



London Borough of Enfield

Report to:	General Purposes Committee
Date of Meeting:	16 March 2023
Cabinet Member:	Cllr. Leaver, Cabinet Member for Finance & Property
Directors:	Fay Hammond, Executive Director Resources
Report Author:	James Newman Director of Corporate Finance
Ward(s) affected:	N/A
Key Decision Number	N/A
Implementation date, if not called in:	N/A
Classification:	Part I Public
Reason for exemption	N/A

Purpose of Report

1. 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, plus commentary on preparation of the 2022/23 accounts closure process.

Recommendations

- I. To note the information provided within this report on the progress of audit of LBE's open sets of accounts since January GPC.
- II. To note the current accumulated backlog of three years of open, unaudited statement of accounts.
- III. To note the approach to be taken for 2022/23 accounts closure
- IV. To formally request from BDO an update at the June GPC detailing their audit plan for completing the audits and the staff resourcing strategy to provide targeted progress.

2. General Purposes Committee is recommended

Background and Progress to Date

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.
4. GPC are familiar with the backlog of LBE's open, unaudited statement of accounts (including Pension Fund) for the financial years 2019/20, 2020/21 and 2021/22. The focus remains on working with our external auditors, BDO, to finalise the audit of 2019/20, which then allows progress onto the audit of 2020/21 and subsequently 2021/22. The remainder of this report provides an update on each year and includes commentary where appropriate on where and how officers are improving the Council's position in relation to delays in the auditing of the accounts moving forward. With the end of the 2022/23 financial year coming close, this report will also provide commentary on the approach for closing the accounts for 2022/23, which is complicated by prior year accounts remaining open.

2019/20 Statement of Accounts Audit

5. 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 audit of open accounts. 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.
6. At the point at which reports were being prepared for the March 2023 GPC, there were five areas of work to be resolved, including one new issue identified by LBE finance staff as part of the processes undertaken in preparation for the 2022/23 accounts closure process.

- i. In relation to infrastructure assets, CIPFA has issued guidance in January following the Statutory Instrument which was issued in December. Audit firms are reviewing the guidance and implications. At the time of writing this report no Local Authority Accounts have been signed off which includes these changes. Until the BDO have considered and agreed the implications for the Council's accounts this will continue to delay the sign of the 2019/20 accounts.
 - ii. Schools and Other Land and Buildings assets where valuations show significant variances between the latest and previous valuations. LBE officers are working closely with the Council's external valuers and property colleagues to resolve the issues. We will provide a further update at the GPC meeting on progress
 - iii. HRA garage valuations, the HRA garage valuations have not been updated for a number of years. When the valuations were commissioned as part of the 2022/23 valuations process it became clear that the valuations changes could result in a significant change which may impact prior years accounts. The work to assess the valuation changes and assets is in progress.
 - iv. LBE responses to BDO EQCR (Engagement Quality Control Reviewer) review this has been delayed whilst the assets work is in progress as the outcome of the changes could also impact this work.
 - v. BDO internal quality reviews by the EQCR of housing assets Beacons, Pension Fund and other audit work are in progress but have not been completed at the time of writing this report.
7. The addition of the work on garages extends the timeline for finalising audit of the 2019/20 accounts further and may result in adjustments to opening and closing balances for future years, but in so doing tightens and improves baseline asset information further, reducing risk of problems for future years.

2020/21 Statement of Accounts Audit

8. As was reported to June 2022 GPC, BDO completed the first phase of their audit of LBE's 2020/21 main accounts over February and March 2022, focusing primarily on fieldwork relating to Property Plant and Equipment. The second phase of the audit recommenced on 7 November with the first week spent on the audit planning. The focus of the audit up to the end of January was on Property, Plant and Equipment, sample testing of transactions and reviewing the working papers and samples submitted to BDO earlier this year. The Pension Fund accounts audit commenced in December and work continued into February. The Pensions audit work is around 70% complete and remaining work will be completed when the audit restarts after the NHS audits in late July.

9. BDO's work on the 2020/21 audit has now been substantively paused and will not recommence until late July after the NHS audits have been completed. This is in part to enable 2019/20 accounts to be finalised but also due to ongoing BDO staff resourcing pressures. LBE have asked BDO to provide an audit plan for the remaining 2020/21 audit work and the timelines assuming the audit restarts in late July. LBE have also requested that BDO undertake a pattern of work which would enable longer unbroken concentration of audit work thus avoiding ongoing changes to the audit team.

