

## London Borough of Enfield

### General Purposes Committee

26 July 2022

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**Subject:** Update on the Audit of the 2019/20 and 2020/21  
Statement of Accounts and Pension Fund and progress  
on the 2021/22 Council's Accounts

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

**Executive Director:** Fay Hammond, Executive Director Resources

**Key Decision:** N/A

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### Purpose of Report

1. This report provides an update on the audit of the 2019/20 and 2020/21 Statements of Accounts and Pension Fund and provides an update on the work underway to produce the Council's Accounts for 2021/22.

### Proposals

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

### Reason for Proposals

3. 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

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

### Background & Progress to Date

5. As was reported to GPC in June, LBE continues to have two open sets of accounts, namely 2019/20 and 2020/21, whilst also being in the process of preparing draft accounts for 2021/22. The remainder of this report provides an update on each year, and then outlines how officers are seeking to improve the position in relation to delays in the auditing of the accounts moving forward.

## 2019/20 Statement of Accounts Audit

6. The finalising of the audit of LBE's 2019/20 accounts (including Pension Fund) remains of critical importance, given time elapsed since publication of the draft version.
7. At the point at which reports were being prepared for the June 2022 GPC, there were no outstanding tasks or matters to be completed by LBE officers. Through its internal review processes in late May 2022 (what is known as the EQCR process), BDO had identified two items within the 2019/20 accounts requiring further review, one relating to valuation of a block of land at Meridian Water, and the other relating to a HRA housing property beacon. However no detail had at that point been passed by BDO to LBE on the queries.
8. The detail on the Meridian Water land valuation was provided by BDO to LBE on 3 June. LBE provided a response to BDO on 17 June and is now awaiting further comment. The detail of the housing property beacon had not been provided to LBE as at the point of this report being prepared, in late June.
9. It is generally the case that the audit firms within the public sector market focus on NHS audits in the period directly after the end of the financial year, returning to local government audits in June. The lack of progress in recent weeks may point towards the well documented lack of capacity within the public sector audit market, however it nonetheless remains disappointing, particularly given the identification of additional issues following yet further review of a set of draft accounts that has remained open for nearing two years.
10. Further, BDO, in correspondence with LBE in late June, have stated that NHS audits have overrun this year, and that there have been delays in Department for Health and Social Care finalising legislation on the demising Clinical Commissioning Groups and subsequent establishing of their direct replacements, Integrated Care Boards. Both these issues will impact negatively audit firms' abilities to manage Local Government audits.
11. The other, sector-wide issue stopping LBE's 2019/20 accounts from being signed off is the infrastructure assets technical accounting item, also reported to the last GPC, and discussed with BDO in person at March GPC. The CIPFA/LASAAC consultation to local authorities on proposals to deal with this issue closed on 14 June, and we await the outcome. BDO, who together with the other local government audit firms are liaising with CIPFA and LASAAC on identifying a solution to this this issue, currently estimate a final position being arrived at in late July but this is by no means certain.
12. Any proposal from CIPFA needs to be agreed/verified by the firms as a workable option, and local authorities continue to run the risk of accounts being qualified on this technicality, in the event agreement is not reached. It should also be noted that until it is resolved, this issue will impact on future years of accounts, sector-wide. It is imperative that CIPFA identifies and delivers a workable solution.

13. Finally, it should be noted that whilst the audit continues, audit fees continue to accumulate. In late May the fees for 2019/20 were estimated by BDO at double the £150k scale fee agreed through the PSAA tender. The nature of the contract with PSAA, where audit firms are under no imposed deadline (because of the need to arrive at independent conclusions) means there is no financial imperative to bring the audit to a close.

#### **2020/21 Statement of Accounts Audit**

14. As was reported to June GPC, BDO have completed the first phase of their audit of LBE's 2020/21 main accounts over March and April 2022, focusing primarily on fieldwork relating to Property Plant and Equipment. The second and final phase of this audit had been planned by BDO to commence on 11 July. However this position now seems uncertain, given where NHS audits are (see above) and also BDO's decision to redirect staff away from LBE's 2020/21 accounts to focus upon finalising the 2019/20 accounts (though LBE accounts will only start to be worked upon again once NHS audits have been finalised, it is understood).
15. LBE is awaiting clarification from BDO on 2020/21. The Pension Fund accounts for 2020/21 will be completed at the same time as the main audit.

