Report to the General Purposes Committee

LONDON BOROUGH OF ENFIELD

Audit Completion Report: year ended 31 March 2020

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WELCOME

We have pleasure in presenting our Audit Completion Report to the General Purposes Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the progress to date against the planned audit approach for the year ended 31 March 2020, specific audit findings and areas requiring further discussion and/or the attention of the Committee. Key outstanding elements including completion of partner and quality reviewer reviews are set out in the appendices.

At the completion stage of the audit it is essential that we engage with the Committee on the results of our audit of the financial statements and use of resources comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements. Should further matters of significance be identified in the course of completing remaining work, we may need to issue a further Audit Completion Report.

We look forward to discussing these matters with you at the Committee meeting and to receiving your input. In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

This report contains matters which should properly be considered by the Council as a whole. We expect that the Committee will refer such matters to the Council, together with any recommendations, as it considers appropriate.

We would also like to take this opportunity to thank the management and staff of the Council for the co-operation and assistance provided during the audit.

David Eagles, Partner
For and on behalf of **BDO LLP**, Appointed Auditor

6 October 2021

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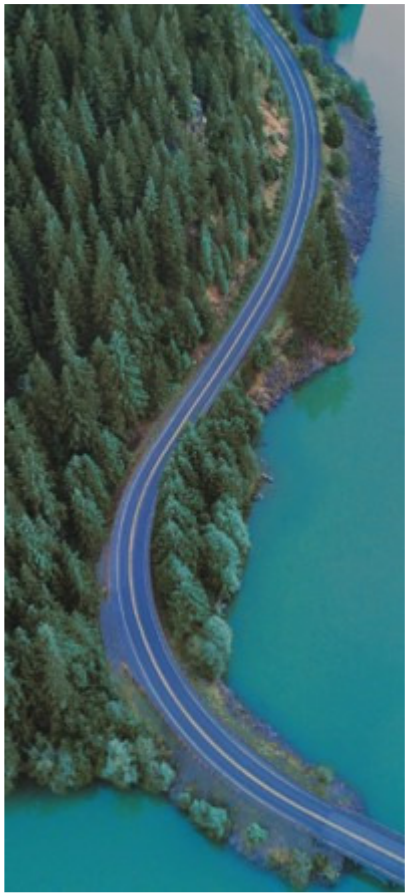
OVERVIEW

Executive summary

This summary provides an overview of the audit matters that we believe are important to the General Purposes Committee in reviewing the results of the audit of the financial statements of the Group and use of resources of the Council for the year ended 31 March 2020.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.



Overview

Our audit fieldwork is substantially complete but work is ongoing, including in some significant risk areas. Key Partner and Quality Reviewer reviews are pending completion of that work. A verbal update will be provided to the General Purposes Committee on 14 October 2021 relating to further progress made between the date of this Report and the Committee meeting.

Outstanding matters are listed on page 83 in the appendices.

Our audit approach was revisited when we received information relating to the results of the Council's work on migrating its fixed asset register and proposed "prior period adjustments" linked to that and re-mapping of ledger codes. This did not result in additional significant audit risks, because accounts preparation and migration of the fixed asset were already identified, but our response needed to be amended.

Other than for this issue, there were no significant changes to the planned audit approach and no additional significant audit risks have been identified

No restrictions were placed on our work.

Audit report

The form of the audit report will be determined on completion of the fieldwork once Partner and Quality Reviewer reviews have been completed.

The opinion will include an Emphasis of Matter in relation to the valuation of land and buildings as a result of the material uncertainty included within the valuations as a result of the impact of the COVID -19 pandemic.

At this stage we have no exceptions to report in relation to the arrangements in place to secure economy, efficiency and effectiveness in the use of resources, although the fieldwork is currently subject to Partner review.

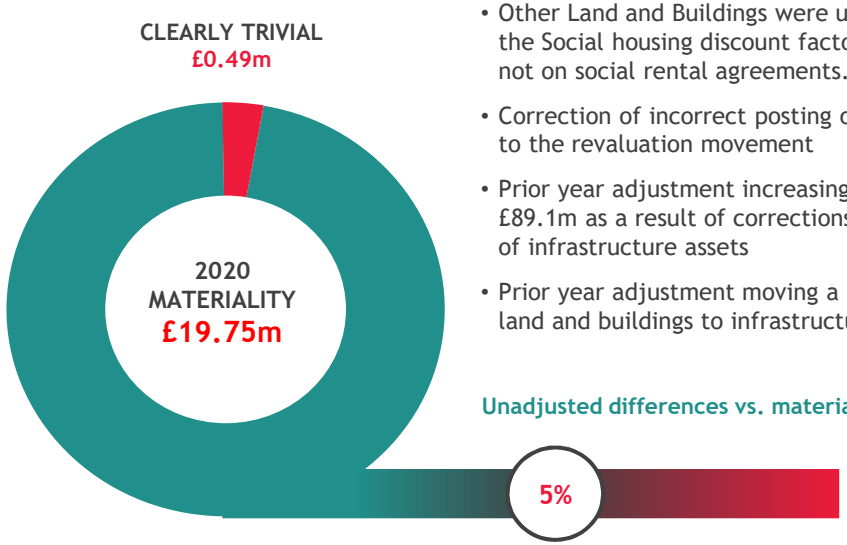
We will be unable to issue our audit certificate until we have issued our audit opinion, completed our work on the Council's WGA and outstanding objections received in previous years.

THE NUMBERS
Executive summary

Final materiality

Group final materiality was determined based on gross expenditure.

Changes were made from the planning materiality based on the draft accounts as a result of adjustments made to the accounts reducing gross expenditure.



Material misstatements

Our audit identified the following material misstatements to date:

- Meridian Water development costs in the year of £29.7m being treated as assets under construction rather than as an integral part of surplus assets in line with the agreed accounting treatment.
- Pensions Liability being overstated by £310.9m due to inappropriate assumptions being used by the actuary and the transfer of LBE employees to Children's First Academy not being included in error in the figures initially provided.
- Other land and buildings being understated by £41.2m due to assets being omitted from the asset migration.
- Other Land and Buildings were understated by £32.6m due to the Social housing discount factor being applied to properties not on social rental agreements.
- Correction of incorrect posting of accumulated depreciation to the revaluation movement
- Prior year adjustment increasing accumulative deprecation by £89.1m as a result of corrections to the useful economic lives of infrastructure assets
- Prior year adjustment moving a balance of £19.8m from other land and buildings to infrastructure assets

Unadjusted differences vs. materiality

We have also identified a significant number of misstatements below our materiality level which Management has also adjusted for.

The cumulative impact on the financial statements for these issues, is to increase the deficit on the provision of services for the year by £66.5 million but to decrease the net spend of Total Income and Expenditure by £225.9m from a net spend of £260.8m to a net spend of £34.9m.

Unadjusted audit differences

We identified audit adjustments that, if posted, would decrease the deficit on the provision of services for the year by £1,028k and reduce cumulative net assets and the General Fund balance by £472k.

Audit scope

Our approach was designed to ensure we obtained the required level of assurance across the components of the Group in accordance with ISA (UK) 600 (Audits of Group Financial Statements). This objective has been not yet been achieved because the Group audit and review of consolidation is not complete, pending resolution of the single entity Council audit.

OTHER MATTERS
Executive summary

Financial reporting

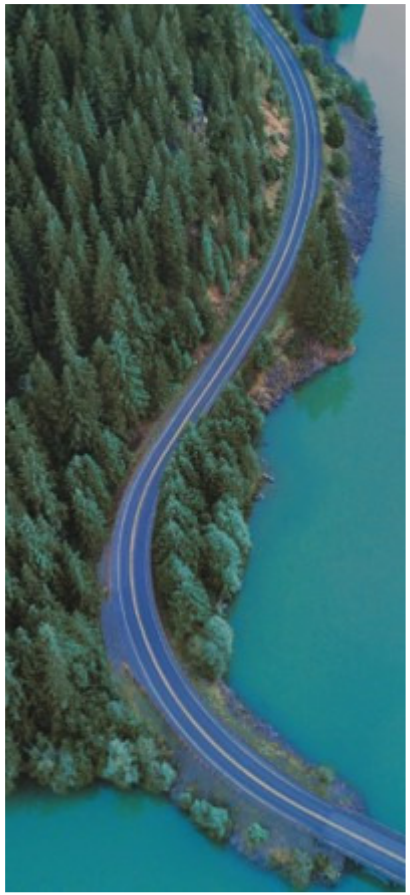
- We have identified non-compliance with Group accounting policies and the applicable accounting framework in respect of classification of assets and application of IAS 8 in relation to prior period adjustments.
- No significant accounting policy changes have been identified impacting the current year.
- Going concern disclosures are deemed sufficient.
- We noted that the narrative report presented in version 2 of the accounts had a bias toward the positive actions the Council had taken in the years and have provided feedback to this effect. This has been acted upon by the Council and we are now able to conclude that the Narrative Report is consistent with our knowledge acquired in the course of the audit, thought it remains positive in outlook. The final check of the figures within the narrative report to the accounts is to be completed
- The council has re written the Annual governance Statement (AGS) as a number of key issues such as the number of limited or no assurance Internal Audit reports were not referred to, and the actions required to address these issues were not clearly set out. A revised AGS has been prepared and this was agreed at the GPC meeting on 4 August 2021.
- We will complete our review of the Whole of Government Accounts Data Collection Tool (DCT) after we have completed our audit of the financial statements. We plan to issue our opinion on the consistency of the DCT return following completion of the Financial statements audit

Other matters that require discussion or confirmation

- Significant deficiencies identified to date in relation to financial statements preparation,
- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation. This will be presented only once the audit is sufficiently progressed, including Partner and Quality Reviewer reviews.

Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Council and the Group in accordance with the Financial Reporting Council's (FRC's) Ethical Standard.



OUR METHODOLOGY

Summary

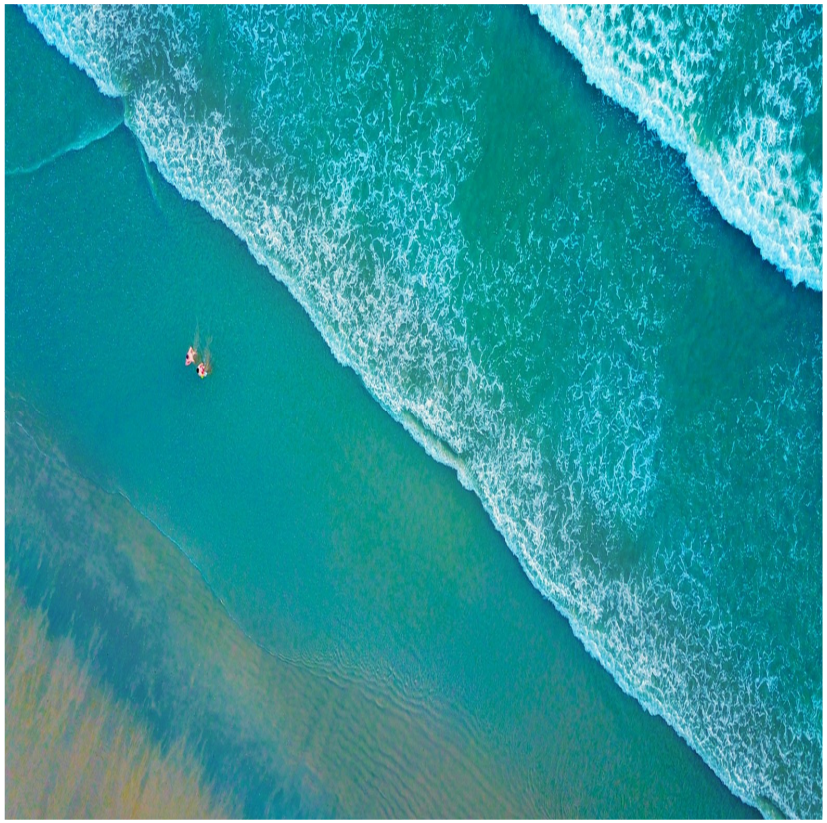
We obtain our audit evidence through a combination of substantive testing, systems and compliance testing.

We planned our audit using different testing methodology depending on the area being audited. Our testing can either be substantive where we directly verify items in the Comprehensive Income and Expenditure Statement (CIES) and Balance Sheet or assurance is obtained based on systems and compliance testing.

We set out here how we have obtained our audit assurance for the year ended 31 March 2020 for categories of the Balance Sheet. We also include a comparative to the approach undertaken in the prior year.

