

London Borough of Enfield

General Purposes Committee

20 October 2022

Subject: Update on the Audit of the 2019/20, 2020/21 and 2021/22 Statement of Accounts and Pension Fund

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

Executive Director: Fay Hammond, Executive Director Resources

Key Decision: N/A

Purpose of Report

1. With the draft 2021/22 Statement of Accounts (including Pension Fund) now published, London Borough of Enfield has open, unaudited accounts for the three financial years 2019/20, 2020/21, and 2021/22. This report provides an update on the audit status for each year of open accounts.

Proposals

2. General Purposes Committee is recommended to
 - note the information provided within this report on the status on progress of audit of LBE's open sets of accounts since June GPC, with the 2021/22 draft accounts now published.
 - note the current accumulated backlog of three years of open, unaudited statement of accounts.
 - note that, as at submission point of this report, BDO intend to have finalised the audit of the 2019/20 statement of accounts, barring the sector-wide infrastructure assets issue.

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 challenge, undertaken by an independent and external body against the local government statutory accounting framework, to ensure the annual accounts present a true and fair view of the Council's financial position.

Background & Progress to Date

5. LBE's statement of accounts (including Pension Fund) for 2021/22 was published on 31 July 2022. With limited progress over recent months on the

audit of the prior two years of accounts (as will be explained in this report), LBE now has three open sets of accounts, 2019/20, 2020/21, and 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, and being the first item on the critical path through the audits. Whilst BDO had previously begun to audit 2020/21 with 2019/20 still open back in March 2022 (before turning attention to NHS audits), BDO have made it clear in subsequent months that 2019/20 now needs to be closed before work on the 2020/21 audit recommences.
7. At the point at which reports were being prepared for the October 2022 GPC, there were no outstanding tasks or matters to be completed by LBE, which was broadly the same position reported to GPC in July. In a similar vein, the two outstanding items upon which LBE were awaiting BDO's review (valuation of a block of land at Meridian Water, and the other relating to a HRA housing property beacon) remain open.
8. BDO activity on LBE audits over the summer months has been extremely limited, as a result of the focus on NHS audits, with a re-engaging with LBE in very late August/early September. BDO had stated in correspondence with LBE in late June that NHS audits had 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.
9. A liaison meeting was held with BDO on 5 September where BDO stated it was hoping to have finalised the outstanding fieldwork on 2019/20 by end of September, after which there would be a final EQCR (quality control) sweep of the audit files. If this process identified no issues, BDO hoped that an audited set of accounts, infrastructure assets aside, would make October GPC. BDO have been contacted on 16th and 20th September for an update on the status of the 2019/20 accounts in relation to GPC, but no response was received at the point this report was submitted for GPC, on 21st September.
10. In relation to infrastructure assets, this sector-wide issue rumbles on with no clear end in sight. In August, another audit firm, EY, took decisive action to conclude the 2020/21 audit at Cambridgeshire County Council by qualifying the audit opinion on the basis of the infrastructure assets issue. This is clearly not a desirable position at which to conclude an audit process, and CIPFA/ LASAAC continue to work on a solution which negates qualification. To this end, a technical update to the Accounting Code is being considered for approval (that would suspend the need to report gross cost and accumulated depreciation). DLUHC is also considering statutory prescription in this area.
11. Any proposal from CIPFA needs to be agreed/verified by the audit firms as a workable option, and qualification remains a risk. 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.

12. As also previously reported, it is important to note 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

13. As was reported to June GPC, BDO 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 was planned to commence on 11 July. On the 5 September call, BDO stated it was their intention to re-commence the 2020/21 audit in November and complete the audit by end of February 2023 and give the audit opinion at March 2023 GPC.
14. This is reliant on 2019/20 being completed by October 2022 and BDO having available the resource (with frailties of the capacity in the local government audit market well documented) to undertake the work. It is also the case that the infrastructure assets issue could cause complications if unresolved.

