

London Borough of Enfield

General Purposes Committee

04 March 2021

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 updates members on the progress of the external audit of the Council's 2019/20 accounts, in the context of challenges faced by local authority audits in general and by the Council in particular. 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.

Proposal

2. General Purposes Committee to note that although the 30th November 2020 statutory deadline for audited accounts has not been met, the Council is still expected to have its accounts signed off with an unqualified opinion, and to note progress that has been made in resolving issues facing the Council.

Reason for Proposal(s)

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

Relevance to the Council 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 and Progress to Date

5. Previous reports to the Committee have reported the missing of the 30 November 2020 statutory deadline for completing the 2019/20 audit, despite best efforts, the main reasons having been a lack of resourcing on the part

of the Council and the knock-on implications, as a result, on the audit team completing their work. With the audit now progressing, it is still the expectation that the 2019/20 accounts will be unqualified.

Resourcing

6. A general nationwide shortage of available staff with skills in technical local authority accounting has meant that the Council has been unsuccessful in its attempts to seek additional support for the HRA and other roles. However, since the last meeting, the permanent Deputy Chief Accountant has started work on 15th February 2021. Along with the interim Chief Accountant and other interim staff, the increase in technical accounting knowledge and skill is raising standards through bolstering the quality assurance processes and the upskilling of permanent staff. This is helping to complete the 2019/20 audit successfully and deliver on the commitment to quality financial reporting within statutory deadlines in 2020/21 and beyond.
7. The second wave of the Covid-19 pandemic continues to have an impact on key staff and is slowing down progress.
8. BDO Resourcing – BDO’s audit team was fully resourced and booked for an agreed period to complete the audit of the Council’s main and Pension Fund accounts so as to meet the statutory publication deadlines. Due to the delays previously reported to this committee, and BDO agreeing to withdraw from the audit to give the authority time to respond to queries, their staffing has had to be revisited, effectively re-booking the audit. Whilst all efforts were made to achieve continuity, the delays have led us into a period of pre-booked annual leave and other client commitments for the BDO team, thus affecting the availability of staff, resulting in some unavoidable changes to their team.
9. The severity of the second wave of the Covid-19 pandemic, the third national lockdown and consequent school closures have had a significant impact on resourcing at both the Council and BDO, with key staff already having succumbed to illness which has resulted in additional delays to the work plan.
10. The consultation on extending the statutory reporting deadlines for 2020/21 and 2021/22 closes on 1 March 2021. It is expected that the Accounts and Audit Regulations 2015 will be amended to extend the audit deadline to 30 September from 31 July. Also, the fixed public inspection period dates are being removed and replaced with a requirement to publish draft accounts on or before the first working day in August, with a requirement to publish an explanatory note on the Council’s website, should the date not be met. The changes will allow the flexibility to publish draft accounts earlier, where possible.

Prior Period Adjustments (PPA)

11. In preparing the 2019/20 accounts, the Council restated the 2018/19 comparative figures to correct errors in the prior year audited accounts

mainly involving (but not confined to) accounting for non-current assets. Following external audit scrutiny, the lower value adjustments have been reversed and corrections put through the 2019/20 accounts instead.

12. Since the last meeting on 14 January, the Council and the auditors have reached agreement on the remaining two prior period adjustments relating to the correction and restatement of all categories of the Council's fixed asset register and a smaller item relating to the Meridian Water project. The Council has now submitted the changes, which are in the process of being reviewed by BDO and further queries are being discussed. The conclusion of this work will provide a solid starting point for audit work on valuation of 2019/20 property, plant and equipment to proceed.
13. With the improvements in Council resourcing and the return of audit staff from annual leave, other non-asset related audit items have progressed in the meantime, with outstanding queries being reduced by more than 50%, taking into account new and follow-up queries that have arisen whilst advancing the audit.
14. Prolonged staff sickness continues to hamper progress. However, the target date for completing the audit is still March 2021. This will allow the Council to concentrate its efforts on completing the 2020/21 accounts and audit within statutory deadlines.

Pension Fund Accounts

15. The Pension Fund audit is substantially complete and a full report is included on the agenda of this meeting. There was a need to revise the account downward by some £19m due to the pandemic, as stock markets experienced severe volatility in the month of March 2020. The Global custodian used February 2020 prices for all the illiquid assets; ordinarily using February prices would not have resulted in significantly material differences. However, due to the significant depression of asset prices, those investment valuation prices were affected and had to be significantly revised downwards. There was also the need to adjust the account for some omitted accrued incomes and management fees misclassified as rebate. All these adjustments have been made to the accounts and have an overall impact of some £17m to the revised Pension Fund Statement of Accounts, compared to the first draft of account.

Safeguarding Implications

16. None in the context of this report.

Public Health Implications

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

Equalities Impact of the Proposal

18. None in the context of this report.

Environmental and Climate Change Considerations

19. None in the context of this report.

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

20. 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

21. None in the context of this report.

Financial Implications

22. There are no direct financial implications beyond an unqualified set of Accounts demonstrating that the Council is a 'going concern' and the material effect that any audit changes may have on the underlying net worth of the entity.

Legal Implications

23. 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

24. None in the context of this report.

Property Implications

25. None in the context of this report.

Other Implications

26. None in the context of this report.

Options Considered

27. Not relevant in the context of this report.

Conclusions

28. Although the statutory audit deadline has been missed, considerable progress has been made in adequately resourcing the Council's financial reporting function with the right level of knowledge and skill to complete the 2019/20 audit successfully and deliver improvements to the 2020/21 closing of accounts and audit process and embed the necessary good practice and high standards for 2021/22 and beyond. Despite the second wave of the pandemic and third national lockdown continuing to affect staffing adversely, the 2019/20 audit is still expected to be completed in March 2021.

Report Author: Matt Bowmer
Interim Director, Finance & Commercial
Matt.Bowmer@enfield.gov.uk
020 8379 5580

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Appendices

None

Background Papers

None