Audit methodology used

Balance sheet category	2019/20	2018/19
All	Substantive	Substantive



AUDIT RISKS OVERVIEW

As identified in our Audit Planning Report dated 9 January 2020, we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported	Discussion points / Letter of Representation
Management override of controls	Significant	Yes	No	No	No	No
Expenditure cut-off	Significant	No	No	Yes, Adjusted	No	Yes
Valuation of non-current assets	Significant	Yes	Yes	Yes, adjusted	Yes	Yes
Valuation of pension liability	Significant	Yes	Yes	Yes, adjusted	No	Yes
Preparation of the financial statements	Significant	No	No	Yes, adjusted	Yes	Yes
Migration of fixed asset register	Significant	No	No	Yes, adjusted	Yes	Yes
Allowance for non-collection of receivables	Normal	No	No	Yes, unadjusted	Yes	Yes
Implementation of IFRS 16	Normal	No	No	No	No	No

Areas requiring your attention

MANAGEMENT OVERRIDE OF CONTROLS

Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements requires us to presume that the risk of management override of controls is present and significant in all entities.

Work performed

We carried out the following planned audit procedures:

- Review and verification of journal entries made in the year, agreed the journals to supporting documentation. We have determined key risk characteristics to filter the population of journals. We have used our IT team to assist with the journal extraction and tested a sample of these journals;
- Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias;
- Reviewed unadjusted audit differences for indications of bias or deliberate misstatement; and
- Followed up on our significant control deficiency in the prior year to confirm that the Council are deactivating leavers from the system and that they are monitoring dates of journals including those which have been processed but not posted to the system.

Results

From our testing performed on a selection of journals chosen based on key risk characteristics we did not identify any indications of management override. As part of this work we followed up on the significant control deficiency identified in the prior year in relation to leavers posting journals after the date of them leaving the councils employment. We did not identify any instances of former employees posting journals after their leaving date.

We did not identify any transactions that are outside the normal course of business of the council.

The Council has significant accounting estimates in respect of the valuation of property, plant and equipment, investment property and valuation of the pension liability. Our findings in respect of these are reported separately on pages 14 and 16.

Our discussion on the non-collection of receivables is on page 22.

Conclusion

Our audit work has not identified any issues to date in relation to management override. However the fieldwork is still subject to Partner and Quality Reviewer reviews

EXPENDITURE CUT-OFF

For public sector bodies the risk of fraud related to expenditure is relevant.

Significant risk	■
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	■
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

For net-spending bodies in the public sector there is also risk of fraud related to expenditure. For the Council, we consider the risk of fraud to be in respect of the cut-off of expenditure at year-end.

Work performed

We carried out the following planned audit procedures:

- Checked that expenditure was recognised in the correct accounting period by substantively testing an increased sample of expenditure around year-end.
- Tested an increased sample of manual accruals to supporting documentation.

Results

We tested a sample of expenditure around the year end and did not find any expenditure recorded in an incorrect period.

However, we have tested an increased sample of manual accruals and identified two issues.

One was where an incorrect accrual was made for housing benefit. Housing benefit is paid on a cash basis every Monday but the Council had adjusted the accounts for the benefit paid relating to 1 April 2020 onwards resulting in over statement of receipts in advance by £3.5m

The second related to an error in calculation of the income relating to a new service resulting in the receipts in advance being understated by £304,000. Both these errors have been amended by the Council.

Conclusion

The Council has amended for both errors found. No further issues identified. However the fieldwork is still subject to Partner and Quality Reviewer reviews

VALUATION OF NON-CURRENT ASSETS

The valuation of non-current assets is a significant risk as it involves a high degree of estimation uncertainty.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	■
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

Local authorities are required to ensure that the carrying value of land, buildings and dwellings is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date. The Council held dwelling of £681.7 million and other land and buildings (majority being schools) of £588.7 million which are required to be recorded at current value at the balance sheet date. Valuations of properties can be complex and key judgements include defining appropriate beacon groups (such that the level homogeneity of properties within each group is appropriate); the location and design of modern equivalent values, particularly for schools is appropriate. The Council is significantly increasing its sample of beacons to value for 2019/20 compared to previous years.

The land for the Meridian Water project reflected a surplus asset balance of £200 million in the 2018/19 financial statements. The classification within surplus assets requires constant review and reassessment that this is the most appropriate asset class. The outcome of the classification will indicate the basis for valuation to be used.

There is a risk over the valuation of these assets due to the high degree of estimation uncertainty and where updated valuations have not been provided for a class of assets at the year-end. There is also a risk that properties not valued in the year, or at the year-end, may have moved materially in value since their last valuation date.

Work performed

We carried out the following planned audit procedures:

- Reviewed the instructions provided to the valuer and the valuer's skills and expertise in order to determine if we could rely on the management expert;
- Confirmed that the basis of valuation for assets valued in year was appropriate based on their usage;
- Reviewed accuracy and completeness of information provided to the valuer, such as rental agreements and sizes;
- Reviewed assumptions used by the valuer and movements against relevant indices for similar classes of assets;
- Followed up valuation movements that appeared unusual;
- Reviewed the classification of Meridian Water assets within the financial statements and confirmed that this was consistent with the basis for valuation; and
- Confirmed that assets not specifically valued in the year have been assessed to ensure their reported values remain materially correct.

VALUATION OF NON-CURRENT ASSETS

The valuation of non-current assets is a significant risk as it involves a high degree of estimation uncertainty.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	■
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Results

Our work on valuations is still ongoing as a result of the migration work and associated PPAs being significantly more challenging to complete than expected which has delayed some of the valuations work due to needing to confirm the opening position before we can look at movements in the valuations (see page 21).

We reviewed the instructions to the valuers and considered the values' skills and qualifications to confirm that they are appropriate to provide valuations for the purpose of the accounts.

We have confirmed that the valuation basis for assets valued in the year is appropriate based on their use and classification within the accounts, including the impact of the PPA's on the valuation basis of assets where applicable.

We reviewed the information provided to the valuer and have raised a number of queries in relation to the Other Land and Buildings. As part of this work we are also reviewing the assumptions used by the valuer, and following up any unusual/ unexpected movements in the valuations based on our expectations. We have identified a number of adjustments as the result of our work including phone masts held as Investment property rather than leased assets,; Disposal accounted for in the wrong year; Completed projects not being transferred out of Assets Under Construction and therefore the wrong valuation basis used; and incorrect floor areas used for valuation.

Our work on this area is still ongoing due to the issues identified above resulting in delays to our planned timetable along with the migration of the asset register and associated PPA's

We have reviewed the classification within the financial statements of Meridian Water. We have identified a number of errors with the valuation which have been corrected within the revised accounts.

We will provide a verbal update to the Committee on progress made between the issue date of this report and the date of the General Purposes Committee.

Conclusion

The work in this area is not yet complete at the time of drafting this report and the fieldwork is still subject to Partner and Quality Reviewer reviews

Our work on valuations is still ongoing as a result of the migration work and associated PPAs referred to above.

VALUATION OF PENSION LIABILITY

The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	■
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	■

Risk description

The valuation of the defined benefit obligation is a complex calculation involving a number of significant judgements and assumptions. The actuarial estimate of the pension fund liability uses information on current, deferred and retired member data and applies various actuarial assumptions over pension increases, salary increases, mortality, commutation take up and discount rates to calculate the net present value of the liability.

There is a risk that the membership data and cash flows provided to the actuary at year end may not be accurate, and that the actuary uses inappropriate assumptions to value the liability. Relatively small adjustments to assumptions used can have a material impact on the Council's share of the scheme liability.

Work performed

We carried out the following planned audit procedures:

- Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data;
- Contacted the pension fund auditor and requested confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data; and
- Checked that any significant changes in membership data have been communicated to the actuary.

Results

We assessed the qualifications and competence of the actuary through the use of PwC consulting actuary (auditor's expert) and found no matters to concern us.

Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations initially identified that the assumption for the discount rate was significantly lower than expected (at 1.7% compared to an expected 2.3%).

The assumptions for the discount rate in relation to the pension increases were based on market conditions as at 29 February 2020. This resulted in a significant increase in gross liability for employers. The Actuary later revised the assumptions to be in line with those obtained as at 31 March 2020 which resulted in a reduction in gross liability for LBE from the previously reported £1,762m to £1,527m. An increase in scheme asset values following receipt of final valuations rather than estimates of £75.7m led to a total reduction in net liability of £310.9m.

Management have revisited the assumptions, using updated information which when reviewed confirmed these were now considered to be reasonable and within the expected ranges, albeit at the higher end, and further details of these are on page 18 of this report.

We confirmed that there were appropriate controls in place in relation to the provision of information from the pension fund to the actuary and that the pension fund auditor had tested these.

The disclosures included within the accounts in relation to London Borough of Enfield have been agreed back to information provided by the actuary.

VALUATION OF PENSION LIABILITY

The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	■
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	■

Results continued

The net pension liability valuation update carried out as at 31 March 2020 was based on the roll forward of 31 March 2019 data and various assumptions.

We were made aware by management that Children First Academy Trust formed on 1 April 2019 and had 269 transferees from LBE and 14 new starters. The transfer of Council employees to this new Academy Trust could have had a material impact on the roll forward data used in the 31 March 2020 valuation, and so we requested and obtained revised Actuary valuation report as at 31 March 2020 with adjusted pension liability balance to gain assurance over the respective figures.

The Council's liability reduced by £5m (which was not material) as a result and this has been amended in the revised accounts.

Our work on group accounts and discussions as part of the 2021 audit planning cycle has identified that the Pension Liability for Independence and Wellbeing Enfield Limited (IWE) has been included by the actuary within the Council's single entity liability since formation of the company. Whilst the liability is underwritten by the Council, it is not clear from evidence provided to date whether the net liability should have been included within the single entity liability rather than the group accounts.

Conclusion

Our audit work has not identified any issues which demonstrate that the net pension liability is materially misstated. However, the treatment of the IWE Liability, whilst not material, needs to be resolved before we can issue an audit opinion

The fieldwork is still subject to Partner and Quality Reviewer reviews.

VALUATION OF PENSION LIABILITY

continued

Significant accounting estimate: pension liability

Overview

The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows.

Changes as at 31 March 2020

The net pension liability decreased by £293.4m from £789.8m in the first draft of the IAS 19 report as at 31 March to £496.4m as at 31 March 2020 in the revised report. The decrease was as a result of revision the discount rate from 1.70% to 2.3%, a decrease in CPI and future pension increases (from 2.10% to 2.00%) and decrease in salary increase (from 3.60% to 3.50%).

Changes in 2019/20

The net pension liability decreased by net £86.9 million from £583.3million in 2018/19 to £496.4million in 2019/20.

Changes in assumptions that have decreased the liability include a decrease in CPI and future pension increases (from 2.20% to 2.00%) and decrease in salary increase (from 3.60% to 3.50%), reduction to the discount rate (from 2.40% to 2.30%). Mortality assumptions have also changed by an average 1.8 years for males and 2.3 years for females.

Discussion

The net pension liability decreased from the previously reported £789.8m to £496.4m following revision of assumptions to align them with market data as at 31 March 2020.

We compared the revised assumptions and estimates used by the actuary with the expected ranges provided by the independent consulting actuary PwC.

	Actual	Expected / range	Comments
CPI increase	2.00%	2.10% - 1.90%	Reasonable
Salary increase	3.50%	3.00% - 3.60%	Reasonable
Pension increase	2.00%	2.10% - 1.90%	Reasonable
Discount rate	2.30%	2.30%	Reasonable
Mortality - LGPS:			
- Male current	23 years	22.5 – 24.7 years	Reasonable
- Female current	25.2 years	25.0 – 27.2 years	Reasonable
- Male retired	22.4 years	20.8 – 23.0 years	Reasonable
- Female retired	24.3 years	23.5 – 25.5 years	Reasonable
Commutation:			
- Pre 2008	50%	50%	Reasonable
- Post 2008	50%	50%	Reasonable

All the revised financial and mortality assumptions are within the expected range based on national data and therefore the assumptions are considered to be reasonable.

The revised net pension liability decreased from £583.3m in 2018/19 to £496.4m in 2019/20.

We are satisfied (subject to final Partner and Quality Review reviews) that the revised assumptions are not unreasonable or outside of the expected ranges. We will request management include specific representations that management confirm that the assumptions used reflect their understanding of the future expectations of the scheme.

PREPARATION OF FINANCIAL STATEMENTS

Our prior year audit identified weaknesses in the Council's arrangements for preparing the financial statements and working papers, and a significant number of misstatements were identified.

Significant risk	■
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	■
Additional disclosure required	■
Significant control findings to be reported	■
Letter of representation point	

Risk description

Our prior year audit identified weaknesses in the Council's arrangements for preparing the financial statements and working papers, and a significant number of misstatements and control deficiencies were identified, particularly in the following areas:

- Mapping errors in the Comprehensive Income and Expenditure Statement
- Classification of non-current assets
- Schools balances (including internal recharges and cash balances)
- Preparation of the exit packages note
- Providing lease agreements and rent review letters for selected samples
- Production of the groups accounts by the agreed deadline

We acknowledge that the Council has a detailed project plan in place for delivering the month 9 interim accounts and year-end draft financial statements, however there is a risk that this will not be delivered to the agreed timescales or allow sufficient time for internal quality reviews.

