for publication	**No**
Council Plan reference	**Not in Council Plan**
Wards affected	**All wards**

Executive summary

This report provides an update to the Committee on a number of emerging items including:

- The PSAA Outcome of Procurement and appointment of KPMG to MKCC from 23/24;
- Increase in Audit Scale Fees; and
- Technical Update on Infrastructure Assets.

1. Decision to be made

1.1 To note this report and expected increase in the Scale Fees of the 2022/23 Audit of the Statement of Accounts.

2. Background

2.1. The Committee will already be aware that the Council together with over 99% of other local authorities opted to join the PSAA external audit procurement programme for 2023/24. The PSAA has now completed this work and confirmed appointments to all eligible bodies. As well as being responsible for appointing an auditor to eligible bodies, the PSAA also set the audit scale fees and agree changes to these. A report was presented to Audit Committee in September updating the committee on the consultation of this process. This report provides an update on the current position and the next steps required.

2.2. This report also updates the Committee on the progress with the national issue which has impacted about half of all Council's in respect of Infrastructure Assets. The Committee will recall that the Council opted to accept a qualification by reasons of limitation of scope for the 2020/21 accounts due to a lack of progress on a resolution and changes to key personnel within EY.

PSAA Outcome of Procurement and appointment of Auditors from 2023/24

2.3 Under regulation 13 of the Appointing Persons Regulations the PSAA must appoint an external auditor to each opted-in body having consulted on their proposal.

2.4 KPMG was successful in winning a contract in the procurement, and the PSAA are proposing to appoint this firm as the auditor of Milton Keynes City Council for five years from 2023/24.

2.5 One of the 'Big Four' audit firms, KPMG operates in over 100 countries with over 230,000 employees providing audit, assurance, tax, consulting and advisory services to the public and private sectors. KPMG employees around 16,000 people in the UK. Within the public sector they have 14 active Key Audit Partners supported by a team of 100 staff and a range of specialists. KPMG undertakes a range of other public sector audit work including Local Audits in the NHS, central and local government audit work on behalf of NAO and Audit Scotland and a range of external audits in the education and social housing sectors. Prior to 2018, KPMG were appointed auditors to a range of local government bodies through previous audit procurement exercises.

2.6 A consultation for the change in auditors closed on Monday 14 November 2022. The Council are not aware of any conflicts of interest which would prohibit this appointment. The plan is to write to all bodies to confirm the Board's final decision on the appointment of the auditor on or before 31 December 2022.

Increase in Audit Scale Fees

2.7 Following the outcome of the consultation of the 2022/23 Audit Scale fee which the committee was updated on in September 2022, the bid prices that were received in the procurement of the Auditors reflects a significant increase in the fee compared to the previous procurement in 2017. At this stage the PSAA advice to bodies is to anticipate a major re-set of total fees for 2023/24 involving an increase of the order of 150% on the total fees for 2022/23. The actual total fees will depend on the amount of work required. MKCC have added a £0.203m pressure into the draft 2023/24 budget.

2.8 The PSAA will consult formally on scale fees for 2023/24 in Autumn 2023 and will publish confirmed scale fees for 2023/24 for opted-in bodies by 30 November 2023.

Technical Update on Infrastructure Assets

2.9 Earlier this year, the government became aware of an issue relating to the reporting of infrastructure assets, which has led to delays in local authority audits.

2.10 Accounting for infrastructure assets in local government has not historically been considered to be an area of significant audit risk. However, recent concerns have been raised by local government auditors that some authorities are not applying component accounting requirements with respect to these assets. Specifically, due to significant historical information deficits, many authorities are unable to provide sufficient evidence of the value of replaced components of infrastructure assets when they are derecognised. This is particularly the case in relation to roads, though the issue is likely to impact on all infrastructure assets. This may also lead to issues relating to the reporting of gross historical cost and accumulated depreciation. This has led to delays to audit completion for many authorities.

2.11 In response, CIPFA and CIPFA LASAAC agreed to try to assist in the resolution of the issue through changes to the Code of Practice on Local Authority Accounting (the Code). Despite every effort being made to find a solution through the Code, an accounting solution has not been found that satisfies all stakeholders for the amount to be derecognised.

2.12 In September 2022, the Director of Finance and Resources in consultation with the Chair and Vice Chairs of the Committee, agreed that we should proceed to finalise the 2020/21 accounts where the Accounts were approved with a Qualified Audit Opinion by reason of Limitation of Scope on the specific issue of Infrastructure assets. This reflected the continuing uncertainty on this issue, timeframe for a resolution and the impending departure of the Councils External Audit Director. Without this decision, the Council would have needed to do additional work, incur delays and costs with a new Director needing to recommence the review process for the audit, which other than this issue had already been completed.

2.13 On the 27 November the Department for Levelling Up, Housing and Communities announced the government is proposing to put in place a statutory accounting override and seeking stakeholder views on the proposal for accounting for infrastructure assets in the short term.

2.14 The proposed statutory override will allow the Council to derecognise assets at nil value if there is not sufficient evidence to calculate the amount that would need to be recognised. However, if evidence is available then we can derecognise the asset in line with component accounting rules as per the CIPFA Code of Practice. A prior period adjustment would not therefore be needed, instead additional disclosures would be required in the accounts on how we have accounted for our additional expenditure on our infrastructure assets.

2.15 The override is expected to be in place until 2024/25, by which point we would expect CIPFA to issue guidance on the treatment of infrastructure assets going forward. A decision is now awaited, after which we will need to agree what changes / disclosures will be required for 2021/22.