

**SUPPLEMENTARY 1**

**AUDIT AND STANDARDS COMMITTEE**

**Tuesday, 30 January 2024**

**Agenda Item 5. Council's Accounts Audit Update - 2019/20 - 2022/23  
(Pages 1 - 17)**

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## AUDIT AND STANDARDS COMMITTEE

30 JANUARY 2024

<b>Title:</b> BDO's Audit Progress report and Sector update	
<b>Report of the Council's Section 151 Officer</b>	
<b>Open Report</b>	<b>For Decision</b>
<b>Wards Affected:</b> All	<b>Key Decision:</b> No
<b>Report Author:</b> Jo Moore, Interim Strategic Director, Resources	<b>Contact Details:</b> E-mail: <a href="mailto:Jo.Moore@lbbd.gov.uk">Jo.Moore@lbbd.gov.uk</a>
<b>Accountable Director:</b> Nish Popat Interim Deputy S151 Officer, Resources	
<b>Accountable Executive Team Director:</b> Jo Moore, Interim Strategic Director, Resources	
<p><b>Summary</b></p> <p>This report presents to the Committee the outgoing external auditor's (BDO) on their proposed revised timeline to completion of their audit on the Council's Statement of Accounts for 2019/20. This timeline has been revised on a number of occasions.</p> <p>The Committee should note that there had been an intention of the audit partner to aim for completion of the audit in time for the January Committee. However, this partner (who has been overseeing the audit since January 2021) is retiring at the end of January and a new partner has taken over.</p> <p>In introductory meetings, the new partner indicated to officers (including the S151 Officer) that he would need around a month to undertake his own review and indicated that the end of February would be a realistic timeline. As can be seen from the attached progress report, this has now been extended by an additional <u>six</u> months.</p> <p>Given that the new backstop date of 30 September 2024 has now been announced and looks likely to go ahead (dependent upon outcome of consultation), one can only draw the conclusion that this is the reason for the extension and that BDO have actually no intention of concluding the external audit for 2019/20 under existing arrangements.</p> <p>The Chief Accountant has raised a query in respect of the impact on the later years, up to and including 2022/23, and this will need to be considered.</p> <p>Given that BDO have already indicated that there will be additional costs for 2019/20 and that substantially all of the audit work has been completed, it would be unacceptable from a taxpayer value-for-money perspective if the accounts did not receive a formal and full audit conclusion.</p> <p>At its last meeting the Committee also asked for a breakdown of the 2018/19 additional fees, and this is also now attached.</p>	

<p><b>Recommendation(s)</b></p> <p>The Audit and Standards Committee is recommended to:</p> <ul style="list-style-type: none"><li>i. note the content of this report,</li><li>ii. challenge the revised timeline of 31 August 2024 for completion of the Accounts,</li><li>iii. Agree that the S151 Officer should write to the PSAA and lodge a formal complaint,</li><li>iv. Recommend to Cabinet that the Leader and/or Chief Executive write to the Minister on this matter to seek their intervention, and</li><li>v. Note and agree the additional audit fees for 2018/19.</li></ul>
<p><b>Reason(s)</b></p> <p>As prescribed in The Accounts and Audit (England) Regulations 2015, it is a statutory obligation for the Council's Statement of Accounts to be produced and audited, and that the Statement of Accounts and the Annual Governance Statement must be approved by a Committee of the Council.</p>

## **1. Introduction and Background**

- 1.1 At the last meeting of the Committee, there were discussions with the external audit partner on best endeavours to conclude the 2019/20 audit ahead of the original proposed backstop date of 31 December 2023. As discussed at this meeting a backstop date will be implemented after which a new backstop solution will apply to completing the audit of accounts. This will apply to any local authority accounts up to and including the 2022/23 financial year which not signed by that date.
- 1.2 BDO was asked to provide a revised plan setting out the days/ key milestones which could be used to hold both BDO and officers to account.
- 1.3 BDO was also requested to provide a more detailed breakdown of the additional 2018/19 audit fees, given the large sum for which no breakdown had previously been supplied or agreement to these charges given by the Audit Committee.
- 1.4 BDO has now provided written reports to deal with these two issues and they are now attached.