Work performed

We planned to carry out the following planned audit procedures:

- An early review of the interim month 9 financial statements against the requirements of the Code of practice for Local Authority Accounting 2019/20;
- Briefing for finance staff on our expectations for good quality working papers and our requirements for completing and detailed and thorough interim visit;
- Review the consistency of the financial statements with underlying working papers before the start on the onsite audit visit; and
- Obtain assurance that management has carried out a critical review of the financial statements before they are submitted for audit, including comprehensive explanations for all significant variances from the prior year.

Results

The Council did not produce an interim set of month 9 financial statements, therefore we were unable to carry out our planned review. We reported this to the Audit and Risk Management Committee on 5 March 2020.

We were not able to agree working papers to the accounts in all cases because not all supporting working papers had been prepared before our on site work commenced on the agreed date. For example, the Council was unable to provide breakdown of the balances making up parts of accounts payable and receivable which delayed our sampling and testing.

Management confirmed that they had carried out an review of the financial statements before they were authorised for issue. However, given the number of presentational issues and inconsistency issues we identified in version 1 of the accounts, we are concerned as to the thoroughness and effectiveness of this review.

We have raised a significant control deficiency as a result (see page 63).

PREPARATION OF FINANICAL STATEMENTS

Our prior year audit identified weaknesses in the Council's arrangements for preparing the financial statements and working papers, and a significant number of misstatements were identified.

Significant risk	■
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	■
Additional disclosure required	■
Significant control findings to be reported	■
Letter of representation point	

Results continued

Our work has encountered a number of delays, these included:

- The initial agreed date for the draft accounts of 1 July was missed due to a number of issues found by the Council in relation to Property, Plant and Equipment (PPE) and the associated reserves.
- Issues with access to the Council's SharePoint site with both Council staff struggling to upload, and audit staff struggling to access, files.
- Incomplete audit trail of prior period adjustments (PPAs) made to the statement of accounts. When we challenged the adjustments being proposed it was determined that a significant number did not meet the definition of a PPA compliant with IAS8 either because they arose as a result of a change in estimation technique and not an error, or they were immaterial. Therefore a number of these adjustments have had to be reversed back to the original position. This has lead to additional delays to the audit.
- Issues with obtaining audit trail breakdowns of debtors, creditors and payroll for sample testing which resulted in significant delays to the audit.
- Beacon sheets for HRA valuations being incorrectly completed by the valuer.
- Directly entered numbers (i.e. a number rather than a formula being shown) in some excel working papers meaning that it is hard to follow the audit trail through and draw appropriate conclusions on a timely basis because the numbers need to be manually checked rather than just reviewing formulas.

In addition the Enfield finance team has been under-resourced due to a number of contractors leaving and not being replaced in early 2020 prior to Covid-19. This meant that, for the initial period of the audit, responses to our queries were not timely and a back log built up.

We agreed with the Council that we would withdraw the booked audit team for two weeks in October to provide officers with time to address and respond to our queries. Unfortunately, officers were not able to make significant progress with our queries during this time.

Progress remained limited until the appointment of both an Interim Chief Accountant and Deputy Chief Accountant in late 2020. This additional resource has meant the Council has been able to respond to us on a more timely basis and also address the issues raised previously.

As a result, notable progress was made in spring 2021, However, delays continued to occur due to residual clarity of trail issues, especially in relation to the asset migration and PPE valuation compounded by the lack of continuity of staff at the Council and the amount of time needed to explain and address reconciling items.

Conclusion

There have been a significant number of delays to the 2019/20 audit and the initial plan agreed has not been delivered. The Council should consider carrying out a root cause analysis into the reasons for the failure of the plan to prepare M9 accounts, obtain early valuations and have the capacity to respond to audit queries on a timely basis.

These delays have resulted in the start date for the 2020/21 audit being pushed back to November 2021, which is likely to also cause delays to the planning and therefore the completion of the 2021/22 audit.

MIGRATION OF FIXED ASSET REGISTER

There is a risk that the fixed asset register may not have been accurately and completely transferred to the CIFPA asset management system at the date of transition.

Significant risk	■
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	■
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

The Council migrated from the SAP asset module to the CIPFA asset module in January 2020.

There is a risk that the migration of data from the SAP asset module to CIPFA asset register may result in information being lost, incorrectly transferred or omitted leading to errors in the financial statements.

There is a risk over the completeness and accuracy of the information transferred to the new system.

Work performed

We carried out the following planned audit procedures:

- Reviewed the work undertaken by the Council to test the migration of data from the previous fixed asset register to the new system, and the associated reconciliations.
- We carried out further testing as necessary to obtain assurance over the completeness and accuracy of the fixed asset transfer.

Results

We reviewed the work carried out by the council in relation to the fixed asset register migration and the associated reconciliations between SAP and the new CIPFA register

Some of the adjustments made in previous years to the SAP asset module have been challenging to understand by both Council officers and BDO, which has resulted in a significant amount of Council and audit time being spent reviewing and reconciling the asset register to ensure that we have sufficient assurance over the transfer process.

As part of the migration work, the Council have identified a number of errors in relation to the classification of property assets in the SAP asset module which has resulted in a number of PPAs being required as part of the transfer to the CIPFA asset module

However some of the PPA's made by the council as a result of the migration did not comply with the requirements of IAS 8 and therefore have had to be reversed, resulting in further work for both the council and audit.

Our review of these PPAs has identified a number of further adjustments being required, for example the removal of revaluation reserve balances for assets that have been reclassified from Other Land and Buildings to Investment Properties. These are being included in the revised accounts disclosure note.

We also identified that the council had amended the UELS in an effort to correct unrealistic assumptions, however these remained outside expectations for infrastructure assets resulting in £89m decrease in value being required.

A number of assets remained incorrectly classified or were completely omitted from the new asset register so these required additional review by both Council officers and the Audit team and an increase to the PPE balance of £55.4m.

Conclusion

A significant number of errors were found on our review of the asset migration work. The work is now complete pending Partner, quality reviewer and technical reviews due to the PPAs generated as a result of the errors found in the SAP register.

This work has, as previously reported and explained to the Committee, contributed to a significant proportion of the additional time and cost in delivering the audit for 2019/20.

ALLOWANCES FOR NON-COLLECTION OF RECEIVABLES

There is a risk over the valuation of the allowance for the non-collection of arrears and debt.

Significant risk	
Normal risk	■
Significant management judgement	
Use of experts	
Unadjusted error	■
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

The Council recognises an allowance for the non-collection of receivables, primarily in respect of council tax, NDR, housing benefit overpayments, housing rents and trade debtors. The council assesses each type of receivable separately in determine how much to allow for non-collection.

In our testing in the prior year, we identified some weakness in the preparation of the calculations (for example not using the most recent collection rates and only looking at historical data over a couple of years rather than considering longer trends) and errors in the working papers which we reported as a management letter point.

There is a risk over the valuation of this allowance if incorrect assumptions or source data are used, or an inappropriate methodology is applied.

Work performed

We carried out the following planned audit procedures:

- Reviewed the provision model for significant income streams and receivables and debt balances to assess whether it appropriately reflects historical collection rates by age of debt or arrears.
- For receivables classified as financial instruments, included appropriate assumptions for expected credit losses

Results

We reviewed the provision models for the significant income streams and confirmed that the incurred loss model had been correctly applied to statutory debt (Council Tax, NNDR and Housing Benefit Overpayments). The basis for these calculations is now based on historical collection rates over the previous 6 years, rather than the short period used previously.

The non-statutory debt (trade and sundry debtors including Adult Social Care) non-collection allowance should be provided for on the Expected Credit Loss basis in line with the requirements of IFRS 9. This is a forward-looking provision basis with regard to the circumstances as at the year end. The Council has used an incurred loss model without applying a forward view to take account of any known changes in expected payment. The total value of the provision that has been incorrectly calculated is £3,567,000 based on a total debt of £40,064,000.

We identified two errors in the formulas used for calculating the bad debts:

- The Councils' share of the Council tax bad debt provision was over stated by £883,000
- The temporary accommodation bad debt provision was understated by £690,000.

Neither of these non-material errors have been adjusted.

Conclusion

Our audit work has not identified any issues which demonstrate that allowances for non-collection of receivables is materially misstated.

However, the fieldwork is still subject to Partner and Quality Reviewer reviews

ALLOWANCES FOR NON COLLECTION OF RECEIVEABLES

Estimate

Council tax arrears (total collection fund £28.1m, Council share £22.6m)

The Council has recognised an allowance for non-collection in relation to its share of the council tax arrears of £8.4 million against its share of the arrears of £22.6 million. The Council's provision has increased by £2.3 million from the prior year. The provision is estimated using historic collection rate information from the last 6 years. We have reviewed the methodology and we are satisfied that this falls within a reasonable range for non-collection of arrears.

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NDR arrears (total collection fund £8.8m, Council share £4.2m)

The Council has recognised an allowance for non-collection in relation to its share of the NDR arrears of £1.8 million against its share of the arrears of £4.2million. The Council's provision has decreased by £0.7 million from the prior year. This is a decrease compared to the prior year as a result of the changes to the London pooling arrangements. The provision is estimated using historic collection rate information from the last 6 years. We have reviewed the methodology and we are satisfied that this falls within a reasonable range for non-collection of arrears.

< lower higher >

Housing Benefit overpayments (£20.1m)

The Council has recognised an allowance for non-collection of housing benefit overpayment debt of £5.8 million on total debt of £20.1 million. In the prior year, a provision of £6.6 million was raised against arrears of £18.9 million. The provision is estimated using historic collection rate information from the

last 6 years. We have reviewed the methodology and have noted that the Council has now split the calculation between current and former tenants to reflect the different collection rates. This is a change from the prior year methodology which did not spilt the debt types based on this methodology we are satisfied that this falls within a reasonable range for non-collection of arrears.

< lower higher >

ALLOWANCES FOR NON COLLECTION OF RECEIVEABLES

Estimate

Temporary accommodation rent arrears (£14.8m)

The Council has recognised an allowance for non-collection of temporary rents arrears of £9.9 million on total debt of £14.8 million. The provision is estimated using collection rates for six years and splits the debt between current and former tenants. We have reviewed the methodology and noted that as this debtor balance falls under the scope of IFRS 9, this methodology should be updated to reflect expected (future) credit losses. However we are satisfied that this balance is not materially misstated as the total debtor is immaterial.

< lower higher >

Sundry Debtors (£40.1m)

The Council has recognised an allowance for the non collection of sundry debt of £3.6m. The provision has been estimated using collection rates for 2 years and splits the debt between Adult Social Care, Public Sector and other. The Public Sector debt is not provided for. We have reviewed the methodology and noted that as this debtor balance falls under the scope of IFRS 9, this methodology should be updated to reflect expected (future) credit losses. However, we are satisfied that this debtor is not materially mis-stated due to the total balance, excluding public sector, being less than twice materiality.

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IMPLEMENTATION OF IFRS 16

There is a risk that disclosures for the implementation of IFRS 16 in 2020/21 are not complete and accurate if the Council has not undertaken the necessary preparatory work.

Significant risk	
Normal risk	■
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

The Code of Practice on Local Authority Accounting requires the implementation of IFRS 16 (leases) in 2020/21. This is a significant change to the financial reporting requirements for the Council. The preparation for this change represents a major piece of work.

There is a risk that the disclosures required in the accounting standards not yet adopted note, and the full disclosures in the 2020/21 financial statements and not accurate if the Council does not undertake the necessary preparatory work to enable the smooth implementation of IFRS 16.

Discussion and conclusion

We had planned to carry out the following audit procedures:

- Review the preparatory work undertaken by the Council;
- Review the disclosures in the accounting standards not yet adopted note;
- Test the completeness of the leases schedule to check that all relevant leases are identified; and
- As part of our testing of lease disclosures, we planned to test a sample, agreeing back to supporting documentation to agree the terms of the lease to the leases scheduled maintained by the Council.

Results and Conclusion

The implementation date for IFRS 16 for local government has now been deferred to 2021/22 and therefore we have deferred our review of the preparatory work to the audit for the year ended 31 March 2021.

GOING CONCERN

We are required to highlight any judgements about events or conditions that may cast significant doubt over the entity's ability to continue as a going concern

Management's assessment of going concern

Management have assessed that the Council remains a going concern and it is appropriate to prepare the accounts on a going concern basis.

Discussion and conclusion

The assessment of going concern under the effects of the coronavirus outbreak will need to incorporate unprecedented shocks to forecasts. The increased demand on services, decline in income from services, deferrals of normal payment terms or impairment of debt, decreases in asset values and supply chain disruptions may be dissimilar to any previously encountered 'real world' scenario, making forecasting the precise results difficult.

