

London Borough of Enfield

General Purposes Committee

29 June 2022

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

Cabinet Member: Cllr. Leaver, Cabinet Member for Finance & Property

Executive Director: Fay Hammond, Executive Director Resources

Key Decision: N/A

Purpose of Report

1. This Report provides an update on the audit of the 2019/20 Statement of Accounts.

Proposals

2. General Purposes Committee is recommended to:
3. Note the update provided in the report.

Reason for Proposals

4. A core General Purposes Committee role is to review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

Relevance to the Council's Corporate Plan

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

Background & Progress to Date

6. This report updated the GPC on the 2019/20 Statement of Accounts audit.
7. At the meeting of the GPC on 14 October 2021 BDO's Audit Partner presented his Audit Closure Report, the ISA260. The audit work was largely complete (including Pension Fund) and an unqualified opinion was anticipated. The report did include a number of unadjusted errors which if posted, would decrease the deficit on the provision of services for the year of £127.119m by £1.028m and reduce cumulative net assets and the General Fund balance of £717.102m by £472k which it was agreed would remain unadjusted.
8. In finishing their work, the BDO team identified two areas of the Council's accounts which required further work and the outcome of this was reported to the informal meeting of GPC on 13 January. The update is repeated in the paragraph below.

9. In addition to those already reported in the ISA260 report, there will be the following unadjusted errors in the 2019/20 accounts in respect of:
 - treatment of the IWE Pension Liability. Enfield has included this in the Council's single entity accounts and Group on consolidation and has received external technical advice that this treatment is appropriate. BDO maintain that the liability should be in the Company's accounts and not the single entity. There is a difference of opinion and at this late stage of the audit the final BDO Closure of Audit Report will present this as an unadjusted error of £9.4m.
 - Council Dwellings valuation. In the final senior audit review of Council Dwellings in December, BDO have challenged evidence provided by Strutt and Parker to support the valuation of 9 beacons from a sample of 134. Again, given the lateness of this work and the impact that this would have on the 2019/20 accounts and Fixed Asset Register, as well as the opening balances for 2020/21, this will be reported as an unadjusted error.
10. The January 2022 report also updated as follows on the remaining work. *The Audit Manager has practically completed her review of the accounts. The Audit Partner review is in progress. The BDO peer review or Engagement Quality Control Review (EQCR) will take place once the partner review is complete and all review points are cleared. BDO are to confirm when this will be complete, however, it is anticipated this will be for March GPC. There are no outstanding actions for the Council at this time.*
11. At the GPC on 3 March 2022, it was reported that the Audit Manager had now completed her review of the accounts and the Audit Partner had been undertaking his review. As part of his review the partner identified three areas which gave rise to further work for the Enfield Finance Team; these were in respect of valuations of Other Land and Buildings, Investment Properties and Infrastructure.
12. Other Land and Buildings – It was reported that Enfield, as is normal practice, does not value all of its assets every year, they are all valued as part a rolling five year programme. BDO had revisited their valuations work in this area. The indexation of the non-valued assets had been challenged, the indices used by Gerald Eve giving a different outcome to that applied by the Council's valuers. There was a difference of £1.143m and whilst this is a difference in professional judgment it is effectively a further unadjusted error of £1.143m.
13. BDO had also revisited their valuations work on Investment Properties but only identified very minor differences and there is no impact.
14. The peer review or Engagement Quality Control Review (EQCR) cannot be completed until the partner review is complete and all review points are cleared.
15. The 3 March 2022 GPC was also informed that a national sector wide issue had arisen on Infrastructure. It had been identified that authorities were not writing out costs and depreciation on these assets when they were decommissioned or replaced. The net values are robust but the gross values are arguably overstated. BDO and the other audit firms met with the National Audit Office at their Local Auditors Advisory Group LAAG meeting

on 8 February. There was agreement to raise the issue with DLUHC, Department for Levelling Up Housing & Communities and that a prompt nationally consistent solution was required. There was a further Local Government Technical Network LGTN meeting of the firms on 24 February to discuss the matter.

16. Since the 3 March GPC report the Audit Partner has completed his review and has raised review points with the Audit Manager and audit team. Whilst most of the review points have been cleared there are still some outstanding which must be cleared before the audit can be signed off.
17. In addition, the audit sampling methodology used for open audits has recently changed. As a result, additional cut off transaction testing was requested by the auditors. These have been completed by the LBE Finance Team and reviewed by the audit team. One error was identified for a legal cost which had not been accrued. The value of the error fell within the overall materiality limit and therefore will be reported as an unadjusted error.
18. The EQCR has commenced their work and the Property, Plant and Equipment (PPE) review has been completed. Two review points have been raised relating to PPE valuations, housing asset beacon valuations and a block of land as part of the Meridian Water development. The Audit Partner needs to review the points raised and discuss them with the audit team before the details can be passed to the LBE Finance Team. A timescale for this work could not be provided by BDO at the time of writing this report due to audit staff resource pressures.
19. The remaining EQCR work is due to commence on 20 June. This was delayed due to BDO reallocating LBE audit time to other BDO work priorities.
20. At the time of writing this report there are no outstanding tasks to be completed by the LBE Finance Team, although we have been advised that additional information may be required as a result of any EQCR PPE review points raised which could delay the sign-off of the accounts further.
21. Concerns have been raised by LBE staff with the Audit Partner regarding the ongoing delays in finalising the 2019/20 review points and the reallocation of the audit staff and EQCR to other BDO priority work. The Audit Partner could not provide a timeline for the EQCR review points to be considered.
22. The Council has been advised (on 31/5/22) that the Audit Manager leading the 2020/21 audit will also be supporting the 2019/20 accounts being finalised, however timescales for this have not been provided.
23. There is a risk that the delays in finalising the 2019/20 audit work could have an impact on the 2020/21 Annual Accounts audit, the second phase which is due to start on 11 July.
24. Finally, the sector wide issue relating to the accounting for infrastructure assets has progressed. There is currently a CIPFA LASAAC consultation on proposals to deal with the issues in the short and longer term, upon which Councils are asked to comment. The deadline for the consultation responses is 14 June and the outcome of the consultation is expected to be the end of June 2022. The 2019/20 accounts cannot be signed off until the

