

# MINUTES OF AUDIT AND STANDARDS COMMITTEE

Wednesday, 4 October 2023  
(7:00 - 9:17 pm)

**Present:** Cllr Princess Bright (Chair), Cllr Mohammed Khan (Deputy Chair), Cllr Dorothy Akwaboah, Cllr Josie Channer, Cllr Rocky Gill, Cllr Adegboyega Oluwole and Cllr Muazzam Sandhu.

**Apologies:** Cllr Margaret Mullane, Stephen Warren and Tom Mulloy

## 8. Declarations of Interest

There were no declarations of interest.

## 9. Minutes (28 June 2023)

The minutes of the meeting held on 28 June 2023 were confirmed as correct.

## 10. Complaints Update

The Committee received and noted the Monitoring Officer's complaints update report.

## 11. Council's Accounts Audit Update - 2019/20, Subsidiaries' accounts audit - 2022/23 and Progress on Accounts Closure - 2022/23

The Section 151 Officer (S151) updated the Committee on the position relating to progress with the external audit of the Council's Accounts for 2019/20, the subsidiaries' 2022/23 Accounts together with the latest information regarding the 2022/23 Council's Accounts.

BDO had received all the necessary information by the end of July 2023 to allow them to complete their fieldwork for the 2019/20 accounts within the first week of their renewed audit visit (w/c 4 September 2023) which included responses to outstanding PPE queries and detailed working papers to address the national issue of Infrastructure Assets. Unfortunately, the audit did not resume on that date due to BDO prioritising its NHS audit overruns to those of the Council. Following a Teams meeting with BDO representatives there were no finalised plans agreed at that time as to when the audit of the 2019/20 Accounts would resume. Accordingly, BDO intended to address the matter in their update report (*see minute 12 below*).

Turning to the subsidiaries it was noted that they were required to have their accounts signed off and filed with Companies House by 31 December 2023. Assuming this deadline was met officers were intending to report to Committee on the final and audited outturn for each subsidiary early in the New Year.

Moving forward the draft Statement of Council Accounts 2022/23 had been completed with the Group Accounts to be completed as soon as the audits of the subsidiaries as reported above were concluded.

The S151 Officer reported that the DLUHC were working with the National Audit Organisation (NAO) to propose a workable solution to help reduce the backlog of outstanding audits across the country up until 2022/23 and to enable auditors to move onto auditing the most up to date financial information. How that will work in practice had yet to be confirmed by Government. The S151 Officer would like the 2019/20 accounts to be signed off before the implementation of the backstop solution as the audit of these accounts was substantially complete and therefore an audit opinion could be issued in the normal way. As the audit work had been completed the Council would be required to pay substantial fees and it would not represent value-for-money for the local taxpayer for this process to be set aside by a new arrangement which would result in a qualified audit opinion in some way.

In response to Members questions the S151 Officer explained the reasoning behind completing the 2022/23 Accounts ahead of the completion & findings from the auditing of the 2019/20 accounts. In short there were two stages of the accounts, the first being the publication of the draft accounts followed by the external audit. The problem lied with the auditing of accounts which had been subject to significant delays over the past years, and which had been well documented at this Committee. The 2022/23 accounts had been ready to publish for some time, but a decision was taken not to publish them as it was not known whether the findings from the 2019/20 audit would impact them.

The S151 Officer also provided more detail and an understanding of the government backlog solution which BDO would talk about in their update report.

Despite the explanations and reasons provided about the delays with the Accounts the Committee put on record its concerns about the delays in completing the audits, a situation which in their view was totally unacceptable. Putting the costs to one side, it left Members with little confidence that matters would be resolved anytime soon.

The Committee **NOTED** the report.

## **12. Update on External Audit Delivery**

The BDO representative updated the Committee on the status of the 2019/20 audit of the Council's Accounts and proposals regarding the delivery of the audits of the Statement of Accounts for the 2020/21, 2021/22 and 2022/23 financial years.