The effects of the coronavirus are likely to affect the level of uncertainty that may exist in an assertion that the entity will be able to continue as a going concern. Regardless of the result of management's assessment, many entities will need to disclose key judgments and estimates it used to arrive at this conclusion.

Key areas in a going concern assessment may include: sources of assumed liquidity and cash flows, forecasts of future revenue or additional expenditure, and support from government.

The Council have revised their budget and cashflow forecasts as a result of the impact of Covid-19. This has been a continual process since the year end. We are currently reviewing and challenging the cash flow forecasts with the benefit of having had a year of Covid-19 experience on areas such as additional Covid-19 grants to cover increased expenditure, the impact of lost service income and increased likelihood of arrears in relation to investment property income, and council tax and NNDR arrears. The Council has updated the Treasury Management Strategy in February 2021 to reflect the current cash position.

OTHER MATTERS

The following are additional significant and other matters arising during the audit which we want to bring to your attention.

Issue	Comment
Negative Schools Reserves	Currently the Council has a negative schools reserve of £7,675,000 which is off-set against the general fund reserves. For the year ended 31 March 2021 this will no longer be permitted and the negative reserve will need to be transferred to an unusable reserve.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

Fraud

Whilst the directors have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Planning Report in January 2020.

Related parties

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud.

We identified the following significant matter in connection to related parties:

- 5 Councilors failed to provide declarations of interest forms despite being reminded on a number of occasions by Council officers.

Laws and regulations

We have made enquiries of management regarding compliance with laws and regulations and reviewed correspondence with the relevant authorities.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

Group matters

Our review of the group accounts and components' auditors is pending resolution of the single entity position and the treatment of the IWE pension liability.

UNADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

We are required to bring to your attention unadjusted differences and we request that you correct them.

There are five current unadjusted audit differences identified by our audit work which would decrease the deficit on the provision of services for the year of £127,119k by £1,028k but would decrease net assets of £717,102k by £472k because the brought forward error represents a timing difference between 2018/19 and 2019/20 but has no cumulative impact beyond 31 March 2020.

The general fund balance would decrease by £472k if these audit differences were adjusted.

Details for these items are set out on the following page.

In additional our testing of schools valuations in 2019/20 identified that for 2 schools the GIA in 2018/19 was over stated resulting in an overstatement of asset values by £7.3m. As the assets have been revalued with the correct area in 2019/20 this has been corrected in year and there is no impact on the balances as at 31 March 2020.

Management consider these differences to be immaterial in the context of the financial statements as a whole.

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

		Income and expenditure		Balance Sheet	
Unadjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Retained deficit on the provision of services for the year before adjustments (as per current version of the Statement of Accounts)	127,119				
Adjustment 1: brought forward error from prior year - prepayment not recognised in correct period					
DR Expenditure	1,500	1,500			
CR Reserves					(1,500)
Adjustment 2: net impact of bad debt provision errors					
DR Receivables				194	
CR Net cost of services	(194)		(194)		
Adjustment 3: Expenditure relating to 2018/19 but not accrued (Extrapolated)					
DR Reserves Brought forward				522	
CR Expenditure in 19/20 overstated	(522)		(522)		
Retained deficit on the provision of services if adjustments made carried forward	127,903				

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

		Income and expenditure		Balance Sheet	
Unadjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Retained deficit on the provision of services for the year before adjustments (as per current version of the Statement of Accounts)	127,903				
Adjustment 4: Maintenance expenses incorrectly capitalised as additions (extrapolated)					
DR Maintenance Expenditure	1,188	1,188			
CR PPE additions					(1,188)
Adjustment 5: School value overstated in the PPE note					
DR revaluation reserve				1,118	
CR Other Land and Buildings					(1,118)
Total unadjusted audit differences					
Deficit on the provision of services for the year if above issues adjusted	129,091				

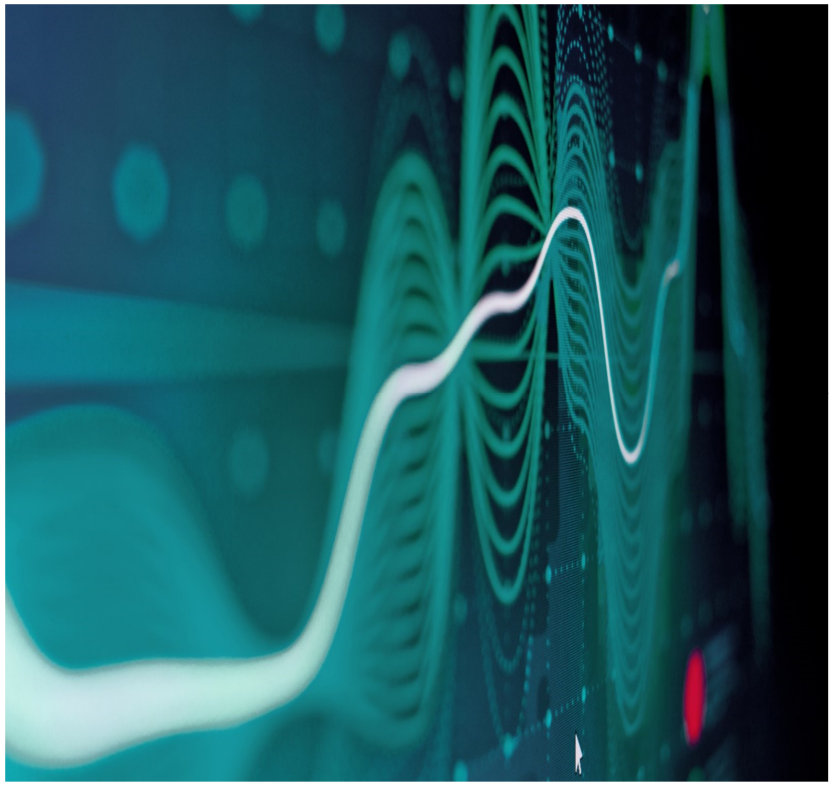
UNADJUSTED AUDIT DIFFERENCES: DETAIL 1

Details for the current year

Impact on the General Fund balance and HRA balance	General Fund balance £'000	HRA balance £'000
Balance before unadjusted audit differences	13,950	4,623
Impact on deficit on the provision of services above (NB: the brought forward unadjusted item only impacts upon the in-period movement, not the cumulative position)	(472)	-
Adjustments that would be reversed from the General Fund and HRA balance through the Movement in Reserves Statement	-	-
Balances after the above adjustments	13,478	4,623

ADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year



To date there are 57 audit differences identified during our audit work that were adjusted by management.

This increased/decreased the draft deficit on the provision of services of £60.6m by £66.5m to £127.1m and increased draft net assets of £426.7m by £290.4m to £717.1m

The general fund balance increased by £3.2m as a result of these adjustments.

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance Sheet	
Adjusted audit differences	**NET DR/(CR) £'000**	**DR £'000**	**(CR) £'000**	**DR £'000**	**(CR) £'000**
Total Comprehensive Income and Expenditure (1st Draft Accounts)	260,753				
Adjustment 1: Schools cash balances incorrectly included in investments					
DR Debtors				8,672	
DR Cash				8,349	
CR Investments					(17,021)
Adjustment 2: Reversing incorrect classification					
DR Intangible assets				2,620	
CR Assets under construction					(2,620)
Adjustment 3: Transferring Meridian Water costs incurred during the year from AUC to Surplus assets					
DR Surplus assets				29,719	
CR Assets Under Construction					(29,719)
Cumulative adjustments carried forward	-	-	-	***49,360***	***(49,360)***
Adjusted Total Comprehensive Income and Expenditure (TCI&E) carried forward	260,753				

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance Sheet	
Adjusted audit differences	**NET DR/(CR) £'000**	**DR £'000**	**(CR) £'000**	**DR £'000**	**(CR) £'000**
Adjusted TCI&E brought forward	260,753				
Cumulative audit adjustments brought forward				*49,360*	*(49,360)*
Adjustment 4: Impairing Meridian Water costs to fair value determined by the Management expert					
DR Impairment losses (CIES)	29,719	29,719			
CR Surplus assets					(29,719)
Adjustment 5: Adjusting pension liability following review of the Actuary assumptions and transfer of Children first Academy					
DR Pension Liability				305,528	
CR Pension Reserve via OCI in CIES	(305,528)		(305,528)		
Adjustment 6: Housing benefits incorrect accrual of 5 days income					
DR Receipts in advance				3,504	
CR Grant income	(3,504)		(3,504)		
Cumulative audit adjustments carried forward	***(279,313)***	***29,719***	***(309,032)***	***358,392***	***(79,079)***
Adjusted TCI&E carried forward	(18,560)				

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance Sheet	
Adjusted audit differences	**NET DR/(CR) £'000**	**DR £'000**	**(CR) £'000**	**DR £'000**	**(CR) £'000**
Adjusted TCI&E brought forward	(18,560)				
Cumulative audit adjustments brought forward	*(279,313)*	*29,719*	*(309,032)*	*358,392*	*(79,079)*
Adjustment 7: Incorrect mapping of Service Expenses moved to Employment Related Expenses					
DR Employment related expenses	6,696	6,696			
CR Other service expenses	(6,696)		(6,696)		
Adjustment 8: Reversing excess charge to the CIES following adjustments to the IAS 19 report					
DR Pension Liability				5,394	
CR Employment benefits	(5,394)		(5,394)		
Adjustment 9: Garden waste income incorrectly netted off					
DR Income	304	304			
CR Short term payables - Receipts in advance					(304)
Cumulative audit adjustments carried forward	***(284,403)***	***36,719***	***(321,122)***	***363,786***	***(79,383)***
Adjusted TCI&E carried forward	(23,650)				

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

		Income and expenditure		Balance Sheet	
Adjusted audit differences	**NET DR/(CR) £'000**	**DR £'000**	**(CR) £'000**	**DR £'000**	**(CR) £'000**
Adjusted TCI&E brought forward	(23,650)				
Cumulative audit adjustments brought forward	*(284,403)*	*36,719*	*(321,122)*	*363,786*	*(79,383)*
Adjustment 10: Reversing revaluation decrease on Meridian Water as Industrial use has a higher value than residential valuation which had been applied					
DR Surplus assets				18,000	
CR Revaluation adjustment through OCI	(18,000)		(18,000)		
Adjustment 11: Adjusting pension liability to account for amendments to the Pension Fund Net assets statement (Impact of adjustment to PF investments balances)					
DR Pension reserve via OCI	17,593	17,593		17,593	
CR Pension Liability					(17,593)
Adjustment 12: Adjusting capitalisation costs and internal recharges treated as income in HRA statements					
DR HRA Income	(15,737)	15,737			
CR HRA Expenditure	(15,737)		(15,737)		
Cumulative audit adjustments carried forward	***(284,810)***	***70,049***	***(354,859)***	***399,379***	***(96,976)***
Adjusted TCI&E carried forward	(24,057)				

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance Sheet	
Adjusted audit differences	**NET DR/(CR) £'000**	**DR £'000**	**(CR) £'000**	**DR £'000**	**(CR) £'000**
Adjusted TCI&E brought forward	(24,057)				
Cumulative audit adjustments brought forward	*(284,810)*	*70,049*	*(354,859)*	*399,379*	*(96,976)*
Adjustment 13: Correcting miscoded capital receipts pooling funds					
DR Other operating expenditure (HRA)	2,513	2,513			
CR Gains/loss on disposal (HRA)	(2,513)		(2,513)		
Adjustment 14: Correcting miscoded HRA expenditure					
DR Repairs and maintenance expenditure (HRA)	1,351	1,351			
CR Supervision and management expenses (HRA)	(1,351)		(1,351)		
Adjustment 15: Reclassifying Tando and Atlantic income from dwellings rents to non dwellings rents					
DR Dwelling Rents (Gross)	1,985	1,985			
CR Non Dwelling Rents (Gross)	(1,985)		(1,985)		
Cumulative audit adjustments carried forward	***(284,810)***	***75,898***	***(360,708)***	***399,379***	***(96,976)***
Adjusted TCI&E carried forward	(24,057)				

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance Sheet	
Adjusted audit differences	**NET DR/(CR) £'000**	**DR £'000**	**(CR) £'000**	**DR £'000**	**(CR) £'000**
Adjusted TCI&E brought forward	(24,057)				
Cumulative audit adjustments brought forward	*(284,810)*	*75,898*	*(360,708)*	*399,379*	*(96,976)*
Adjustment 16: Creating creditor for unused RTB receipts to be paid back.					
DR Other operating expenditure	7,894	7,894			
CR Short term creditors					(7,894)
Adjustment 17: Deprecation on HRA non dwellings					
DR Depreciation (HRA)	457	457			
CR Depreciation charges (Place)	(457)		(457)		
Adjustment 18: Adjusting for error in 2018/19 which was reversed in draft SOA PPA because it is immaterial					
Dr CIES	1,803	1,803			
CR Capital adjustment account					(1,803)
Cumulative audit adjustments carried forward	***(275,113)***	***86,052***	***(361,165)***	***399,379***	***(106,673)***
Adjusted TCI&E carried forward	(14,360)				