outcome of the consultation has been published and recommended actions have been considered.

25. As a result of the infrastructure assets consultation the 2019/20 accounts will not be signed off before the end of June 2022.

Resources

26. Undertaking work on multiple Statement of Accounts puts considerable pressure on the Finance Team and the intention is to retain the interim Chief Accountant and Deputy Chief Accountant across this period. There is already a permanent Deputy in the team and the permanent Chief Accountant joined the Council on 24 January. The Council has also strengthened its director level resource with both the Finance Director Corporate and Finance Director Capital & Commercial who joined on 21 February.

Next Steps

27. In summary, the next steps are:
 - BDO to identify resources to complete the final audit reviews on 2019/20. Should anything arise from these reviews the Council will be ready to respond/provide samples etc.
 - the outcome of the national infrastructure consultation to be published and outcome to be agreed and then applied.
28. BDO have continued to keep the Council updated via regular weekly briefings. Following the update latest resourcing challenges, the Council has contacted the PSAA to ensure that everything is being done in the Council's powers to expedite the 2019/20 audit coming to a close and concerns around capacity for 2020/21 and 2021/22. The PSAA set out the following:
 - The Council is locked into the contract statutorily, having opted in. In practical terms there are no firms within the contract in a position to take on the contract
 - The PSAA went on at length about limitations within the sector, high proportion of staff leaving the sector
29. The next actions that will be taken are: the PSAA will can lead discussions with BDO re 19/20 in particular; the Council to formally complain to BDO and consideration will be given to any fee charged above scale fee (this process only happens after audit has been completed). The audit contract cannot hold the firms to any set date because it compromises ability to draw independent conclusions.
30. **Safeguarding Implications**
31. There are no Safeguarding implications arising from this report.
32. **Public Health Implications**
33. There are no Public Health implications arising from this report.

34. **Equalities Impact of the Proposal**
35. There is no Equality impact arising from this report.
36. **Environmental and Climate Change Considerations**
37. There are no Environmental and Climate Change implications arising from this report.
38. **Risks that may arise if the proposed decision and related work is not taken**
39. The report is for noting, there is no decision required.
40. **Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks**
41. The report is for noting, there is no decision required.
42. **Financial Implications**
43. There are no direct financial implications beyond that an unqualified set of Accounts demonstrates that the Council is a 'going concern' and that any audit changes may materially affect the underlying net worth of the entity.
44. **Legal Implications**
45. The responsibilities for the framework within which local authority audits are conducted is the Local Audit and Accountability Act 2014. The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the 2014 Act. Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. A Code of Audit Practice came into force on 1 April 2020, after being approved by Parliament. The new Code applies to audits of local bodies' 2020-21 financial statements onwards: The detailed statutory Auditor Guidance Notes (AGNs) that will support the new Code are being drafted.
46. **Workforce Implications**
47. There are no Workforce Implications arising from this report.
48. **Property Implications**
49. There are no Property Implications arising from this report.
50. **Other Implications**
51. None.
52. **Options Considered**
53. The report is providing an update and alternative options are not required.
54. **Conclusions**
55. The work on the 2019/20 Annual Accounts audit by the Enfield Finance Team is concluded, the BDO Audit Partner has completed their review work although some audit review points need to be cleared by the Audit Manager.
56. The EQCR work has started but has not completed. To date the EQCR has raised two PPE review points however, the details of the issues have not

been reviewed by the Audit Partner and the specific details have not been passed on to the Enfield Finance Team.

57. At this stage the BDO audit team have been moved on to other priority work and the Enfield 2019/20 audit has been paused until late June. The EQCR reviewer is expected to continue their work on 20 June.
58. An estimated timeline of when the 2019/20 audit work will be completed could not be provided by the BDO audit partner and the ongoing BDO audit staff pressures are an increasing concern.
59. Due to the BDO audit staff resourcing pressures there is a risk that the 2019/20 audit will not be completed before the start of the second phase of the 2020/21 audit on 11 July 2022. This could result in further delays to the 2020/21 audit.
60. The sector wide infrastructure asset accounting consultation closes on 14 June with the outcome expected by the end of June. The 2019/20 Annual Accounts audit will not be signed off before the end of June as the infrastructure assets issues will need to be resolved and the impact on the accounts considered.

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