By way of background the BDO representative recalled previous progress reports brought before the Committee since March 2022 in respect of the various stages of the 2019/20 audit. Although the Council published its draft Accounts for 2019/20 in August 2020, these could not be progressed by BDO as there were a significant number of outstanding issues as detailed in the report as well as the absence of complete and accurate Group Accounts and supporting working papers for audit purposes. Alongside these issues there were resourcing challenges for BDO (unplanned long-term sickness and staff resignations) which had contributed to the delay in progressing the audit, and which had previously been reported to Members as well as discussed separately with the Chair, the Independent Member and the then Section 151 Officer and Chief Accounting Officer (CAO).

On a positive note, a new Audit Manager had been appointed who would be assigned the Council's audits.

In October 2022 BDO reported that the combination of the above factors had caused delays in progressing the audit over that summer, in addition to which they highlighted a technical matter that had been identified that affected nationally all local authorities with material infrastructure assets on the balance sheet, of which LBBD was one. This matter required engagement of audit suppliers, NAO, CIPFA, local authorities and the Financial Reporting Advisory Board to determine an accounting solution for local authorities to implement.

BDO's revised timeline for completing the audit was set as March 2023. However, as CIPFA did not announce the details of the infrastructure accounting solution until January this year, and as this required additional work that would materially affect the audit, that deadline could not be achieved. BDO provided an update report to the last meeting in June which confirmed that whilst the audit was progressing several key matters were still outstanding as detailed in the report as presented.

On the basis that the Council's draft infrastructure assets working papers were received before September (duly received in July) the update report proposed that that the audit would re-commence in September, be finalised in October, reported to management in November with final audit results presented to the Committee in January 2024.

Since the last meeting BDO had met with officers to discuss the working papers, their audit approach and experiences from work done in other local authorities in this area. Additional delays in completing other NHS audits had reduced the capacity of BDO to oversee the recommencement of the Council audit in September. A subsequent meeting with the current S151 Officer was held to discuss the situation and the position was that although it was not possible to confirm the full picture of the rescheduled audit programme, the BDO representative was able to confirm that the infrastructure assets audit had started this week, and that the senior audit team review would re-commence at the beginning of November 2023. The BDO representative committed to sharing a fully revised timetable for audit completion as soon as it was available.

BDO recognised and supported the S151 Officer desire to complete the 2019/20 audit as soon as possible and certainly ahead of any date fixed for the backstop solution. In that respect the BDO referenced the DLUHC outline proposals on the backlog solution as appended to the report, and specifically the yet to be confirmed date of 31 December 2023 to complete audits prior to and including 2019/20, as well as subsequent dates for the 2020/21, 2021/22 and 2022/23 audits. If, however for whatever reason, the December date (if and when confirmed) was not met, then BDO would have to consider an interim solution such as issuing a qualified audit opinion. Assuming however the 31 December deadline was achieved, then based on the Council's meeting timetable, an extraordinary meeting of the Committee would need to be arranged to sign off the accounts on a date to be confirmed.

The S151 Officer clarified that when she came into post in July it was clear to her that the audit work associated with the accounts needed to be signed off before the CAO left the organisation on 19 October (having secured a new position in another authority). She met with BDO at the beginning of August and made it clear that when the auditors confirmed that the recommencement of the audit work would not start on 4 September as previously agreed, she stated that this was both disappointing and unacceptable, and that given her fiduciary duty to local Council tax payers to provide value for money, she required the audit completed and signed off before the expiration of the backstop date so as to avoid receiving a qualified opinion and inevitably incurring additional audit costs. This was placed in writing to BDO on 8 September.

In response to the report Members asked the date when the Council's Accounts were last fully audited. The BDO representative confirmed that it would have been the 2018/19 accounts which were signed off and reported in 2020. That meant the Council's finances had not been audited properly for more than 5 years, which was very concerning given the significant changes that had taken place in the Council in the intervening period. To that extent it was difficult to know whether the Council's finances were in a good place at this time, and to that extent Members had little confidence in the whole process, with the blame being seen as equally shared between Council officers and the external auditors.