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance Sheet	
Adjusted audit differences	**NET DR/(CR) £'000**	**DR £'000**	**(CR) £'000**	**DR £'000**	**(CR) £'000**
Adjusted TCI&E brought forward	(14,360)				
Cumulative audit adjustments brought forward	*(275,113)*	*86,052*	*(361,165)*	*399,379*	*(106,673)*
Adjustment 19: Impairment, disposal and transfer of assets					
DR Impairment loss (CIES)	2,009	2,009			
DR Assets held for sale				480	
CR Other land and buildings				3,094	
CR Investment properties					(800)
CR Surplus assets					(4,783)
Adjustment 20: Reversing immaterial prior period adjustment					
DR Surplus assets				16,575	
CR Other land and buildings					(17,375)
Dr Investment properties				800	
Cumulative audit adjustments carried forward	***(273,104)***	***88,061***	***(361,165)***	***420,328***	***(129,631)***
Adjusted TCI&E carried forward	(12,351)				

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

		Income and expenditure		Balance Sheet	
Adjusted audit differences	**NET DR/(CR) £'000**	**DR £'000**	**(CR) £'000**	**DR £'000**	**(CR) £'000**
Adjusted TCI&E brought forward	(12,351)				
Cumulative audit adjustments brought forward	*(273,104)*	*88,061*	*(361,165)*	*420,328*	*(129,631)*
Adjustment 21: Reversing immaterial prior period adjustment					
DR Other land & buildings plus Heritage assets				149	
CR Community assets					(149)
Adjustment 22: Mapping correction to correct CIES Grant					
DR CIES – Corporate		8,521			
CR CIES – Taxation and non Specific Grant income			(8,521)		
Adjustment 23: Reversing 2018/19 impairment recognised in 2019/20					
DR Assets under construction				1,135	
CR CIES	(1,135)		(1,135)		
Cumulative audit adjustments carried forward	***(254,927)***	***96,582***	***(351,509)***	***421,612***	***(129,482)***
Adjusted TCI&E carried forward	(13,486)				

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

		Income and expenditure		Balance Sheet	
Adjusted audit differences	**NET DR/(CR) £'000**	**DR £'000**	**(CR) £'000**	**DR £'000**	**(CR) £'000**
Adjusted TCI&E brought forward	(13,486)				
Cumulative audit adjustments brought forward	***(254,927)***	***96,582***	***(351,509)***	***421,612***	***(129,482)***
Adjustment 24: Reversing immaterial prior period adjustment on vehicles, plant and equipment					
DR Non current assets (VPE, OLB and Investment Properties)				5,123	
CR Capital adjustment account					(8,150)
DR CIES	3,027	3,027			
Adjustment 25: Revaluation adjustments on other land and buildings to reconcile the opening balances					
DR Other land and buildings impairment loss (CIES)	15,010	15,010			
CR Other land and buildings					(15,010)
Cumulative audit adjustments carried forward	***(236,890)***	***114,619***	***(351,509)***	***429,234***	***152,642***
Adjusted TCI&E carried forward	4,551				

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance Sheet	
Adjusted audit differences	**NET DR/(CR) £'000**	**DR £'000**	**(CR) £'000**	**DR £'000**	**(CR) £'000**
Adjusted TCI&E brought forward	4,551				
Cumulative audit adjustments brought forward	*(236,890)*	***114,619***	***(351,509)***	***429,234***	***152,642***
Adjustment 26: Correcting asset categories, Reversing immaterial prior period adjustments on Heritage assets and reconciling revaluation movements to FAR					
DR Surplus assets				3,555	
CR Revaluation adjustment through OCI	(15,610)		(15,610)		
DR Other land and buildings				7,147	
DR Revaluation reserve				4,899	
DR Heritage assets				9	
Adjustment 27: Correction of HRA mapping to agree to CIES					
DR HRA Income			1,391		
CR HRA Expenditure			(1,391)		
Cumulative audit adjustments carried forward	***(252,500)***	***114,619***	***(367,119)***	***447,343***	***152,642***
Adjusted TCI&E carried forward	(11,059)				

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance Sheet	
Adjusted audit differences	**NET DR/(CR) £'000**	**DR £'000**	**(CR) £'000**	**DR £'000**	**(CR) £'000**
Adjusted TCI&E brought forward	(11,059)				
Cumulative audit adjustments brought forward	***(252,500)***	***114,619***	***(367,119)***	***447,343***	***(152,642)***
Adjustment 28: REFCUS mapping error					
DR HRA Supervision and Management Expenditure		1,690			
CR REFCUS			(1,690)		
Adjustment 29: removal of Aerials incorrectly treated as Investment property					
DR Capital Adjustment Account				1,633	
CR Investment Property					(1,633)
DR Long term receivables				1,633	
CR Deferred Capital receipts reserve					(1,633)
Cumulative audit adjustments carried forward	*(252,500)*	*116,309*	*(368,809)*	*450,609*	*(155,908)*
Adjusted TCI&E carried forward	***(11,059)***				

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance Sheet	
Adjusted audit differences	**NET DR/(CR) £'000**	**DR £'000**	**(CR) £'000**	**DR £'000**	**(CR) £'000**
Adjusted TCI&E brought forward	(11,059)				
Cumulative audit adjustments brought forward	*(252,500)*	*116,309*	*(368,809)*	*450,609*	*(155,908)*
Adjustment 30: Correction of incorrect transfer from OLB to Surplus assets and subsequent disposal in the wrong year (2019/20 instead of 2020/21)					
DR OLB Disposals				930	
CR CIES	(930)		(930)		
CR Surplus other Movements					(930)
DR OLB other movements				930	
Adjustment 31: Completed projects being moved from AUC					
DR Dwellings other movements				42,175	
DR OLB other movements				4,848	
CR Assets Under Construction					(47,023)
Cumulative audit adjustments carried forward	***(253,430)***	*116,309*	***(369,739)***	***499,492***	***(203,861)***
Adjusted TCI&E carried forward	(11,989)				

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance Sheet	
Adjusted audit differences	**NET DR/(CR) £'000**	**DR £'000**	**(CR) £'000**	**DR £'000**	**(CR) £'000**
Adjusted TCI&E brought forward	(11,989)				
Cumulative audit adjustments brought forward	***(253,430)***	*116,309*	***(369,739)***	***499,492***	***(203,861)***
Adjustment 32: revaluation of assets transferred from AUC to Existing use valuation					
DR CIES Revaluation loss	31,386	31,386			
CR Dwellings revaluations					(30,833)
CR OLB revaluations					(553)
Adjustment 33: de-recognition of projects already recognised as operational assets					
DR CIES – De-recognition	23,089	23,089			
CR AUC De-recognition					(23,089)
Adjustment 34: Impact of incorrect valuation in 19/20 for Civic Centre					
DR OLB revaluation CIES				7,150	
CR CIES revaluation	***(7,150)***		(7,150)		
Cumulative audit adjustments carried forward	***(206,105)***	***170,784***	***(376,889)***	***506,642***	***(258,316)***
Adjusted TCI&E carried forward	35,336				

PRIOR YEAR ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the prior year

	Income and expenditure			Balance Sheet	
Adjusted audit differences	**NET DR/(CR) £'000**	**DR £'000**	**(CR) £'000**	**DR £'000**	**(CR) £'000**
Adjusted TCI&E brought forward	35,336				
Cumulative audit adjustments brought forward	***(206,105)***	***170,784***	***(376,889)***	***506,642***	***(258,316)***
Adjustment PY 1: Opening balance adjustment for Intangible assets under development previously recorded as PPE Assets under construction					
DR Intangible assets				2,172	
CR Plant property and Equipment					(2,172)
Adjustment PY2: Restoring incorrectly written of Opening PY accumulated amortisation					
DR Capital adjustment account				5,358	
CR PY opening Accumulated amortisation costs (Intangible assets)					(5,358)
Adjustment PY3: Opening balances: Reversing reclassification recorded as additions in current year draft accounts					
DR PY Intangible assets (other movements)				2,505	
CR Intangible assets (additions)					(2,505)
Cumulative audit adjustments carried forward	***(206,105)***	***170,784***	***(376,889)***	***516,677***	***(268,351)***
Adjusted TCI&E carried forward	35,336				

PRIOR YEAR ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the prior year

	Income and expenditure			Balance Sheet	
Adjusted audit differences	**NET DR/(CR) £'000**	**DR £'000**	**(CR) £'000**	**DR £'000**	**(CR) £'000**
Adjusted TCI&E brought forward	35,336				
Cumulative audit adjustments brought forward	***(206,105)***	***170,784***	***(376,889)***	***516,677***	***(268,351)***
Adjustment PY4:Prior year additions incorrectly classified as PPE (AUC)					
DR Asset under Development (Intangible assets)				5,059	
CR Asset under Construction- PPE					(5,059)
Adjustment PY5: Recognition of additional amortisation emanating from PPA on PY assets that became operational in 2018/19 plus revision of UEL on Digital platform from 10 to 5 years					
DR CAA-Amortisation				3,688	
CR Intangible assets					(3,688)
Cumulative audit adjustments carried forward	***(206,105)***	***170,784***	***(376,889)***	***525,424***	***(277,098)***
)Adjusted TCI&E carried forward	35,336				

PRIOR YEAR ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the prior year

	Income and expenditure			Balance Sheet	
Adjusted audit differences	**NET DR/(CR) £'000**	**DR £'000**	**(CR) £'000**	**DR £'000**	**(CR) £'000**
Adjusted TCI&E brought forward	35,336				
Cumulative audit adjustments brought forward	***(206,105)***	***170,784***	***(376,889)***	***525,424***	***(277,098)***
Adjustment PY6: Removing fully depreciated infrastructure assets as part of PPA					
DR Accumulated depreciation (01.04.18)				62,584	
CR Infrastructure assets					(62,584)
Adjustment PY7: Additional depreciation on Infrastructure assets as a result of correction UELs (PPA 2017/18)					
DR Accumulated depreciation				93,505	
CR Infrastructure assets					(84,912)
Cr Assets under construction					(8,959)
Dr CAA (derecognising assets with zero values)				366	
Cumulative audit adjustments carried forward	***(206,105)***	***170,784***	***(376,889)***	***681,879***	***(433,553)***
Adjusted TCI&E carried forward	35,336				

PRIOR YEAR ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the prior year

	Income and expenditure			Balance Sheet	
Adjusted audit differences	**NET DR/(CR) £'000**	**DR £'000**	**(CR) £'000**	**DR £'000**	**(CR) £'000**
Adjusted TCI&E brought forward	35,336				
Cumulative audit adjustments brought forward	***(206,105)***	***170,784***	***(376,889)***	***681,879***	***(433,553)***
Adjustment PY 8: adjusting 2017/18 closing balances (Car parks, residential and commercial properties incorrectly classified as OLB)					
DR Investment Properties				19,841	
CR Other land and buildings					(19,841)
Adjustment PY 9: Recognising 39 Tando and Atlantic properties previously omitted from the Accounts.					
DR Other land and buildings				10,105	
CR Capital adjustment account					(5,053)
CR Revaluation reserve (OLB)					(5,053)
Cumulative audit adjustments carried forward	***(206,105)***	***170,784***	***(376,889)***	***711,825***	***463,500***
Adjusted TCI&E carried forward	35,336				

PRIOR YEAR ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the prior year

	Income and expenditure			Balance Sheet	
Adjusted audit differences	**NET DR/(CR) £'000**	**DR £'000**	**(CR) £'000**	**DR £'000**	**(CR) £'000**
Adjusted TCI&E brought forward	35,336				
Cumulative audit adjustments brought forward	***(206,105)***	***170,784***	***(376,889)***	***711,825***	***(463,500)***
Adjustment PY 10: Disposal of Caterhatch infant school					
DR Capital adjustment account				4,692	
CR Other Land & Buildings					(4,692)
Adjustment PY 11: Transfer of Tando and Atlantic properties from Council Dwellings					
DR Other land and buildings				13,337	
CR Council Dwellings					(13,055)
CR Assets under construction					(272)
CR Investment properties					(10)
Cumulative audit adjustments carried forward	***(206,105)***	***170,784***	***(376,889)***	***729,854***	***(481,529)***
Adjusted TCI&E carried forward	35,336				