2021/22 Closure of Accounts update

15. The statutory deadlines for draft and audited accounts for 2021/22 are the 31 July 2022 to produce draft accounts and these need to be audited and signed off by 30 November (which is a one-off extension for 2021/22 accounts This deadline reverts to 30 September for 2022/23).
16. The 2021/22 accounts were published on 31 July, in line with the statutory deadline, and the link to the accounts circulated to GPC members. However as already outlined with this report, BDO's sequential working through of LBE's open statements of accounts from earliest to latest means there is now a long wait for the audit of the 2021/22 accounts, with 2019/20 and 2020/21 to be finalised first.
17. 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.

National statistics on accounts closure

18. GPC have been made aware of the capacity issues and challenges within the audit market nationally, and the conversations that BE officers have had with Public Sector Audit Appointments (PSAA) who operate and manage the audit contracts between local authorities and the audit firms. As at June 2022 (end of quarter one of 2022/23 financial year), the following statistics were available on outstanding audits for the financial years between 2015/16 and 2020/21. Enfield is one 51 local authorities with open accounts for 2019/20, with just under 200 authorities having 2020/21 accounts open.

| Audit year Publishing date | Number of opted in bodies | Percentage of audits complete by publishing date | Number of audits by oldest year outstanding Total = 198 | Number of audits outstanding per financial year |
|---------------------------------------|--|---|--|--|
| 2020/21 30 Sep | 474 | 9% | 147 | 198 |
| 2019/20 30 Nov | 478 | 45% | 38 | 51 |
| 2018/19 31 Jul | 486 | 57% | 9 | 13 |
| 2017/18 31 Jul | 494 | 87% | 3 | 4 |
| 2016/17 30 Sep | 497 | 95% | 0 | 1 |
| 2015/16 30 Sep | 497 | 97% | 1 | 1 |

Next Steps/Actions

19. Progress on the audit of LBE's open accounts slowed considerably between April and August owing to BDO prioritising NHS audits, the timeline of which also extended beyond the planned allocation.
20. We continue to await the much needed conclusion of the 2019/20 accounts audit. Officers remain in contact with Public Sector Audit Appointments (PSAA, who manage the contract) but as has been communicated to GPC, options of leverage/redress are limited given the nature of the contract. Within the statutory framework as it stands, the audit firms are under no obligation to sign off an audit until satisfied that the appropriate fieldwork and review has been concluded.
21. A formal complaint was raised with BDO in late July. No response has yet been received.

Resources

22. Undertaking work on multiple Statement of Accounts has put additional pressure on the Finance Team and an interim Chief Accountant and Deputy Chief Accountant have been employed over the last two years. The interim Deputy Chief Accountant has now resigned from his contract and will leave Enfield in early October.
23. With a Chief Accountant appointed in January 2022 and a substantive and refreshed team being established over the course of 2022 (plus a worsening corporate financial position given inflationary pressures in particular), further interim resource will not be procured. It is expected that the interim Chief Accountant will depart Enfield once 2019/20 accounts are signed.

Safeguarding Implications

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

Public Health Implications

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

Equalities Impact of the Proposal

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

Environmental and Climate Change Considerations

27. 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

28. 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

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

Financial Implications

30. 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. The accumulated backlog

Legal Implications

31. 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.
32. 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.
33. 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.
34. 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

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

Property Implications

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

Other Implications

37. None.

Options Considered

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

Conclusions

39. The publication of the draft 2021/22 accounts leaves three consecutive years of annual accounts open. Very little activity from BDO over the summer months, with focus on NHS audits, means limited substantive progress over the summer months. Officers continue to maintain pressure on BDO to finalise the 2019/20 audit, and BDO have indicated (in early September) an intention to finalise the 2019/20 accounts in time for October GPC.
40. The second phase of the 2020/21 Annual Accounts audit will only commence once the 2019/20 Annual Accounts audit has been finalised, and this will extend into 2023. The sector wide infrastructure assets issue remains open with CIPFA continuing to work on a solution. It is hoped this will be concluded before the end of the 2022 calendar year.
41. The draft 2021/22 Annual Accounts were published on 31 July 2022 but will not be audited until the 2019/20 and 2020/21 accounts audits have been finalised.
42. 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 and inherent nature of the statutory audit framework.

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