Given the absence of the CAO who had been unable to attend the meeting and seeing the S151 Officer was relatively new, she did accept there was blame on both sides, however when it came to when and what information was provided to BDO, matters were not necessarily as straight forward as may have come across to Members in the report, particular when read in isolation. With the support of the Chair the S151 Officer proposed that although it would not alter the facts, for their information she would prepare and circulate to all Members of the Committee a detailed briefing note on the chronological order of events reported this evening and at previous meetings so that Members could have a greater understanding of the reasons for the delays.

The S151 Officer agreed that the Council absolutely needed the external audit to be completed in a timely basis, and certainly ahead of any new arrangements to deal with the backlog, not least because if any errors were identified and if they materially impacted on the General Fund, that could result in an adjustment and charge against this year's Accounts, something she would not want to occur given the Council's challenging financial position. That said until the audit was completed it would be unwise to speculate about how this year's budgets might be impacted and how any deficit would be funded.

The BDO added that in their experience most outstanding issues arising from previous account audits would not have a 'bottom line affect for future years General Fund budgets. Reference was also made to the audit fee and additional charges. This matter would be addressed in the subsequent report (*see minute 13 below*).

Notwithstanding the comments of the S151 Officer about shared responsibility for the delays, the report of BDO indicated that there had been significant fallings in the Council through delays in providing information, material misstatements, non-compliance with codes of practice as well as significant deficiencies in the

Council's internal control environment. These matters required an explanation. In addition, the Council did not appear to have staff stability in the Finance team to respond and provide information to BDO in a timely fashion. With the possible 31 December 2023 backstop deadline looming, what confidence could the Committee have that the audit would be completed and signed off by that date?

The S151 Officer clarified that she had not suggested that anything BDO had stated in their update report was factually incorrect. It was more about where the Council were today in seeking to close off the 2019/20 accounts, and things that were not in the report which had already been discussed informally between officers and BDO. In respect to staffing an interim appointment to replace the CAO had already happened and handover arrangements were in place to ensure as smooth a transition as possible. The person taking over had a wealth of local authority finance experience. That said given the tight deadlines and so as to complete and sign off the audit, would require BDO to respond in a timely fashion as to the further information they required during the period before the CAO leaves.

The BDO representative concurred that they were committed to resolving this matter as soon as possible and were working to get all outstanding queries over to the Council in the coming weeks and the necessary fieldwork completed before the CAO leaves the Council. BDO recognised the timeframes were extremely tight and with Xmas leave etc it would be very challenging, but she reassured the Members that like the Council, they were committed to complete and sign off the accounts by the backstop date.

The Chair asked as for the rationale for prioritising the NHS audits over local authority audits? The BDO representative described it as rather than prioritising, the decision was taken by the BDO Executive to continue to deliver the programmed NHS audits until a finish. The view taken was the more audits left incomplete the greater the risk of spreading resources too thinly and then ultimately in general not completing audits well, and on time. Also, generally the NHS audits were less complex than local authority audits, so it made sense to complete them sooner rather than later.

As to the appointment of a new Audit Manager to complete the audit of the 2018/19 Accounts, the Chair enquired as to whether they were fully aware and onboard regarding the issue of the backstop date and the pressures and deadlines they would be expected to work to achieve hopefully a successful outcome? The BDO representative explained that the new member of staff was not new to BDO but new to the team, who collectively would be fully briefed regarding the backstop and the implications and imperatives etc.

The Chair requested that in working to the 31 December deadline it would be helpful if BDO could produce a revised plan setting out the days/ key milestones to share with herself and the S151 Officer so that it could be used to hold both BDO and officers to account. She also requested the S151 Officer to set up a bi-weekly call with herself and BDO to monitor progress. The BDO representative was happy to produce such a schedule with real time updates to be shared with the Committee.

Concluding the item, the S151 Officer made the comment that the audit backlog was a nationwide problem brought about through predominately a shortage of external auditors in the public sector, and a lot of audit firms including BDO had now gone global to attract more resources to support the sector.

The Committee **NOTED** the report.