PRIOR YEAR ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the prior year

	Income and expenditure			Balance Sheet	
Adjusted audit differences	**NET DR/(CR) £'000**	**DR £'000**	**(CR) £'000**	**DR £'000**	**(CR) £'000**
Adjusted TCI&E brought forward	35,336				
Cumulative audit adjustments brought forward	***(206,105)***	***170,784***	***(376,889)***	***729,854***	***(481,529)***
Adjustment PY 12: REFCUS expenditure on VA schools plus impairment loss for Reardon Court duplicated in OLB and surplus assets					
DR Capital adjustment account				10,035	
CR Other Land & Buildings					(10,035)
Adjustment PY 13: Adjusting from EUV-SH to market value for Tando and Atlantic properties transferred from Council Dwellings (£32.6m) plus adjusting asset register to reconcile to the valuation report for other OLB assets (£13.2m).					
DR Other land and buildings				32,675	
CR Revaluation reserve					(45,806)
DR Capital adjustment account				13,131	
Cumulative audit adjustments carried forward	***(206,105)***	***170,784***	***(376,889)***	***785,695***	***(537,370)***
Adjusted TCI&E carried forward	35,336				

PRIOR YEAR ADJUSTED AUDIT DIFFERENCES - DETAIL

Details for the prior year

		Income and expenditure		Balance Sheet	
Adjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjusted TCI&E brought forward	35,336				
Cumulative audit adjustments brought forward	***(206,105)***	***170,784***	***(376,889)***	***785,695***	***(537,370)***
Adjustment PY 14: Reversing errors in OLB data uploaded to the CIPFA register					
DR Capital adjustment account				3,307	
CR Other land and buildings					(3,307)
Adjustment PY 15:Impairing costs incorrectly capitalised as AUC					
DR Capital adjustment account				9,935	
CR Assets under construction					(9,935)
Adjustment PY 16: Asset transfers for completed schemes in AUC					
DR Investment Properties				396	
DR Intangible Assets				7,121	
DR Infrastructure Assets				8,959	
DR Other Land & Buildings				272	
CR AUC					(16,749)
Cumulative audit adjustments carried forward	***(206,105)***	***170,784***	***(376,889)***	***815,685***	***567,361***
Adjusted TCI&E carried forward	35,336				

PRIOR YEAR ADJUSTED AUDIT DIFFERENCES - DETAIL

Details for the prior year

	Income and expenditure			Balance Sheet	
Adjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjusted TCI&E brought forward	35,336				
Cumulative audit adjustments brought forward	***(206,105)***	***170,784***	***(376,889)***	***815,685***	***567,361***
Adjustment PY 17: Bringing in assets omitted in audited 2018/19					
DR Council Dwellings				4,068	
CR Revaluation reserve					(4,068)
Adjustment PY 18: Revaluation reserve adjustment for assets transferred from OLB to Investment Properties (2017/18)					
DR Revaluation Reserve				2,849	
CR Capital adjustment account					(2,849)
Adjustment PY 19: Meridian water loan misclassified as Grant income in 2018/19 now corrected					
DR Taxation & Non-Specific Grants 2018/19 (CAA)				2,500	
CR Short term Borrowing					(500)
CR Long term Borrowing					(2,000)
Cumulative audit adjustments carried forward	***(206,105)***	***170,784***	***(376,889)***	***(825,102)***	***(576,778)***
Adjusted TCI&E carried forward	35,336				

PRIOR YEAR ADJUSTED AUDIT DIFFERENCES - DETAIL

Details for the prior year

	Income and expenditure			Balance Sheet	
Adjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjusted TCI&E brought forward	35,336				
Cumulative audit adjustments brought forward	***(206,105)***	***170,784***	***(376,889)***	***815,685***	***(567,361)***
Adjustment PY 20: Write out of accumulated deprecation on revalued assets					
DR Accumulated Deprecation (Council Dwellings)				13,700	
CR Revaluation Movements (Council Dwellings)					(13,700)
Adjustment PY 21: Reversing incorrect posting to the other movements line on the PPE note					
DR Other movements OLB				21,200	
CR Revaluation reserve					(21,200)
Adjustment PY22: Write out of accumulated deprecation on revalued assets. Correcting presentation of the PPE note on date of revaluation					
DR Accumulated Depreciation OLB				21,200	
CR CIES Revaluation movements OLB					21,200
Cumulative audit adjustments carried forward	***(206,105)***	***170,784***	***(376,889)***	***871,785***	***(623,461)***
Adjusted TCI&E carried forward	35,336				

PRIOR YEAR ADJUSTED AUDIT DIFFERENCES - DETAIL

Details for the prior year

	Income and expenditure			Balance Sheet	
Adjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjusted TCI&E brought forward	35,336				
Cumulative audit adjustments brought forward	***(206,105)***	***170,784***	***(376,889)***	***871,785***	***(623,461)***
Adjustment PY23: Correcting error in respect of omitted assets which were brought onto the asset register by crediting the full balance to the revaluation reserve					
DR Revaluation reserve				21,390	
CR Capital Adjustment Account					(21,390)
Cumulative audit adjustments carried forward	***(206,105)***	***170,784***	***(376,889)***	***893,175***	***(644,851)***
Adjusted TCI&E carried forward	35,336				

PRIOR YEAR ADJUSTED AUDIT DIFFERENCES - DETAIL

Details for the prior year

		Income and expenditure		Balance Sheet	
Adjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjusted TCI&E brought forward	35,336				
Cumulative audit adjustments brought forward	***(206,105)***	***170,784***	***(376,889)***	***893,175***	***(644,851)***
Casting error in June published CIES (£382k) and rounding variances (£81k)	(463)		Net (463)		
Cumulative audit adjustments	***(205,642)***	***170,784***	***(377,352)***	***893,175***	***(644,851)***
Adjusted TCI&E per current version of the Statement of Accounts	**(34,873)**				

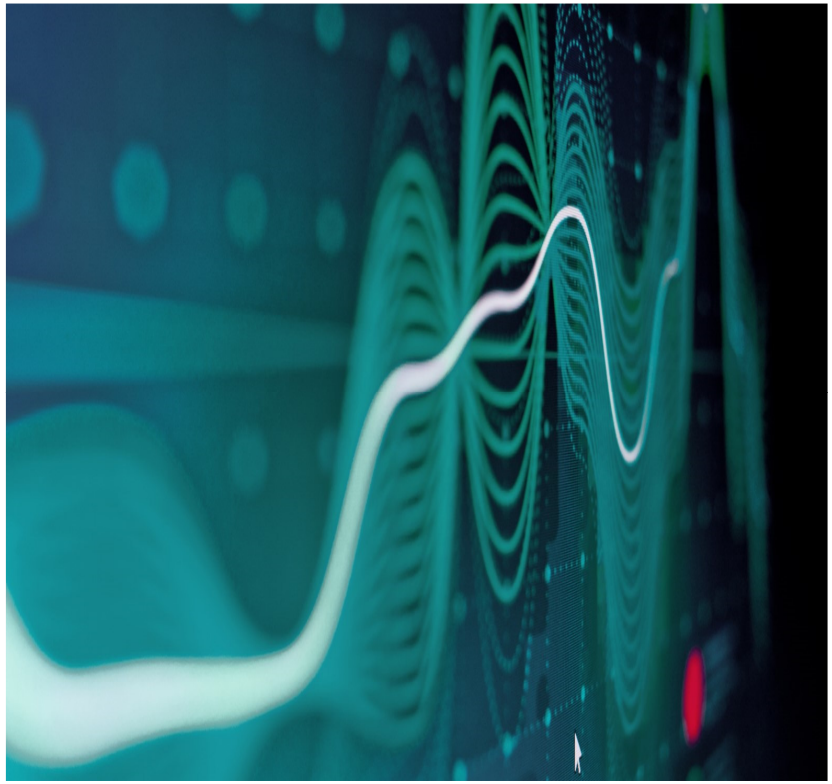
ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

We are required to bring to your attention other financial reporting matters that the General Purposes Committee is required to consider.

Disclosure matters were noted in respect of both the Narrative Report and the Annual Governance Statement that required these documents to be revisited by officers.

This has now been completed and the documents are now consistent with our knowledge of the Council.



REPORTING ON OTHER INFORMATION

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

Matter	Comment
We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	We noted that the updated Narrative Report presented in version 2 of the accounts (March 2021) has a bias toward the positive actions the Council had taken in the years and have provided feedback to this effect. The Narrative Report has been redrafted to take account of our comments and is now consistent with our knowledge subject to agreeing the financial information to the final set of accounts
We are required to report by exception if the Annual Governance Statement is inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council's review of effectiveness and our knowledge of the Council.	Our review has identified that the drafting is similar to the Narrative Statement in that some key issues (including a number of no or limited assurance Internal Audit reports) are not sufficiently addressed either in terms of explaining the shortcomings identified or in setting out key actions that need to be taken to address and mitigate the issues. "No Assurance" reports were issued in respect of the internal audits of: • Homelessness • Facilities Management of Youth Centres • General Ledger • Enfield part-owned companies • Oakthorpe Primary School "Limited Assurance" report was issued in respect of the Payroll internal audit. The Annual Governance Statement has been redrafted and was re approved at the GPC meeting on 4 August

WHOLE OF GOVERNMENT ACCOUNTS

Matter	Comment
For Whole of Government Accounts (WGA) component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure we are required to perform tests with regard to the Data Collection Tool (DCT) return prepared by the Council for use by the Ministry for Housing, Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level. This work requires checking the consistency of the DCT return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.	Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 30 September 2020. The Council did not meet this deadline, submitting on 10 December We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of the Council's financial statements. We are planning to issue our opinion on the consistency of the DCT return with the audited financial statements by the end of 2021.

OVERVIEW

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money) and report to you on an 'except for' basis. This is based on the following reporting criterion:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

There are three sub criteria that we consider as part of our overall risk assessment:

- Sustainable resource deployment
- Informed decision making
- Working with partners and other third parties.

As identified in our Audit Planning Report we assessed the following matters as being the most significant risks regarding use of resources.

Audit Risk	Criterion	Risk Rating	Issues identified that impact on conclusion
Sustainable finances	Sustainable resource deployment	Significant	No (but detailed work is subject to Partner review)
Meridian water and other regeneration projects	Informed decision making/Working with partners and other third parties	Significant	No (but detailed work is subject to Partner review)

SUSTAINABLE FINANCES (USE OF RESOURCES)

The Council will need to deliver it savings and achieve income targets to maintain financial sustainability in the medium term and there is a risk that these projections will not be met.

Significant risk	■
Normal risk	
Sustainable resource deployment	■
Informed decision making	
Working with partners and other third parties	
Significant control findings to be reported	

Risk description

The update to the Medium Term Financial Strategy (MTFS) to 2024/25 undertakes accounts of expected increases in funding for adult social care, increase in pension contributions as well as demographic and inflationary pressures.

For 2020/21, the Council is reporting a funding gap of £1.565 million (after £11.4 million of savings), which is proposed to be met by one of use of reserves.

The total savings gap over the next five years is £66.9 million of which £21.3 million of potential savings are identified. The revised gap (after savings and income generation) is £10.7 million, £11.0 million, £11.8 million and £12.1 million for 2021/22, 2022/23, 2023/24 and 2024/25 respectively.

Delivering the required savings from 2019/20 will be a challenge and is likely to require implementation of difficult decisions around service provision and alternative delivery models. There is a risk that this will not be achieved, impacting on the financial sustainability of the Council in the medium term.

Work performed

We carried out the following planned audit procedures:

- Reviewed the assumptions used in the Medium Term Financial Strategy and assessed the reasonableness of the cost pressures;
- Monitored the delivery of budgeted savings in 2019/20 and the plans to reduce service costs and increase income from 2019/20; and
- Reviewed the strategies to close the budget gap in the medium term.

Results

In July 2020 the Council reported a revenue budget variance of £10.9m against a budget of £231m, after the application of £2.7m in flexible receipts. This was partially offset by the use of a £3m contingency budget as well as s further £2.3m in other contingent items. The remaining variance of £5.6m was met from reserves. This left the Council's general fund balance at £13.95m as at the 31 March 2020.

The Council identified £10.7m of savings and income generation for 2019/20. the majority of these savings targets were met during the year however, £1.7m of the targets were identified as 'high risk' at the end of 19/20. Of these, £1.4m was rolled over into the 2020/21 savings and income targets.

Progress against the 2020/21 savings was reported to Cabinet in October 2020. Overall a budget gap of £1.7m was remaining following savings an income generation proposal of £7.3m with additional savings proposals of £2.7m being planned to be presented in December 20. However, the budget gap was also updated to include the impact of COVID-19, showing a revised gap of £18.1m.

During 2019/20 and to support the capital financing requirements going forward, the Council produced a 10 year Treasury Management Strategy Statement (TMSS). The TMSS identified that total capital spend in the 10 year period would £2.25bn. With £1.22bn being funded from borrowings with the remaining being funded from a combination of 'external sources' (£485m) and 'LBE Resources' (£547m). Under the TMSS borrowing will peak at £2.22bn in 2026/27.

