

## London Borough of Enfield

### General Purposes Committee

1 December 2022

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**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

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#### **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 progress of audit of LBE's open sets of accounts since October GPC.
  - 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 in time for this meeting, barring the sector-wide infrastructure assets.

#### **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. Following the October GPC meeting BDO have now reviewed the 2019/20 files and audit work required and have given their approval for the 2020/21 audit work to restart.
8. At the point at which reports were being prepared for the December 2022 GPC, LBE finance staff are dealing with additional information requests that BDO have raised since October 2022 GPC. These include queries relating to IWE pensions and other BDO queries raised during the main 2019/20 but where BDO's audit records are incomplete. These are queries that have not been advised to LBE finance as issues until now (November). In addition, further evidence has been requested to support the information included in the narrative statement of the accounts.
9. 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) have been reviewed. A clarification point has been raised with LBE relating to Meridian Water and the audit work on the Beacons is in progress and expected to be completed and reviewed by this meeting. BDO have had further delays in completing this work due to staff sickness.
10. BDO are working to complete the outstanding issues by the end of November with the exception of infrastructure assets.
11. In relation to infrastructure assets, this sector-wide issue continues with no clear end in sight. 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 consulted on a statutory prescription in this area and it is estimated that a potential solution could be put forward late December.
12. 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.
13. 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.

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

14. 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.
15. This was reliant on the 2019/20 audit 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. The BDO 2019/20 work has been delayed further and is now expected by the end of November, however a review of the outstanding 2019/20 audit work was completed, and it was concluded that the 2020/21 audit work could restart.
16. The 2020/21 audit recommenced on 7 November with the first week spent on the audit planning. The focus of the audit up to December will be on Property, Plant and Equipment, additional sample testing of transactions and reviewing the working papers and samples submitted to BDO earlier this year. The Pension Fund accounts audit will also commence during this period.
17. The 2020/21 audit is currently forecast to be substantially complete by March 2023. This is however, subject to the 2019/20 issues being resolved and signed off including the infrastructure assets therefore there is a risk that the 2020/21 sign off could be delayed.

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

18. 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).
19. 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.
20. 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**

21. 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

September 2022 (end of quarter two 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 of 45 local authorities with open accounts for 2019/20, with 168 authorities having 2020/21 accounts open.



### **Next Steps/Actions**

22. 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.
23. A formal complaint was raised with BDO in late July. No response has yet been received.
24. LBE finance staff are working with BDO to resolve the additional queries raised in respect of 2019/20 and regular meetings are taking place to review progress. BDO have advised that they expect to complete the outstanding audit work by the end of November.
25. The 2020/21 audit has restarted, with weekly progress meetings in place. The audit is currently planned to be substantially complete by February 2023. However, this is subject to the 2019/20 audit being finalised and signed off including the infrastructure assets issues.

### **Resources**

26. Undertaking work on multiple Statement of Accounts has put additional pressure on the Finance Team. An interim Chief Accountant and Deputy Chief Accountant have been employed over the last two years to provide additional capacity, however both these individuals have now moved on from Enfield to other contracts.

27. With a Chief Accountant appointed in January 2022 and an additional permanent Deputy Chief Accountant appointed in October (plus a worsening corporate financial position given inflationary pressures in particular), the aim now is to continue without the recruitment of further additional interim resource.
28. However three years of open accounts continues to create sizeable pressures on the LBE Finance Team, and also negatively impacts on preparation for the 2022/23 accounts closure process. In this initial PSAA procured contract, BDO are providing the external audit function to LBE for the five years from 2018/19, and have so far finalised the audit for 2018/19 only.

### **Safeguarding Implications**

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

### **Public Health Implications**

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

### **Equalities Impact of the Proposal**

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

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

32. 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**

33. 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**

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

### **Financial Implications**

35. 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**

36. 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.
37. 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.

38. 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.
39. 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**

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

### **Property Implications**

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

### **Other Implications**

42. None.

### **Options Considered**

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

### **Conclusions**

44. The publication of the draft 2021/22 accounts leaves three consecutive years of annual accounts open.
45. Officers continue to maintain pressure on BDO to finalise the 2019/20 audit. BDO initially indicated (in early September) an intention to finalise the 2019/20 accounts (excluding the infrastructure assets issues) in time for October GPC however this was delayed to the end of November. BDO have had further delays due to staff issues but continue to work to the end of November timeline.
46. 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.
47. The second phase of the 2020/21 Annual Accounts audit has restarted following a review of the 2019/20 audit files. The delay to the restart of the audit will extend the 2020/21 audit to March 2023 which will impact the closing preparations for the 2022/23 accounts.
48. 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.
49. 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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Report Author: James Newman  
Director of Finance - Corporate  
James.Newman@enfield.gov.uk  
07813 995 025  
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