### **13. 2018/19 Audit Fees**

The BDO representative reported that their Audit 2018/19 completion report presented to this Committee in September 2020 highlighted that the quality of the draft accounts and documentation presented for audit had been poor, particularly in respect of group consolidation which was complex and had been completed by the Council for the first time that year. Subsequently the then Finance Director and Section 151 Officer had presented a report to this Committee in May 2021 on a joint 'lessons learned' review to understand why the 2018/19 audit had been significantly delayed.

As a consequence of this, further audit work was required which resulted in additional audit fee implications for the Council . Following the completion of the audit, the matter was discussed with the former Section 151 Officer who agreed the imposition of an additional fee in July 2023 of £301,990, over and above the scale fee of £127,801, which had been paid, as set by Public Sector Audit Appointments Ltd (PSAA)

It was noted that PSAA were contractually responsible for appointing external auditors to local authorities, and under the terms of those appointments they set the scale of fees and additionally required that proposals to vary set scale fees were submitted to them for approval for independent assessment as part of due diligence. As part of that process the additional fees were required to be initially discussed at a granular level with the Section 151 Officer prior to being presented to Members.

Appendix 1 to the covering report summarised the breakdown of the additional fee made up of £262,313, representing the substantial additional scope of audit procedures and increase in associated managers and partners time, together with the sum of £39,677 representing the audit work connected with the group accounts, which as reported had not been reflected in the original scale fee. BDO confirmed that until the additional fee was approved by PSAA an invoice would not be raised.

Opening up to discussion a number of questions/points of clarification were sought. Firstly, BDO clarified that whilst there had been detailed conversations with officers over a long period about the additional work undertaken on the audit, and that rather than hold up the completion of the audit, it was recognised that it had not been possible at that stage to quantify the further costs, other than for both BDO and Council officers to accept that additional fees would be incurred, something that had been flagged up in previous reports to Members.

The Chair emphasised the importance of accountability and transparency regarding fees. Consequently, whilst acknowledging the point made about the fees being independently assessed and recognising that element relating to the group accounts was understandable, given they had not previously arisen in this Council, she was concerned that the report did not provide sufficient information/details for Members to justify the remaining element of the additional fee, namely the £262,313.

In response the BDO representative stated that in addition to the points made in the Executive summary as to the key issues reported for 2018/19 it was worth highlighting that given the significant issues that had arisen concerning material misstatements, internal control deficiencies and Prior Period Adjustments (PPA's), it was necessary to engage the most senior people in the team to review those areas and engage high level technical consultants too. The implications being that their time was far more expensive and not anticipated when the scale fee had been set.

In those circumstances the Chair asked what the implications would be if Members were not prepared to accept the level of additional fee being sought? The BDO representative replied that in accordance with the agreed process although they would still make their submission, the Council would be in its rights to make through this Committee, its own representations to PSAA, who in turn would likely contact the Council to discuss the matter. Ultimately as the arbiter in these matters it was for the PSAA to form a view and make a final decision which would be binding on all parties.

Members echoed the Chair's views that given the role of the Committee in this matter it would have been helpful for BDO to provide a more detailed breakdown of the additional spend, given the large sum involved in the context of the Council's finances at this difficult and challenging time. This was acknowledged and agreed by the BDO representative.

The 2018/19 accounts were as things stood the last time the Council's full accounts had been audited and signed off. The adjusted and unadjusted errors highlighted in the report were highly significant such as the in-year dedicated schools' budget being double accounted, corrections of both over receipting of purchase orders, non-compliance with the Code of Accounting Practices in respect of asset classification as well as the reclassification of historical spend. In those circumstances what confidence could Members take that the accounts for 2019/20 and future accounts would not experience similar discrepancies and problems?

The BDO representative responded that their report findings and PPA's were all corrected in the 2018/19 statements and where these impacted the balance sheet the closing balances from that period were rolled forward into the 2019/20 accounts now being audited; and importantly these would have been corrected. In addition, the revised 2018/19 accounts which were now signed off, had what was known as a 'third balance sheet', where the prior period figures had been corrected with details of what those PPA's were, and where they impacted the accounts. Reassuringly with the exception of asset clarification, which BDO would flag up as a risk in future audits, there appeared not to be a repeat of the issues highlighted from the 2018/19 audit.