SUSTAINABLE FINANCES (USE OF RESOURCES)

The Council will need to deliver it savings and achieve income targets to maintain financial sustainability in the medium term and there is a risk that these projections will not be met.

Significant risk	■
Normal risk	
Sustainable resource deployment	■
Informed decision making	
Working with partners and other third parties	
Significant control findings to be reported	

The borrowing and investment rates have been set at 3.5% and 0.75% respectively. For borrowing, the Council used the prevailing borrowing rates in the first two years of the strategy but 3.5% in later years for prudency, giving head room for interest rate risk. Based on these financing assumptions the total charge to the General Fund for the 10 year period £355m.

The Council have informed us that the rates referred to above have been reviewed by the Council's advisors, Arlingclose, who also considered the assumptions prudent. We note that their has been no written correspondence to obtained to support this and suggest that in the future, the validating support for key assumptions is clearly documented.

We understand that the TMSS is currently in the process of being refreshed with reduced interest rate assumptions which more closely align to current borrowing and lending rates.

Discussion and conclusion

Overall we are satisfied the Council has adequate arrangements for budget monitoring and taking mitigating actions to eliminate the impact of any overspends and undeliverable savings. Although small overspends have been incurred in 2019/2020, the Council has adequate resources to bridge the gap. Historically, the Council has been able to identified new savings and income generation areas which help to alleviate the budgetary pressures.

In addition, the newly introduced savings monitor reporting tool allows the Council to the see the progress being made on the agreed savings targets and focus on areas where officers believe they are at risk of delivery. Each of these targets will be managed by the responsible team and any deviations will be flagged through the savings monitor process.

The Council has also factored into its financial management plans, its long term financing requirement. Officers have produced a 10 year Treasury Management Strategy Statement which outlines how the Council’s capital programme will be met. The headline figures are very substantial with borrowings peaking at £2.2bn in 26/27. The assumptions used in the TMSS appear prudent and we understand that officers have recently refreshed the strategy to reflect better interest rates on borrowings.

Although closing the budget gap will remain challenging given the current environment and the long term capital projects the Council has embarked upon, we are satisfied that the Council has adequate arrangements in place to remain financially sustainable in the medium term.

MERIDIAN WATER AND OTHER REGENERATION PROJECTS (USE OF RESOURCES)

These projects represent significant investment by the Council and there is a significant risk that the public money being invested does not deliver value for money if the projects are not successfully managed.

Significant risk	■
Normal risk	
Sustainable resource deployment	
Informed decision making	■
Working with partners and other third parties	■
Significant control findings to be reported	

Risk description

The Council is continuing the work to deliver a range of large scale regeneration projects aimed at increasing the capacity of the Borough to provide housing and employment for the resident of the Borough, most notably the Meridian Water project.

These projects represent significant investment by the Council and there is a significant risk that the public money being invested does not deliver value for money if the projects are not successfully managed.

Work performed

We carried out the following planned audit procedures:

- We have reviewed the programme and project management arrangements instigated by management to govern the delivery of the regeneration projects and ensured that the anticipated benefits are realised.

Results

Governance:

There is an appropriate governance structure in place which sees the oversight and strategic direction of the project managed by the Meridian Water Programme Board and MW Executive Board. The programme board is supported by a number of sub-boards which meet on a regular basis and are responsible for specific elements of the job.

Budget:

In October 2019 the Council approved an update to the original financial plan approved by full Council in January 2019 which includes a 30 year financial model.

Within this model there is £286m budget for 19/20, 20/21 and 21/22, and indicative budget of £245m for the period 22/23 to 28/29.

There are a number of key assumptions included in the above budget which include, but are not limited to the cost per square foot to construct each unit type, the number of unites being constructed under each phased, the rent per unit, inflationary costs, management fees, discount rate and sales prices.

Meridian One:

Following the successful appointment of Vistry Partnerships (formerly Gallford Try Partnerships) in April 2019, following a competitive tender using the GLAs LD2P framework, the Council have now finalised the Development Agreement (DA) with Vistry Partnerships.

The DA includes the provision of 950 homes, of which 50% are to be 'affordable'. Construction is due to start in within 2021 and the first completions are expected to be in 2022.

MERIDIAN WATER AND OTHER REGENERATION PROJECTS (USE OF RESOURCES)

These projects represent significant investment by the Council and there is a significant risk that the public money being invested does not deliver value for money if the projects are not successfully managed.

Significant risk	■
Normal risk	
Sustainable resource deployment	
Informed decision making	■
Working with partners and other third parties	■
Significant control findings to be reported	

Employment Strategy:

In March 2020, the Meridian Water Employment Strategy was approved by the Council. This included the aim of creating 6,000 new jobs at the London Living Wage or above, 250+ local people in construction jobs for a sustained period of 25 years and to support 1000 Small and Medium Enterprises in the area.

As at January 2021, the MW Employment project was showing that the Strategy was behind target with a total of 449 jobs against a target of 1000.

Meridian Two:

Phase two of the MW project was approved by Council in December 2019. This included approving the appointment of the preferred development partners to take this forward. At the time of our review the Development Agreement had not yet been finalised for this phase, but this was anticipated to be signed in May or June 2021.

The project, however, is underway with the planning application for 2,300 new homes having been submitted to the Council in April 2019.

Discussion and conclusion

There have been a number of key developments in year which suggest that the overall project is progressing as intended. Although this is a challenging project there is an appropriate governance framework in place to manage the delivery.

We do not consider there to be an impact on our use of resources conclusion, but we will continue to monitor progress against the project.

SIGNIFICANT DEFICIENCIES

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the General Purposes Committee.

As the purpose of the audit is for us to express an opinion on the Group's financial statements and the Council's use of resources, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control. These matters were initially communicated in our ISA 265 report in October 2020

Please note: Management responses are preliminary, and more comprehensive responses, including specific actions to be taken, timelines and responsible officers, will be agreed in due course.

Area	Observation & implication	Recommendation	Management response
Financial Statements Preparation	Resource shortages and pressures within the finance department have contributed to reduced levels of quality control reviews of the financial statements and of the supporting working papers. Whilst the draft financial statements were submitted to the scheduled General Purposes Committee on 23 July 2020, the accounts were presented later for audit than had originally been agreed (end June). The compressed timetable prevented the Council undertaking of the originally planned quality review and control processes. These quality control issues are evident, for example, in: • Prior Period Adjustments (PPAs). This is a critical and sensitive area, even in "normal" years, but particularly given the high profile reworking of the closedown process in 2019/20. • Meridian Water assets classification paper. This key element of the Council's audit accounting and valuations trail was agreed as being necessary at a very early stage. The absence of the paper was not identified in quality review.	The Council should, as part of a wider root cause analysis process: • Reflect on the experiences of the 2019/20 closedown experience • Revisit finance department structures, and skill set and experience needs, updating as necessary • Secure necessary additional resources • Ensure the closedown plan for 2021/22 enables the support for "hard close" (both for trial run but also as a key interim audit step) • Ensure the closedown and preparation of draft Statement of Accounts allows for a thorough and robust quality control and review process • Ensure that there is a clear plan for what will be undertaken during the quality control and review and who will undertake the various steps, with clear guidance on documentation and evidence of these processes The General Purposes Committee should receive and review these plans	Agreed, a number of these actions have already been undertaken including: Restructuring the team, securing interim support, the 2020/21 timetable sets aside 4 week review period, quality assurance boards have been set up for working papers, a CIPFA review of the team structure has been undertaken.

SIGNIFICANT DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Quality review and challenge of valuers' reports	The Council had intended to subject the valuations information provided to a thorough review and challenge as part of the closedown process. However, due to compressed timescales and significant finance team resource shortages, this was reduced. We have identified a number of issues that should have been identified by management's own quality checking, including: • Errors with beacon sheet entries and supporting valuations trail • Errors in certain investment property valuations (wrong values reported) and these needing to be reissued • Supporting information not provided as part of the initial working paper • A draft unsigned report being provided to the audit team as a final version and the finance team taking some time to accept that it was not a final version. • Errors found in the classification and valuation of additions to Meridian Water	Linked to the preceding accounts review quality control point and recommendations above, the Council should, as part of a wider root cause analysis process: • Ensure the closedown step relating to valuations of no current assets allows for a thorough and robust quality control and review process • Ensure that there is a clear plan for what will be undertaken during the quality control and review and who will undertake the various steps, with clear guidance on documentation and evidence of these processes The General Purposes Committee should receive and review these plans.	Agreed, for 2020-21 challenge review sessions between Finance and the Valuers have been timetabled in and additional quality review processes are planned.

OTHER DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Authorisation of journals under £100,000	The journals template has a maximum 999 journal lines and it is possible to post manual journals in SAP without approval as long as the value in each journal line on the journals template is below £100,000. Journals authorisation is only required when there is a journal line with a value greater than £100,000. Unauthorised or fraudulent entries with significant impact on the financial statements may not be identified and impact the financial statements without relevant approvals if journals lines values in each journal template are below £100,000.	Manual journals should be parked/submitted for approval and then posted by different people to ensure appropriate segregation of responsibilities. Approval of journals should be by a senior member of the finance team.	An internal audit during 20/21 has identified this risk and an action plan is underway to address this.
Casual worker contracts	Our testing of payroll balances noted that when a casual worker is employed, a letter of engagement is not always produced (equivalent of contract for permanent staff) and signed by the manager and the employee.	We would recommend that a letter of engagement is issued which outlines the terms and conditions of the employment and the salary /pay scale for each casual worker hired.	Agreed
System access reviews	Following the recommendation raised in the prior year with regard to Ash and CareFirst, we noted that there is a lack of access reviews across all systems we have reviewed (except SAP) There is no regular user access review with regards to the Ash Debtors system. This could mean that users could have inappropriate access to the system	A regular review of users of all IT Systems should be implemented	Agreed

OTHER DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Accumulated absence accrual	The Council has a policy to review the accumulated absence accrual every 3 years as it is an immaterial balance. This was last reviewed in 2016/17 and therefore should have been reviewed in 2019/20, however this was not done.	As the balance is immaterial it is unlikely that there would be a material error, however the council should ensure that it complies with its own policy.	Agreed

FOLLOW UP OF PRIOR YEAR DEFICIENCIES

Area	Issue and impact	Original recommendation	Progress	Management response
Accounts production process	A complete and auditable set of group financial statements was only received on 23 June 2019. This caused significant delays to our audit.	Management should ensure that they undertake their own detailed review of the draft financial statement, including an analytical review, of both the single entity and group financial statements before they are submitted for audit on 31 May.	The group financial statements were submitted for audit on 20 July 2020 in line with the revised timetable, however as noted previously these contained a significant number of errors, and a significant deficiency in relation to the accounts production process has now been raised	This is being addressed as part of the 2020/21 timetable.
Management assessment of Meridian Water classification	As part of our planning discussions with management, we requested a working paper detailing the justification for the classification and valuation basis for the Meridian Water assets. This was not received as part of the working papers and management's justification for the classification as surplus assets was only received in July.	We recommend that management prepare a working paper (making reference to the CIFPA Code) to justify their classification for these assets on an annual basis, prior to the instruction of valuations as the classification will determine the basis for valuation.	Management had proposed that a meeting to agree this would take place during the interim audit in early February 2020. this did not take place as planned and the justification for the valuation basis of Meridian Water was only provided to audit in September 2020 after the Council had engaged a third party consultant to assist with this.	Agreed, we will commission the third party earlier in the process for 2020/21.
Review of the fixed asset register and asset management system (KEL)	We identified a number of properties on the fixed asset register which are no longer in use by the Council, and a number of discrepancies between the KEL system and land area documentation.	Management should perform a thorough and detailed review of the assets held on the fixed asset register and KEL system and make all necessary adjustments.	Management have completed a review of all properties as part the transfer from the SAP asset register to the CIPFA asset register. A PPA has been done as part of this to ensure all assets are correctly classified.	Agreed, the work undertaken to set the 2018/19 and 2019/20 base position and CIPFA asset register should place us in an improved position for 2020/21.

FOLLOW UP OF PRIOR YEAR DEFINICENCIES

Area	Issue and impact	Original recommendation	Progress	Management response
Journals posting by employees leaving the Council	We identified two employees who had posted journals after they had left the organisation, one of which left in September 2018 and the system was showing a journal posted in January 2019. The Council informed us that if an individual has processed a journal but someone else posts it, the posting date is shown as the latter date, however there is still a four month delay between processing and posting this journal. We identified six employees with access to the SAP system has posted journals in the month of leaving the Council, however we were unable to determine if these were postings after they had left the organisation as this detail was not available in the system. We also identified one employee who had two user accounts.	The Council should ensure that leavers are deactivated from the system immediately after their leaving date. The Council should review their core financial system to create reports to enable internal monitoring of journal posting dates, by performing a reconciliation to leavers dates and identifying journals which have been processed but not posted to the system.	We increased our testing of this issue in 2019/20 and did not identify any instances where leavers had posted journals after their leaving date.	Noted.

