

## London Borough of Enfield

### General Purposes Committee

15 October 2020

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**Subject:** Update on the Council's External Audit  
**Cabinet Member:** Cllr. Maguire  
**Executive Director:** Fay Hammond

#### Key Decision:

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#### Purpose of Report

1. This Report sets out the progress on the Council's External Audit. It reminds members on the wider landscape of auditing but focuses attention on the key items that need to be audited for the accounts to be closed before the statutory deadlines.

#### Proposals

2. It is recommended that the issues referred to in the report are noted.
3. It is recommended that the Committee note that both parties are still targeting the statutory deadline of 30<sup>th</sup> November but that the deadline is very tight.

#### Reason for Proposals

4. To ensure that members are updated on the progress in the External Audit and aware of the risks to a successful Audit within the statutory deadlines.

#### Relevance to the Council's Corporate Plan

5. The External Audit is process of testing and challenging the Council's Accounts for truthfulness and fairness as well as its internal processes and governance so that Auditors can assure itself that the Council is a viable 'going concern'.

#### Background

6. The Council managed to close the Accounts by the statutory deadlines of July 30<sup>th</sup> under the cloud of COVID-19 and included substantial improvements, including:
  - An implementation of a new Asset Register
  - A review of the entire asset base
  - A new Trial Balance and the Accounts produced directly off them
7. However, the lack of resource has caused problems during the Audit. Responses to requests have been consistently slower than required and BDO shifted some resource away from the Council due to this. Even

spreading out samples to non-Corporate Finance has its limits because a lack of experience and review meant some responses did not directly answer the question asked. However, while attempts were made till mid-July to identify external resources, the Council was unsuccessful and trying to incorporate new staff into the team this late in the day was assumed to be counter-productive.

8. Government extended the statutory deadlines for the Account Audit Completion till 30th November, in light of the Pandemic. This was due in part to stresses on Councils to produce the Accounts while resources were delivering new services to residents and arranging emergency payments to businesses and residents.
9. Equally, the Audit firms were under a great deal of pressure as auditing was delayed for the NHS and they have had to continually shift limited resources across multiple audits.
10. Since Enfield's specialist resources for Closedown left, the Council has been stretched and the week's grace that BDO provided to allow the Council to catch up with the outstanding queries was gratefully received and caused the backlog to reduce by almost two thirds.
11. London Borough of Enfield has generated particular local challenges for BDO and the Council. It was building the Accounts from raw system data (far safer Audit-wise but a completely new approach), implementing a new Asset Register and restating much of the Accounts due to changes in the underlying values and economic lives of the assets. Arguably, the resource this would require was under-estimated, as the Council has struggled to keep up with audit queries and sometimes, insufficient quality assurance has taken place, generating extra work for auditors.

### **Main Considerations for the Council**

12. **Pension Fund**
13. The majority of the Audit for the Pension Fund appeared to be complete, besides a revised IAS 19 report at the time of writing this report. The Council was updating a few key notes for additional details and the main Accounts were being updated for changes since the valuation information available as at 31<sup>st</sup> March 2020. It is worth noting that audited valuations for many hedge funds only arrive in June and July, so that they could not have been included in the Accounts previously. The Auditors have also noted that our custodians, Northern Trust have not responded quickly enough and the Council will need to manage this relationship better in the future.
14. Reflecting on ways in which to improve the Audit process, it is important more than ever that better use is made of Interim Audit. A specific week agreed between the Council and BDO to review Pension Administrative queries between November and February selected before the beginning of the Audit would have been invaluable. The Council will need to plan better in the future.
15. Similarly, while the Council improved the speed of producing the Accounts by having a 9 month review of the coding and reviewing the balances, in the future moving to quarterly accounting would significantly reduce the time to produce the Accounts at year end. The Council will also examine how to

transform the work with its custodian, Northern Trust, so that together they are able to produce quarterly reports closer to quarter end.

16. The Council intends to move the Pension Fund Accounts onto a separate ledger and review the coding of the Pension Fund, which should make it easier to test journals, as it is not tied to waiting for the main Accounts ledger to close. This delayed journal testing during the Audit. Furthermore, in the future, it has been agreed, a trainee Accountant will spend the last 8 months of their first year, supporting the team during Closedown and External Audit.
17. **Main Account Sampling**
18. Overall, the main Accounts are mid-way through the Audit as the majority of the technical queries and review of the Asset Register have not yet taken place in detail yet and sampling is not complete. Therefore, there is a great deal of work to complete in a short time and it is concerning understandably to both parties.
19. Sampling for the main Accounts should be completed over the coming weeks, however, that is significantly later than anticipated and it is only due to BDO granting us a week to catch up, that this is the situation. Three main items are outstanding on this list are outstanding at the point of the report writing: Housing Benefit, Leaseholder queries and Investment Property responses. While, the former is delayed due to the availability of key employees, the other two items stem from historic problems that LBE has not yet resolved.
20. Many of the core system reports upon which the Accounts were produced historically did not have detailed breakdowns that match the balances on the Accounts, which are based on summarised system reports. During these Accounts, the Accounts Payable Account, the Accrual Control Account and the core Northgate reports, proved to be difficult to provide detailed breakdowns and it took more than a week for the two former items to be produced, slowing down the closing of queries.
21. While breakdowns of core reports have been a problem for years, a number of these items were resolved before Closedown but the Leaseholder debtors position (Northgate) now needs a specially built report. This all indicates a requirement for better system reports and the Council needs to ensure that the new housing system has the requisite reports at Civica CX go-live date and not face the same issues at External Audit in 2020/21.
22. Responses on Investment Properties have not been sufficiently quick. That is partially due to the challenges on a stretched Property team but it is also a reflection of chasing cash transactions through bolt-ons to a main system with a lack of standard identifiers. Going forward, the Council will need to review its system set-ups and examine if there are easier ways for auditors to review transactions, as this is clearly very time consuming and frustrating from the point of the view of the auditors. This is likely to take another week to complete.
23. **Main Account Valuations & Asset Register**