2021/22 Closure of Accounts update

10. 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 will be a considerable wait for the audit of the 2021/22 accounts, with 2019/20 and 2020/21 to be finalised first.
11. 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.

2022/23 Closure of Accounts – process

12. The notable change for the closure of accounts process for 2022/23 is that the statutory deadline for publication of draft accounts reverts to 31 May, two months earlier than was the case for 2021/22. The deadline for audit of accounts has also reverted to 30 September 2023. There has been a recent DLUHC survey regarding the 31 May accounts publication deadline which is due on to close on 2 March.
13. This is a significant reduction in the timeline and has been reflected appropriately within the 2022/23 project plan. With such a sizeable condensing of timelines there are risks around meeting this deadline, particularly with resource spread more thinly as a result of ongoing work on prior open years.
14. The closedown process for 2022/23 is in progress and the position is being closely monitored.
15. LBE Officers are working to the statutory deadline. The revenue outturn position is progressing to timetable; however, the balance sheet and asset valuation position remains challenging as described above. The opening balances will change whilst the prior year accounts remain open. The Council replied to the recent DLUHC survey regarding the deadline explaining that the earlier deadline of 31 May will not impact on the resourcing challenges for external audit because BDO will be covering the NHS audits in June. Should the deadline date be moved this would have a positive impact on the continuous improvements underway and quality of the statement of accounts produced.

National statistics on accounts closure

16. GPC have been made aware of the capacity issues and challenges within the audit market nationally, and the conversations that LBE 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 30 December 2022 (end of quarter three of 2022/23 financial year), the following statistics (table overleaf) were available on outstanding audits for the financial years between 2015/16 and 2020/21.

17. Enfield is one of 44 local authorities with open accounts for 2019/20, with 160 authorities having 2020/21 accounts open and 398 (which equates to 85% of all authorities using PSAA contract) having 2021/22 accounts open. The reversion to a 31 May draft publication deadline for 2022/23 is unlikely to improve performance.

Audit year Publishing date	Number of opted in bodies	Percentage of audits complete by publishing date	Number of audits by oldest year outstanding Total = 619	Number of audits outstanding per financial year
2021/22 30 Nov	467	12%	238	398
2020/21 30 Sep	474	9%	116	160
2019/20 30 Nov	478	45%	34	44
2018/19 31 Jul	486	57%	7	10
2017/18 31 Jul	494	87%	2	3
2016/17 30 Sep	497	95%	0	1
2015/16 30 Sep	497	97%	1	1

Next Steps/Actions

18. Finalising of the 2019/20 audit remains the priority. The transition over the last year to a permanent Chief Accountant and team has improved the position, through the accumulation of a knowledge base that is retained within the Council, with associated improvements to processes and systems in Finance and more widely (which BDO have noted). Whilst this has highlighted additional issues, such as the garages item mentioned above, there will be longer term benefit in resolving these issues, smoothing the way for accounts preparation and audit of future years. In addition, this will have wider organisational benefits such as improved knowledge of our asset base.

19. LBE finance staff are working with BDO and other Council officers to resolve the additional queries raised in respect of 2019/20 and any impact of the garage valuations changes. Regular meetings are taking place to review progress. We are now working towards the June GPC to resolve the 2019/20 issues, which would then unlock the recommencing of the

2020/21 audit in late July. However as is customary over the coming months, we will see most of BDO's resource being diverted to NHS audits between March to July and this could impact the 2019/20 accounts being finalised.

20. The finance team are currently focusing on resolving the 2019/20 asset issues and the 2022/23 accounts closure process.

Resources

21. Three years of open accounts continues to create sizeable pressures on the LBE Finance Team, and negatively impacts on preparation for the 2022/23 accounts closure process. Staff resources supporting the Accounts has been reviewed and a revised staff structure has been proposed to increase the level of support in this area.

Relevance to Council Plans and Strategies

22. 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.

Financial Implications

23. 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

24. 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.

25. 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.

26. 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.

27. 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.

Equalities Implications

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

HR and Workforce Implications

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

Environmental and Climate Change Implications

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

Public Health Implications

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

Property Implications

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

Safeguarding Implications

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

Crime and Disorder Implications

34. There are no crime and disorder implications arising from this report.

Other Implications

35. None.

Report Author: James Newman
Director of Corporate Finance

James.Newman@enfield.gov.uk
07813 995 025