FOLLOW UP OF PRIOR YEAR DEFINICENCIES

Area	Issue and impact	Original recommendation	Progress	Management response
Removing schools employees from the payroll system	We noted within our sample testing of schools payroll, we identified a number of schools employees paid after their leaving date. Although all of these balances have since been recovered by the Council, there is a risk that payroll expenditure could be overstated.	The Council should perform regular checks to reconcile the leavers listing provided by the schools to the payroll system. This is to ensure that schools leavers are not inappropriately paid for work after their leaving date.	No issues relating to payment after leaving dates noted in the 2019/20 schools payroll testing.	Noted
Internal recharges for schools balances	As noted on page 24, within our mapping on income, we identified that £1.7 million, being the transfer from reserves due to overspends by schools had been incorrectly recorded as income and expenditure within net cost of services.	The Council should ensure that all internal recharges are corrected netted off within the financial statements, as part of the review of the draft financial statements process.	We have not found any issues with schools internal recharges this year, however we have found that short term investments was over overstated by £17m as a result £8.7m of schools banks balances being shown as investments rather than cash and £8.3m of schools balances being off set by a negative debtor.	Noted – adjustment made.
Redundancy process	We identified a lack of audit trail regarding the redundancy process between the employee and the Council. The final redundancy payments are not formally approved (calculated by the payroll and pensions team based on salary and other payroll data).	This Council should ensure that there is an audit trail of communication with the employee being made redundant and final payment calculations are appropriately approved, and that this process is communicated to the finance team to make the relevant accruals.	The audit trail has improved this year and no issues were noted from our testing.	Noted.

FOLLOW UP OF PRIOR YEAR DEFINICENCIES

Area	Issue and impact	Original recommendation	Progress	Management response
Lease agreements and rent review letters	Difficulties were faced by the audit team in reviewing signed lease agreements for our testing on investment properties. The Council informed us that the person responsible for maintaining the contracts left the organisation before the audit began and there is no nominated person to take on these responsibilities.	The Council should ensure that there are contingencies measures in place for when an employees leaves the organisation, and that key documents are held securely by more than one person.	The council was able to provide us with leases as required this year.	Noted.
IT general controls (user access reviews)	For both the Ash and Carefirst IT systems, we identified that there are no specific processes in place whereby user access levels and permissions are reviewed periodically. The only reviews which are performed are to identify users who have not logged into their account for more than 90 days. There is a risk that users may have inappropriate levels of access to the system.	The Council should perform monthly checks on user access levels and perform regular reconciliations of leavers to the access listings.	The Council has not introduced these checks in in full yet. Currently are done after users have not logged in for 60 or 90 days. There remains a risk that existing users may have access to information that is not required for their job role,	Agreed – action will be taken.

FOLLOW UP OF PRIOR YEAR DEFINICENCIES

Area	Issue and impact	Original recommendation	Progress	Management response
Review of useful economic lives	We identified a significant variance for the useful economic life of one asset in the fixed asset register compared to the yearend valuation report. There is a risk that if the depreciation charge is calculated over the incorrect useful economic life, then the expenditure charge could be misstated.	The Council should review the remaining useful economic lives of property provided by the external valuer on an annual basis and ensure that any adjustments are posted to the fixed asset module.	The council has been reviewing the useful economic lives of assets as part of the asset register transfer undertaken in the year.	Noted
Depreciation of schools transferring to academies during the year	We performed a review of all schools which transferred to academies during the year, and identified that a full years worth of depreciation had been recognised on all transfers, rather than up to the point of transfer. The depreciation calculation is therefore overstated.	The Council should update the fixed asset register on an ongoing basis throughout the year, and recognising disposals of academy transfers at the point they incur to ensure that the depreciation charge is not overstated.	This issue has been addressed as part of the migration to the new asset register for 2019/20.	Noted
Signed declarations from Councillors	We were unable to obtain one signed declaration. As the Council place reliance on these declarations for the completion of the related party transactions note, there is a risk that this note is not complete.	The Council should endeavour to obtain signed related party declarations from all Councillors and senior officers in position during the year.	Four declarations were not provided by councillors this year. The Council officers have continued to chase these throughout the audit period but the councillors concerned have not responded.	Noted

FOLLOW UP OF PRIOR YEAR DEFINICENCIES

Area	Issue and impact	Original recommendation	Progress	Management response
Land registry documents	Within our sample testing of non-current assets, we identified a large number of assets (in particular schools and council dwellings) which are not registered by the Council at Land Registry. For three of these assets, we were unable to obtain assurance over these properties. This meant that we were unable to directly gain assurance that the Council had the rights and obligations to these assets.	The Council should performed a detailed review of the assets which are not specifically registered to them and obtain the relevant documentation from the Land Registry.	The council still has a number of assets that have not been registered at the land registry. We were able to obtain assurance via the review of title deeds that the Council had the rights and obligations to these assets.	Noted
Calculation of non-collection of receivables	The calculations prepared are overly cumbersome and difficult to follow. the Council has applied the historical default rates (incurred losses) using system data to determine the credit losses on trade receivables within the scope of IFRS 9, but has not updated this to reflect expected (future) credit losses. However, this is unlikely to result in a material difference in the amount of credit losses recognised. Also, the Council does not calculate different collection rates for housing benefits arrears for former and current tenants where the methods of collection are different (by invoice and clawback respectively).	The Council should revise their calculation of non-collection of receivables to make their easier to follow and to take into consideration expected credit losses under IFRS 9 going forward.	The method of calculation of non collection of receivables has not changed from previous years. However, the Council do now split the collection rates for housing Benefit arrears for former and current tenants between cash and clawback.	Noted

OVERVIEW

Opinion on financial statements

At this point we have not identified any issues that would prevent, subject to the successful resolution of outstanding matters, our being able to issue an unqualified audit opinion on the consolidated Group financial statements and the Council's single entity financial statements, with the sole exception of the issue relating to valuation uncertainty linked to the Covid-19 pandemic as at 31 March 2020.

The opinion will be modified to include an Emphasis of Matter in relation to the valuation of land and buildings as a result of the material uncertainty included within the valuations.

Conclusion on use of resources

We are proposing to issue an unmodified conclusion

Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting or the Group's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

There are no material uncertainties in relation to going concern disclosed in the financial statements of which we are aware that we need to draw attention to in our report.

Other information

The Narrative Report has been redrafted and subject to agreement of financial amounts to the final accounts is consistent with our knowledge of the Council).

Annual Governance Statement

The AGS has been redrafted and is now consistent with our knowledge of the council.

Audit certificate

We will be unable to issue the audit certificate until the completion and submission of our work on WGA and completion of work on objections received in previous years.

INDEPENDENCE

Under ISAs (UK) and the FRC's Ethical Standard we are required, as auditors, to confirm our independence.

Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2020.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Planning Report.

We have not identified any relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Group.

We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council and the Group.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

FEES

Fees summary	2019/20 Actual £	2019/20 Planned £	2018/19 Actual £
Audit fee			
• Code audit fee: consolidated Group and single-entity financial statements and use of resources	TBC	*£132,104	£132,104
• Additional fee	TBC	-	£55,900
Total fees	**TBC**	***£132,104**	**£188,004**

* The Scale fee was subject to additional fees related to the increases in regulator expectations since the Scale fees were set.

An Additional fee as a result of the additional work required due to the issues outlined earlier in the report and the impact of Covid-19 will be agreed with Management following the completion of our work.

APPENDICES CONTENTS

OUR RESPONSIBILITIES

Responsibilities and reporting

Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your consolidated and Council financial statements. We report our opinion on the financial statements to the directors of the Council.

We read and consider the 'other information' contained in the Statement of Accounts such as the Narrative Report. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

We report where we consider that the Council had not put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We review the Whole of Government Accounts Data Collection Tool provided to HM Treasury and express an opinion on whether it is consistent with the audited financial statements.

What we don't report

Our audit is not designed to identify all matters that may be relevant to the General Purposes Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

	Issue	Comments
1	Significant difficulties encountered during the audit.	We encountered a number of difficulties in our audit please see pages 19-21
2	Written representations which we seek.	Our draft representation letter will be presented once audit work has been completed and potential issues for inclusion concluded.
3	Any fraud or suspected fraud issues.	No exceptions to note to date.
4	Any suspected non-compliance with laws or regulations.	No exceptions to note to date.
5	Significant matters in connection with related parties.	5 Councilors failed to provide declarations of interest forms despite being reminded on a number of occasions by Council officers.
	Group matters	
6	Limitations on the audit where information was restricted.	No exceptions to note to date.
7	Any issues with the quality of component auditors work.	Our work is still on going
8	Any fraud or suspected fraud at group or component level.	Our work is still on going

COMMUNICATION WITH YOU

Those Charged with Governance (TCWG)

References in this report to Those Charged With Governance are to the Council as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the General Purposes Committee.

In communicating with TCWG of the Council and the Group, we consider TCWG of subsidiary entities to be informed about matters relevant to their subsidiary. Please let us know if this is not appropriate.

Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

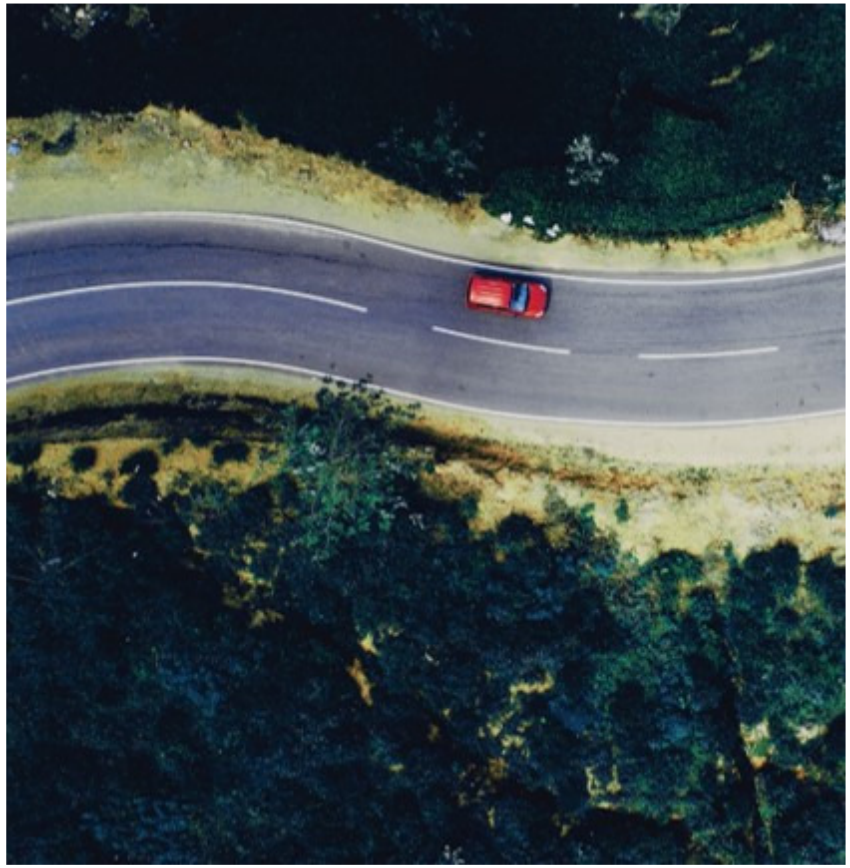
Communication	Date (to be) communicated	To whom
Audit Planning Report	January 2020	Audit and Risk Management Committee
Report on significant weaknesses in controls (ISA265) / Audit Progress Report	October 2020	General Purposes Committee
Audit Completion Report (ISA260) [preliminary]	April 2021	General Purposes Committee
Audit Completion Report (ISA260) [progress update]	October 2021	General Purposes Committee
Annual Audit Letter	TBC	General Purposes Committee

OUTSTANDING MATTERS

We have completed the majority of our audit field work in respect of the financial statements and use of resources for the year ended 31 March 2020.

The following matters are outstanding at the date of this report and could impact our audit opinion. We will update you on their current status at the General Purposes Committee meeting at which this report is considered:

- Completion of Audit work on:
  - PPE valuations
  - Group Accounts
  - Completion Procedures
- Completion of Manager review and clearance of related review points
- Partner review and clearance of related review points
- Quality Reviewer review and clearance of related review points
- Internal quality reviews, including technical accounts clearance
- Review of updated accounts including the financial information in the Narrative Report
- Updated going concern review to date of signing.
- Receipt of letter of representation



AUDIT REPORT

Audit report to be inserted on completion of audit

AUDIT QUALITY

BDO is totally committed to audit quality

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the FRC's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at www.bdo.co.uk

FOR MORE INFORMATION:

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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