

London Borough of Enfield

General Purposes Committee

26 November 2020

Subject: Update on the Audit of the 2019/20 Statement of Accounts

Cabinet Member: Cllr. Maguire

Executive Director: Fay Hammond

Key Decision:

Purpose of Report

1. This report sets out the progress on the Council's External Audit. It reminds members of the wider landscape of auditing and focuses attention on the key items that need to be audited for the Accounts to be closed. It notes the reasons for the delays.

Proposals

2. General Purposes Committee to note that there has been a delay to Council and BDO meeting the statutory deadline of 30th November 2020. The expectation is that the Council's accounts will be signed off with an unqualified opinion.

Reason for Proposals

3. The Council is required to keep members updated on the status of the Audit. The Council will be reporting that it will not meet the statutory deadline.

Relevance to the Council's Corporate Plan

4. The Council's Plan is delivered through resilient finances. The external Audit is a process of testing and challenging to ensure the Accounts present a true and fair view of the Council's financial position.

Background & Progress to Date

5. In the update report to General Purposes Committee on 15th October 2020, officers were still aiming to meet the statutory deadline date of 30th November 2020. Despite best intentions, officers have been unable to respond to audit sample requests in the required timescales and have struggled to deal with the volume and complexity of the outstanding queries. At the time of the Committee, a two week pause was agreed to move the outstanding queries forward, however, that proved to not be enough time to generate sufficient traction.

Pension Fund

6. During this period, it has been important to prioritise the Pension Fund Accounts audit. Due to the Triennial Review, which is the three yearly revaluation of Pension Fund liabilities, the Pension Fund audit has required a higher level of scrutiny, especially around the quality of the data on individual member entitlements. Most years, the Pension Fund questions focus on the investments primarily and the Council's questions focus on the liability for future entitlements for members (IAS 19 Pension Fund Liability) but every three years, the Pension Fund undertakes a Fund level assessment of its liabilities.
7. As the Triennial Review took place based during the 2019/20 financial year, BDO are required to undertake a greater level of audit to ascertain that the Funding Strategy was formulated on a sound basis of data and that the liability calculation appears to be sound, even if there is a separate Pension Fund regulator with primary responsibility for this item. There have been a significant number of detailed queries on the differences between the submissions to the actuaries and the Accounts. Overwhelmingly, these differences reflect different requirements (cashflow versus accrual accounting), however, the auditors need to delve into the details to ensure that there are both adequate controls and that the valuation was conducted appropriately and based on a quality evidential basis of data.
8. Additionally, due to Covid-19, the Council has had to request a new IAS 19 report with updated asset and liability calculations. Traditionally, the Council has not updated the liability for any transfers in or out but simply rolled forward the valuation with updated asset and liability assumptions. However, in 2019/20, there was a large academy transfer of over 200 members, which reduced the Council's pension fund liability by a non-trivial amount, so the process needs to be updated to reflect these transfers and a revised calculation has been produced. Members will be updated on the status of these items at the Committee.
9. It is intended that all Pension Fund queries are either responded to or reviewed by the time of the General Purposes Committee.

Sampling and Current Audit Queries

10. Progress has been made, especially with reference to Property, Plant & Equipment (but not valuation) and journal queries. However, auditors are still reviewing these items and follow-up challenges may still occur.
11. The following items are outstanding and are anticipated to be completed by the time of the General Purposes Committee:
 - Follow up questions on grants, income
 - Finalising Creditor Response
 - Revised IAS 19 Note
12. The Council also intends to ensure that officers are ready to support Collection Fund and the HRA Beacon challenges to match key officer availability in BDO.
13. Closing off the main Creditor Query has taken somewhat longer than anticipated. The main challenges have been the time required to obtain core system reports and missing evidence. To date, one item has been found to have been wrongly accrued but it was below our trivial limit.

14. There is also a Value for Money component to the external audit. BDO have already been provided with the Medium Term Financial Plan, Budget Tracker and Treasury Management Strategy in order to undertake this work. BDO are also reviewing Meridian Water, as the Council's key strategic project, it is standard practice for the External Auditor to ensure they understand the impact on the Accounts and seek additional assurance. This work is underway but may give rise to follow up questions, possibly of a technical nature.

