

## London Borough of Enfield

### General Purposes Committee

30 June 2021

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**Subject:** Update on the Council's and Pension Fund External Audit for 2019/20 and Progress on 2020/21

**Cabinet Member:** Cllr. Maguire

**Executive Director:** Fay Hammond

**Key Decision:** No

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#### **Purpose of Report**

1. This report sets out the progress on the audit of the Council's Main Accounts and Pension Fund Accounts for 2019/20 and also provides an update on the work underway to produce the Council's Accounts for 2020/21.

#### **Proposals**

2. General Purposes Committee notes:
3. The overall context to the Statement of Accounts and audit environment.
4. The progress towards sign off of the Statement of Accounts 2019/20 and
5. The current progress in producing the Statement of Accounts 2020/21 on time.

#### **Reason for Proposals**

6. These are key financial statements for the Authority, and it is essential that members are kept regularly updated on progress.

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

7. The External Audit is a process of testing and challenging the Council's Accounts for fair view as well as its internal processes and governance so that Auditors can be assured that the Council is a viable 'going concern'.

#### **Overall Context**

8. Since the last meeting the Government's Public Accounts Committee has met to consider the Audit Commission report on the Timeliness of Local Auditor Reporting on Local Government. (<https://www.nao.org.uk/report/timeliness-of-local-auditor-reporting-on-local-government-in-england-2020/>)
9. At this meeting, it was confirmed that the Government's view was that the "PSAA ... should continue with the procurement of local government audit." The PSAA are currently consulting on the re-procurement of the next Local Government contract. The audit recruitment market and capacity remain a national issue, two firms currently hold 70% of the value of this national contract (Grant Thornton

and EY). Enfield opted into this arrangement, along with almost all local and police authorities, over 500 nationally. This means that BDO is assigned by the PSAA until 2022/23 and that over the coming months, the GPC will need to consider if the Council wishes to continue to participate in this national contract going forward.

10. The Government has also confirmed that a new regulator will replace the Financial Reporting Council (FRC), overseeing public and private sector auditing practices nationwide will be strengthened with powers over local government audit. The new regulator, the Audit, Reporting and Governance Authority (ARGA), will contain a standalone local audit unit bringing all regulatory functions into one place to coordinate what the government described as a "new, simplified local audit framework".
11. Last month it announced £15m to support councils with additional costs in audit fees, and recently consulted on the distribution of this funding. It is also consulting on improving flexibility on setting audit fees and has extended the deadline for when councils must publish their audited accounts.
12. However, as previously reported, the outcome is that local authorities have until 1 August 2021 to produce draft accounts and these need to be audited and signed off by 30 September. The 1 August is a realistic deadline for local authorities but the 30 September deadline for the audit firms to conclude their work is a national issue. At the end of May, external auditors still had 5% of 2018/19 and 30% of 2019/20 audits incomplete which along with little interim work being undertaken for 2020/21 means that they will have to plan their work well beyond the 30 September deadline. The implications for Enfield are set out below.
13. The Council has direct control over the quality and the timeliness of the accounts submitted to ensure that the audit process is as smooth as possible, however, it has no control over the capacity of BDO, the externally appointed auditors to be able to meet the deadlines set.

### **Statement of Accounts 2019/20**

14. The Council's final accounts were presented to and approved by General Purposes Committee on 22 April 2021. The accounts were subject to final review by BDO and there was outstanding work for the Council to provide the Beacon data supporting the HRA valuations. BDO decided to leave the Enfield audit and put it on hold to concentrate on health audits from the start of May so the outstanding work and review could not be concluded and was put on hold; Health Commissioning Body work requiring sign off by 15 June and Providers by 30 June.
15. Further, as reported at the last GPC, in the ISA260 report, BDO required changes to the Council's Annual Governance Statement 2019/20 and require this to be addressed and brought back to General Purposes Committee for approval before the main accounts can be signed off.
16. The Finance Team has been continuing to work with the Council's HRA property valuers over the past month to ensure that all of the individual Beacon Sheets, over 400 for each of 2018/19 and 2019/20 are 100% without error to ensure a rapid turnaround with BDO on their return. The Team has been keeping the BDO Audit Partner and Manager apprised of progress albeit they do not have the resource available to assess the work being undertaken at this stage as planned.

17. The AGS 2019/20 is being revised and will be brought to the 4 August GPC meeting for approval.
18. The BDO resources are set to return from the start of July with a mix of senior and assistant manager resource being available to conclude the review work and to sample and review the output of the Beacon work, a detailed plan has been provided by BDO. This will then be subject to internal quality review by BDO and the availability of this resource is currently being assessed, this is just a case of planning in the resource, BDO do not anticipate this will present an issue. A progress update will be provided on the 4<sup>th</sup> August General Purposes Committee, it is unlikely that this will final stage of the 2019/20 external audit be concluded ahead of the next meeting of and it may be that an additional meeting will be required.