#### **2021/22 Closure of Accounts update**

16. The statutory deadlines for draft and audited accounts for 2021/22 are the 1 August 2022 to produce draft accounts and these need to be audited and signed off by 30 September. Although there has been a recent government consultation proposing that the audited accounts deadline could extend to 30 November 2022. The outcome of the consultation has not yet been published.
17. The national capacity and timeframe challenges for all audit firms, also applies to BDO and it is expected that Enfield's audit work will be delayed until the 2020/21 audit has been completed. Given further anticipated delays to 2019/20 and 2020/21 audits, outlined above, the expectation is that the 2021/22 audit will not commence until the prior two years' audits have concluded.
18. The Council has a detailed timetable to produce its draft accounts by 1 August and will have the accounts, working papers and the appropriate transaction listings to enable the auditors to select samples all available on this date.
19. As was reported to June GPC, there have been delays against the planned closing timetable, as a result of changes in staff directly working on the programme, the finalising of some asset valuations, and staff being involved in work relating to the 2019/20 and 2020/21 open accounts. However, the expectation remains that draft 2021/22 accounts will be published by the deadline, with progress being overseen by Director of Finance (Corporate).
20. The asset register issue reported via June GPC, where the rolling forward of balances into 2021/22 was delayed as a result of depreciation calculations, has been resolved. Final transactions are being processed

through the system currently, in relation primarily to the Additional Restrictions (Covid) Grants programme, Collection Fund, and IAS19 (pension) adjustments which are expected to be completed by end of June. This then leaves July to pull the statement of accounts document together, across the core statements, notes to the accounts and Group Accounts.

21. The Pension Fund accounts are in a similar position to the main accounts having had some delays, notably in relation to one of the fund valuations, but remaining on track for publication together with the main accounts by the statutory deadline.
22. There is a statutory requirement for draft accounts to be signed by the Section 151 Officer prior to publication. It is proposed that, given the draft accounts may not be ready until after the GPC date of 26 July, once the draft accounts have been finalised and are online, the link will be circulated to GPC members. It should also be noted that, with 2019/20 and 2020/21 accounts remaining open, the opening balances for the 2021/22 financial year have not been formally signed off and remain subject to review.

### **Next Steps/Actions**

23. Progress on the audit of LBE's open accounts has slowed in recent weeks owing to BDO prioritising NHS audits, and expected delays to NHS audits will have a negative impact on the much needed conclusion of LBE's 2019/20 accounts audit. Officers continue to explore alternative arrangements for the audit period after the current PSAA contract concludes (2022/23 audit being the final year) given the current position, however the fragile nature of the public sector audit market means that this is a challenge.
24. A formal complaint has been raised against BDO and it is believed this is being reviewed internally within BDO.

### **Resources**

25. Undertaking work on multiple Statement of Accounts is putting 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.

### **Safeguarding Implications**

26. There are no Safeguarding implications arising from this report.

### **27. Public Health Implications**

28. There are no Public Health implications arising from this report.

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

30. There is no Equality impact arising from this report.

### **Environmental and Climate Change Considerations**

31. There are no Environmental and Climate Change implications arising from this report.

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

32. The report is for noting, there is no decision required.

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

33. The report is for noting, there is no decision required.

### **Financial Implications**

34. There are no direct financial implications beyond that an unqualified set of Accounts demonstrates that the Council is a 'going concern' and that any audit changes may materially affect the underlying net worth of the entity.

### **Legal Implications**

35. 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.
36. It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices.
37. The Accounts are prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom, which specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position and transactions of the Council.
38. The Code sets out the proper accounting practices required by section 21(2) of the Local Government Act 2003. These proper practices apply to:
- Statements of Accounts prepared in accordance with the statutory framework by the Accounts and Audit (England) Regulations 2015
  - The audit of those accounts undertaken in accordance with the statutory framework established by section 5 of the Local Audit and Accountability Act 2014.

### **Workforce Implications**

39. There are no Workforce Implications arising from this report.

### **Property Implications**

40. There are no Property Implications arising from this report.

### **Other Implications**

41. None.

### **Options Considered**

42. The report is providing an update and alternative options are not required.

### **Conclusions**

43. The 2019/20 and 2020/21 accounts audit remain in an unsatisfactory position. Officers continue to maintain pressure on BDO to finalise the 2019/20 audit, however limited progress has been made since the last GPC where BDO have been focused on NHS audits in the first quarter of 2022/23.
44. It is now expected that the second phase of the 2020/21 Annual Accounts audit will be delayed due to the ongoing delays of the 2019/20 Annual Accounts audit work and the outcome of the consultation relating to infrastructure assets which is due the end of June 2022.
45. The 2021/22 Annual Accounts are being prepared, and it is anticipated that the accounts will be published by the 1 August 2022 statutory deadline. Members of GPC will be provided with a link to the document once it has been uploaded onto the web page.
46. Officers are actively exploring options to improve the position in relation to the audit of accounts for future years. This comes with its own challenges given frailties within the public sector audit market currently.

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Date of report 29 June 2022