24. The Council updated a new Asset Register in 2019/20 and as noted previously, there was a very large revision in the 2018/19 Accounts of £100.178m in relation to Property Values. This was driven by a change in the Useful Economic Lives of Infrastructure Assets, as they were set at erroneous lengths.
25. While Property, Plant & Equipment has been looked at through the lens of the valuations in the Accounts, they have not been examined yet in detail through the process of reviewing the restatements of 2018/19 and the Balance Sheet for 2017/18, nor have the PPE audit queries yet been reviewed. Therefore, there is a lot of work remaining in this area.
26. Early meetings over HRA Valuations and the process for reviewing the beacon valuations have taken place and early challenges have taken place. However, the detailed work was delayed due to problems with the beacon sheets, which are a detailed evidentiary breakdown of asset details and comparator data for concluding valuations, as they did not always match to the main Asset Valuation file. This was discovered during the Audit by BDO.
27. A review process had taken place by the Council during Closedown, however, the document, that was used as a control against which to check the veracity of the beacon sheets. was presented as an extract of the main file. This internal review process took a week, with multiple changes of beacon sheet documents.
28. During the Audit, BDO demonstrated that this review process had not worked, as the control file was not what it was presented to be. This wasted 1 month of the Audit and a week of Audit resources. The Council then had to re-review every single beacon for 3 periods (March 19, Nov 19, March 20) with the valuer, and this took 3 weeks to complete, delaying the Audit of these items by at least 1 month.
29. It is important to note that none of the beacon sheets involved changing the underlying valuation of the HRA Assets and instead reflected on poor copying practices by the valuers. However, without accurate sheets, it is very challenging, if not impossible, to Audit the HRA beacon valuation process.
30. **Next Stages in the Audit**
31. The next steps in the Audit Process will involve further review of the Meridian Water valuation approach and the restatement of the Assets. An additional document has been commissioned by the Council and provided to the Auditors on this matter to provide additional comfort on the classification concerns of why it is treated as Surplus Assets in the Accounts. Retrospectively, it should have been arranged for the start of the Audit, even if there was no change in the Accounting Treatment.
32. Meetings have been scheduled with the four different valuers to allow the auditors to ask additional points and a more detailed note on the Prior Period Adjustments has been requested and that will be produced for review for BDO prior to Committee.

33. BDO will also need to satisfy themselves on the HRA beacon valuation. Although the overarching approach is vastly more thorough and detailed, they still need to check that there are no errors and secondly that the market valuation adjustment at Year-End, is highly likely to be removed, changing the net valuation of the HRA assets in the Accounts in a positive direction, requiring an Audit Adjustment.
34. Similarly, BDO will need to review all the remaining estimates in light of Covid-19, including Pension Liability calculations with particularly focus on IFRS 9's forward-looking approach to Bad Debt Provisions.
35. The Group Accounts were provided on time but they have not yet been reviewed in detail.
36. The Council still anticipates an unqualified set of Accounts and is focusing on resourcing responses to the remaining Audit queries in time for the 26<sup>th</sup> November General Purposes Meeting.
37. **Safeguarding Implications**
38. None in the context of this report.
39. **Public Health Implications**
40. None besides the impact of managing the Audit during a Pandemic.
41. **Equalities Impact of the Proposal**
42. None in the context of this report.
43. **Environmental and Climate Change Considerations**
44. None in the context of this report.
45. **Risks that may arise if the proposed decision and related work is not taken**
46. None in the context of this report.
47. **Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks**
48. None in the context of this report.
49. **Financial Implications**
50. There are no direct financial implications beyond that an unqualified set of Accounts demonstrates that the Council is a 'going concern' and that any audit changes may materially affect the underlying net worth of the entity.

51. Nevertheless, any delay in the Audit and the additional work already agreed in relation to reviewing the new Asset Register will inevitably add to costs.
52. **Legal Implications**
53. The responsibilities for the framework within which local authority audits are conducted is the Local Audit and Accountability Act 2014. The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the 2014 Act. Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. A Code of Audit Practice came into force on 1 April 2020, after being approved by Parliament. The new Code applies to audits of local bodies' 2020-21 financial statements onwards: The detailed statutory Auditor Guidance Notes (AGNs) that will support the new Code are being drafted.
54. **Workforce Implications**
55. None in the context of this report.
56. **Property Implications**
57. None in the context of this report.
58. **Other Implications**
59. None in the context of this report.
60. **Options Considered**
61. Not relevant in the context of this report.
62. **Conclusions**
63. The Council
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Date of report: 6<sup>th</sup> October 2020

## Appendices

## Background Papers