Audit Items Yet to be Reviewed

15. The Council has arranged a series of meetings with valuers to allow the auditors to ask technical review questions and clarify details on specific asset valuations. Spencer Craig, Strutt & Parker and Avison Young will be asked a variety of queries and key technical points will be examined. Knight Frank have already responded to the original queries. The Council will be starting the Audit on Meridian Water when the other valuation items have been completed.
16. The HRA Statements and Notes are being reviewed internally before BDO review it next. The Council is also re-providing a new system report to match the leaseholder debtors and creditors figure at year end.
17. Bad Debt Provisions need to be reviewed in light of more recent data. Under IFRS 9, bad debt provisions have a forward-looking approach, but the challenge is that while historical rates are a solid base point, the impact of Covid-19 is difficult to assess because commentators have a wide variety of forecasts on economic recovery and the likelihood of further lockdowns.
18. Equally, there are a number of smaller notes, such as Member Allowances, Remuneration and the like that will need to be audited by BDO. None of these represent a lot of work individually but collectively they add a significant volume of activity not yet undertaken.

Resourcing

19. Whilst the Council met the statutory deadline for the draft Accounts, it was experiencing resourcing issues and a need for major improvements to the Accounts. The Council lost two individuals with the specialist local government accounting skills before Covid-19. Despite attempts to find alternative candidates into late July, no resource was available on the market, leading to an unsustainable reliance on two key existing officers. It is worth noting that recruitment of the Chief Accountant is underway.
20. The team prioritised the Accounts but the lack of wider specialist resource has also contributed to the resourcing issue. The two officers above are also the specialists in Tax and other technical accounting matters, all of which have required frequent input during the Pandemic.

Next Steps

21. The Council has very recently recruited an interim Chief Accountant and Deputy Chief Accountant, experienced specialist staff to essentially replace the resource that was lost prior to Covid-19. They will join the team at the end of November/start of December and efforts will be made to ensure these staff are fully brought up to speed as soon as possible.

22. The Council is trying to implement a culture of 'getting it right first time' and ensuring responsibility and understanding across the entire Finance function for producing the Accounts. This means a greater focus on internal review of working papers and further training across the team.

Overarching Timetable

23. The Council is reviewing the overarching timetable for the Accounts. The Council wants to have the interim officers in place before it commits to any further dates. It is also worth noting that BDO will be taking leave over the last half of December to return refreshed. However, the final items are outstanding:
- Pension Fund Investments & Liabilities, Collection Fund, anticipated to be completed by end of November
 - HRA Statement & Notes
 - Valuation Queries on Investment Properties,
 - Smaller Notes & Follow Up Queries
 - Technical Queries from BDO
 - Final Quality Review Process by BDO

Further Update on the Audit Environment

24. There is no question that the Audit environment has changed and it is much tougher than in previous years. Relatively few councils have finished their audits. A quick confidential survey has been undertaken and in London, 10 out of the 23 responders are expecting to meet the November deadline. The level of sampling and review has been far more detailed than in previous years and while no major audit adjustments (beyond ones related to Covid-19) have been considered at present, the review is not complete.
25. This tougher recent environment is evidenced by the report by the Financial Reporting Council (FRC) on local government audit and two audit firms on local government finance, Mazar's and Grant Thornton, the Council's previous auditors, were required to undertake a root and branch review of their practices. BDO are clear that they will have a standard that ensures that they are not regarded in a similar light and no such challenge came their way because of the standard of the audits, which were reviewed by the FRC.
26. Particular areas for focus in the financial statements audit were:
- valuation of property (including investment property)
 - multi-employer pension deficits
 - occurrence and completeness of expenditure
 - first year audit procedures
 - the impairment of receivables
 - the fraud risk assessment and response thereto.
27. As expected, there is a recommendation to increase External Audit fees going forward. BDO and other audit firms need to cover costs of an

increasingly complex and high quality benchmark audit and the current fee arrangements are clearly insufficient. In the past, audit firms employed large numbers of accountants with local government expertise; there are currently insufficient volumes of these people in the UK market.

Safeguarding Implications

28. None in the context of this report.

Public Health Implications

29. None besides the impact of managing the Audit during a Pandemic.

Equalities Impact of the Proposal

30. None in the context of this report.

Environmental and Climate Change Considerations

31. None in the context of this report.

Risks that may arise if the proposed decision and related work is not taken

32. None in the context of this report.

Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks

33. None in the context of this report.

Financial Implications

34. 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.

35. 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.

Legal Implications

36. 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.

Workforce Implications

37. None in the context of this report.

Property Implications

38. None in the context of this report.

Other Implications

39. None in the context of this report.

Options Considered

40. Not relevant in the context of this report.

Conclusions

41. In conclusion, although the draft statement of accounts was delivered on time, and a number of improvements have been made to the process this year, the audit review stage of the process has not been delivered on time. A contributing factor to this is lack of team resources, this has now been addressed through the recruitment of interim staff and action being taken to put a realistic timetable agreed with BDO to complete the final sign off stage. The accounts are expected to be unqualified.

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Appendices

None

Background Papers

None