BDO repeated the view that the Committee was justified and entitled to express a view to the PSAA on the appropriateness of the additional fee level, irrespective of the professional opinion of the Section 151 Officer, as the PSAA would carry out its own detailed due diligence to test the validity of the claim.

The Committee expressed the view that given that BDO had been in discussions with officers for a considerable time as to the additional work they had been required to undertake with the audit, surely the additional costs should not have come as a complete surprise and to that extent should have been anticipated and budgeted for? Also why was it only now that Members were being made aware of the situation?

The S151 Officer did not disagree with the views expressed by Members but having only been in post for a short while, she found it difficult to comment, but did observe that on the basis that the formal notification from BDO as to the final costs was not until July this year, this meeting was the first opportunity to make Members aware. As for the additional costs, as far as she was aware they had not been budgeted for, and would have to be found, a situation which was not acceptable. She would confirm that position in writing.

Moving forward an independent person had already been commissioned to Q&A later year's accounts, from which the S151 Officer was able to confirm BDO's comments that the previous issues that had arisen from the 2018/19 audit had not seemingly been repeated in the 2019/20 accounts, with the one outstanding issue concerning asset clarification to be resolved once and for all. She reassured the Committee that her team were committed to ensuring the past problems were not repeated. That said officers and BDO did acknowledge that for the work on the 2019/20 audit a further smaller additional fee would be generated. The S151 Officer assured the Committee that she would look to report back to a future meeting with an estimate of the costs and budget for them accordingly. Furthermore, BDO agreed to provide initial details and estimates as soon as possible and before the departure of the current CAO to enable him to validate the additional work carried out. The BDO representative added that at this time until more was known as to the Government's backstop solution to the audit backlogs as detailed in the previous minute, it was not possible to anticipate how the external audit of accounts in 2020/21 and onwards would proceed.

The Committee **NOTED** the report.

#### **14. Internal Audit Performance - External Quality Assessment**

The Head of Assurance (HoA) reported that in accordance with the Public Sector Internal Audit Standard 1312, each audit service was required to undergo an external assessment at least once every five years by a qualified independent assessor.

Consequently, the London Borough of Hackney's Corporate Head of Audit, Anti-Fraud and Risk Management undertook the assessment which in an appended report concluded that the Council's Internal audit service 'generally conforms' to the Standards, the top of a three-point scale, being the highest grading achievable.



The report detailed the one (of 144) area of partial conformance and made seven low priority recommendations for remedial action as detailed, and which the HoA accepted.

The HoA went through the summary of the assessment in Appendix A and the 7-point action plan detailed in Appendix B. The Chair highlighted as a point of information that it would be helpful for Members when reviewing progress at future meetings, if the HoA included prospective dates/ timelines for addressing the independent assessor's recommendations set out in the action plan.

The Committee also sought and received an explanation as to the reasons for the one partial conformance which related to internal auditors declaring interests in accordance with organisational requirements. Additionally, the HoA elaborated on finding 3 of the action plan concerning the lack of formal records of staff training. He confirmed that this concerned recording external training rather than organisation training which was fully documented.

The Committee **NOTED** the report.

## **15. Review of Key Counter Fraud Policies & Strategy 2023**

The Head of Assurance (HoA) updated the Committee. The Council took a strong stance against fraud and, as part of its strategy, all Counter Fraud policies were reviewed annually to take account of any change in working systems within the Council as well as legislation. All changes made had been subject to consultation with Legal, HR, staff networks and Trade Unions

The papers in the agenda mistakenly omitted the tracked changes which would have enabled the Committee to see where amendments had been made.

In order not to delay the publication of the policies and strategy on the Council Intranet and so as to allow them to be promoted to and, where applicable, applied by the Council's partners such as council owned companies, contractors and schools,

The Committee **APPROVED** the changes as set out in the appendices to the report, subject to receiving and reviewing/commenting on track changed versions outside of the meeting.

## **16. Work Programme 2023/24**

The Committee noted the work programme.