



Report to the General Purposes Committee, 23 July 2020

Audit for the year ended 31 March 2020

External audit progress and fees update, as at 14 July 2020

Audit status

As at the date of drafting this report, we have the following progress to report:

Main audit

The agreed start date for the main audit remains 3 August.

Non-current asset valuations work ahead of the main start (to allow for lead-in time for valuation challenges) has been slightly deferred because of resource pressures in Enfield, but we mutually agreed that it was preferable to have a later start with working papers fully completed and checked than earlier without this assurance.

There have been issues with the Council's Sharepoint infrastructure causing delays both for officers in uploading documentation and for BDO in accessing them. If this persists then there will be delays in the audit timetable. An alternative solution, potentially using a new BDO tool "Inflow", is being investigated.

For valuations, we received on 14 July:

- PPE note and supporting workings that feed into the PPE note.
- Asset register (excel format)
- HRA valuation as at 31 March 2020
- Knight Frank valuation report as at 31 March 2020-(covers Investment Properties (rural portfolio))
- Avison Young draft valuation report as at 31 March 2020 (operational assets, Surplus assets and part of Investment properties)
- Spencer Craig valuation report as at 31 December 2019 and material changes report as at 31 March 2020-(covers retail portfolio).

We are now able to update sampling and select top up samples for PPE additions, disposals and transfers, although we are prioritising valuations work at the moment.

On 15 July we will witness ledger data extraction that will feed into our data analytics work.

Work is already ongoing for both collection fund income and collection fund expenditure. There are no queries at the moment.

Pension fund audit

We commenced the Pension Fund audit on the agreed start date of 8 June - the earlier scheduling is enabled because there were few issues with the Pension Fund accounts last year and helps allow us to focus on the main audit in August and September.

Generally good progress:

- Work ongoing in respect of Contributions and Management expenses (both virtually complete); Other benefits and transfers; Related parties; and Triennial data cleansing
- A handful of errors have been identified that officers have agreed to adjust for. We are waiting for the adjusted disclosures so we can review and confirm.
- Investments work has commenced, and supporting explanations have been obtained for variances between working papers and fund managers reports. We are waiting for bank confirmations, and these and deposits will be tested with investments.
- We haven't been able to start journals work because we were unable to access SAP at the point requested because the ledger was still open for main accounts preparation work. We will now test journals for both the main Council and Pension Fund at the same time.

Conclusion

Good progress being made. Some delays in working papers and logistical issue to resolve, but currently still on track.



Fees update

2018/19 overrun fees

The total value of overrun fee for 2018/19 was £55,900. A full and detailed analysis has been provided to officers. In summary, the key elements were:

- Valuations: £25,800, of which £14,100 directly related to beacon valuations issues. Other components included issues with surplus assets, assets under construction, buy-backs, data inputs for valuations, revaluation classifications, and depreciation.
- Financial statements: £12,000, including issues relating to mapping of ledger codes, the need to duplicate testing relating to group accounts and income and expenditure statement analyses, some technical issues and multiple versions checking with the volume of adjustments necessary.
- Extra testing: £10,600, including McCloud and GMP pensions cases, land registry issues, bad debts, financial instruments and the additional audit reporting requirements
- Extended testing (necessitated by errors identified): £7,500, including payroll, journals, income, expenditure, schools and exit packages.

Officers' significant efforts in redesigning the closedown arrangements and accounts preparation, including enhanced quality checking and the replacement of the asset register and a thorough overhaul of valuations generally should mitigate against recurring overruns in most of the areas referred to above. However, there will be additional audit costs in 2019/20 linked to the new asset register implementation and the increased volume of HRA beacon valuations (referred to below).

Future years

Context

PSAA wrote to s.151 officers on 12 December 2019, on 28 February 2020 and on 30 April 2020.

“the immediate impact [of three separate reviews commissioned by the Government] is clear - significantly greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work across all sectors and this includes local audit. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so to enable them to meet the current expectations.”

2019/20 proposed additional fees

We have proposed the following increases in fees for 2019/20 based on issues known at the planning stage:

Main:

- Recurring elements (e.g. PPE and Pensions approach and Groups etc.): £17,570
- Non-recurring (i.e. this year only - extra HRA beacons work and triennial pensions): £8,650
- However, there are certain things (e.g. new asset register, restatements etc.) where we can't estimate because we do not know the extent of changes needing auditing

Pension Fund:

- Recurring elements (e.g. Investments testing, actuarial assumptions): £6,880
- Non-recurring (triennial data cleansing audit work): £6,000

The recurring elements will be proposed as Scale fee adjustments.

2020/21 anticipated fee variation

The new NAO Code of Audit Practice is introduced from 2020/21. This changes the approach to use of resources and reporting of audit findings. The Auditor Guidance Notes relevant to implementation of these requirements are currently subject to consultation. We therefore cannot yet determine resource and fee implications, although the expectation is more resource and at senior levels of the team.

We will update the Committee when we have more information.