### **2020/21 Closedown Update**

19. The Ministry of Health and Local Government MHCLG consulted with Local Government and other key stakeholders including all of the major audit firms earlier in the year on the statutory deadlines for draft and audited accounts for 2020/21. The outcome is that local authorities have until 1 August 2021 to produce draft accounts and these need to be audited and signed off by 30 September.
20. The national capacity and timeframe challenges for all audit firms, also applies to BDO and it is likely that Enfield's audit work will be scheduled to be undertaken across September and October and into November. A detailed timetable will be produced once the 2019/20 audit is complete and BDO will be in a position to give a verbal update at the meeting on 30 June.
21. The Council has a detailed timetable to produce its draft accounts by 1 August and will have the accounts, working papers and the appropriate transaction listings to enable the auditors to select samples all available on this date. The final statements are actually scheduled to be complete in early July which gives an extended period of quality review to be undertaken ensuring the drafts accounts are of a higher standard.
22. Overall, there have been delays in the work programme for closing 2020/21 due to the Corporate resource being focussed on 2019/20 beacon work but the team is still on course to have the draft accounts available as above.
23. As at 21 May, all accruals were in the ledger. This was later than planned but there is greater assurance with their quality with Accruals Panels being in place. Similarly, all provisions have been produced but were posted to the ledger 4 June with quality review undertaken by the Head of Corporate Finance and sign of from the S151 Officer. This has been a more comprehensive exercise than in previous years with a greater appreciation of potential legal and HR liabilities.
24. Three of the valuations have had challenge sessions to reduce the risk of future audit challenges. This was an improvement from 2019/20 and a more detailed challenge took place in 2020/21. The final valuation reports have been received for these. However, Strutt & Parker have been very much focussed on finishing 2019/20 and therefore, this is the most significant risk to 2020/21 accounts in that the timing of the 2020/21 report could cause delay the Accounts due to resourcing at the valuers' end. However, the groundwork has very much been

done with the work in 2019/20 whereby all 400 beacon properties were physically inspected and the 2020/21 work being desk based.

25. The Collection Fund has had unique challenges in 2020/21. This is because the Covid-19 Grant expenditure was routed via the Civica system to speed up payments to residents and businesses. A full reconciliation has been very recently concluded but finalisation of the Collection Fund accounting is also later than originally planned. The team has made use of CIPFA support for 2020/21 providing a more robust closure and also upskilling and development of the team.
26. Grant accounting was identified as a major area of weakness in 2019/20, with entries in the Accounts incorrectly coded, leading to numerous audit queries. This position has been significantly improved this year, every item on the Grant register has been reviewed by Corporate Finance and business partners in revenue and capital are being challenged over detailed backing and coding choices. This has been a significant undertaking as there are approximately 150 individual lines on the register and the work was concluded on 11 June. The improvement in this area cannot be overstated and as well as improving the quality of the Council's external report, this will have a very positive impact on audit work.
27. The final items that were posted to the ledger were the capital financing transactions. This has had a knock-on impact on the Minimum Revenue Provision calculation which was completed mid June.
28. The draft final Outturn was originally scheduled to be available for 4 June and that is now complete and subject to final review and will be reported to Cabinet on 7 July 2021.
29. Of the outstanding work, Balance Sheet Justifications (BSJs) is a key area of focus currently. This area has historically been weak and ensuring they are of appropriate quality reduces misstatements in the Accounts. This is currently the main focus of the Corporate Finance team, who are working across the entire Finance team. There is a quality review process whereby each of the Balance Sheet Justification forms are checked by both the manager and a Quality Assurance Panel, more details of which are in the accompanying paper, which responds directly to the ISA 260.
30. The Asset Register has yet to be updated due to the CIPFA consultant's lack of availability. The Consultant is currently working with the Finance Team and the position is being kept under review. The Council will be recruiting an officer to regularly update the Register, rather than relying on the consultant in the future.
31. Technical Accounting Entries, both revenue and capital, such as creation of assets and IAS19 are overdue because the Outturn was marginally later than planned and because of the time spent on Balance Sheet Justifications and Grants. At this point, this is not affecting the accounts timetable overall because of review time being spent earlier, rather than later, in the timetable. Timetable progress is monitored weekly by the Section 151 and Deputy Section 151 Officers to ensure that the Accounts are still delivered to deadline.
32. The Pension Fund Accounts are running slightly behind time due to finalisation of the 2019/20 accounts and the work of the team supporting the Pension

Committee and Board, but reconciliations are progressing, and this time will be recovered.

33. The Narrative Statement is being started as the Outturn is largely finalised. It is being led by the Section 151 Officer.
34. The main statements, notes and Group Accounts are yet to be started but that has already been accounted for in the timetable. The draft accounts will, therefore, be available and published in line with the statutory deadlines.

### **Historical Context of Audit Environment**

35. There is no question that the Audit environment has changed, and it is much tougher than was previously the case. The Redmond Review has done much to raise the profile. Government is now consulting on higher audit fees to reflect the level of resourcing required to deliver audits to standard. This has a natural implication for the expectations on the Corporate Finance function and Finance more widely in terms of the work required to close the Accounts.
36. 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, Enfield's previous auditors, were required to undertake a root and branch review of their practices. BDO are clear that they will operate at 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. The scale of the improvements also entails a higher level of review by BDO.
37. 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.

### **38. Safeguarding Implications**

39. None in the context of this report.

### **40. Public Health Implications**

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

### **42. Equalities Impact of the Proposal**

43. None in the context of this report.

### **44. Environmental and Climate Change Considerations**

45. None in the context of this report.

### **46. Risks that may arise if the proposed decision and related work is not taken**

47. None in the context of this report.

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

49. None in the context of this report.

**50. Financial Implications**

51. 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.

52. 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.

**53. Legal Implications**

54. 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.

**55. Workforce Implications**

56. None in the context of this report.

**57. Property Implications**

58. None in the context of this report.

**59. Other Implications**

60. None in the context of this report.

**61. Options Considered**

62. Not relevant in the context of this report.

**63. Conclusions**

64. The 2019/20 Audit "on site" work should close by mid August, subject to resources being released from BDO at the start of July post the NHS audit work as set out above. The BDO resource is booked in.

65. The 2020/21 Accounts are still anticipated to be completed within the statutory deadlines.

66. The Audit timelines are dependent on resourcing from BDO being available. As at the time of writing, the detailed timetable is not available from BDO, Enfield have been pushing for this to be shared for some weeks now.

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**Appendices**

**None**

**Background Papers**

None