## **2. 2019/20 Audit Update**

- 2.1 A new engagement partner took over the 2019/20 audit this month following the retirement of the audit partner at the end of January 2024. The Council was not made aware of this change in partner until early in January 2024.
- 2.2 The Council's Chief Accountant who joined in September 2023 has ensured that any requests for information have been responded to in a timely fashion and any information requested was returned before the Christmas break.
- 2.3 The Council's S151 Officer was informed that the audit manager was on leave prior to Christmas but would feedback if any further information was needed on their

return in January. In January, at an officer meeting, the partner announced her retirement and that the Audit Manager's leave had been changed and he was now not back until 15 January.

- 2.4 The S151 Officer asked for an urgent meeting on his return, and this took place on 16 January. At this meeting, the new partner was present. The Audit Manager indicated that he would make it a priority to review the information supplied and whether he was content that BDO now had all the information that they needed.
- 2.5 The new audit partner stated that he would require longer to conclude his review work as he would need to personally provide assurances which would take him longer than the original partner would have taken. He indicated that he would probably need one month. The S151 Officer challenged this, and he indicated that he would need 7-10 days for his review.
- 2.6 Since this last meeting, a new backstop date of 30 September has now been announced by central government. Although, this is subject to consultation and details of the new arrangements have still not been announced.
- 2.7 As can be seen from their attached revised timeline, BDO are now proposing a revised timeline of 31 August 2024 for concluding of the 2019/20 audit. Given the information above and the number of revised deadlines that have been promised, a possible conclusion that can be drawn is that the change of new partner is now being used as a tactical measure to avoid BDO ever giving a formal audit opinion on the 2019/20 Accounts.
- 2.8 The Committee has already been informed that there will be additional fees for 2019/20 and from a value-for-money perspective for taxpayers, it would be completely unacceptable if a formal, full audit opinion was not given on the 2019/20 Accounts.
- 2.10 This significant delay in concluding the audit for 2019/20 could also have an impact on the later years in terms of the ability to publish those accounts before the 30 September 2024 backstop date. The Chief Accountant has raised a query in this respect and BDO have said that they will respond in due course.
- 2.11 As long as the 2019-20 Statement of Accounts remains open, there is still the possibility of adjustments going through and the council cannot reliably publish these accounts for 2020-21, 2021-22, 2022-23. BDO also plan to issue auditors reports on 2020/21, 2021/22 and 2022/23 in line with the new backstop arrangements.
- 2.12 The delay in finalising the 2019/20 Accounts continues to cost the Council in many ways and poses a risk to the publication of the remaining outstanding Accounts by the proposed back stop deadline.
- 2.13 It is recommended that the Committee do not accept the revised timeline of 31 August 2024 for conclusion of the Accounts and seeks advice. It is also the S151 Officer's recommendation that a letter is sent to the PSAA in connection with this matter but that also the Leader and/or Chief Executive formally write to the Minister to intervene.

### **3. FEE UPDATE 2018/19**

- 3.1 The final results of the 2018/19 audit were reported to the Audit and Standards Committee (ASC) on 21 September 2020. That report outlined the challenges encountered in the audit which resulted in additional audit fees.
- 3.2 At its last meeting, the Committee requested a breakdown of these fees and this is now attached for consideration by the Committee.

### **4. Options Appraisal**

- 4.1 The audit of the Council's Statement of Accounts follows a prescribed process and, as such, there are no other options to appraise.

### **5. Consultation**

- 5.1 The audit of the Council's Statement of Accounts follows a prescribed process and, as such, does not require consultation.

### **6. Financial Implications**

*Implications completed by: Nish Popat – Deputy S151 Officer*

- 6.1 The additional fees identified by BDO for 2018/19 is £0.302m which will take the total costs for the 18/19 audit to £0.456m. The planned fees as per the PSAA scale fees were £0.154m. The BDO report further details the reasons behind the increases and confirm that these have been agreed with the Council's S151 Officer.
- 6.2 These fees have not been budgeted but have been included in the Council's forecast since Period 7 and has contributed to the overspend faced by the Council. The Council will have to pay for these using reserves or underspends elsewhere.
- 6.3 There is further risk that there will be additional fees for 2019/20 audit, however firm figures have not yet been provided by BDO.
- 6.4 The Council faces a risk with its outstanding audits as it does not firm up the overall assurances on the finances. Whilst the Government is considering a backstop arrangement to clear all audits, with a consultation in the process of being released, it still leaves a question of unknown risks that may not have been picked up and resolved. This could have a potential impact on future revenue budgets.

### **7. Legal Implications**

*Implications completed by: Dr Paul Field - Principal Standards & Governance Solicitor.*

- 7.1 The Director of Finance has a statutory duty, under Section 151 of the Local Government Act 1972 and Section 73 of the Local Government Act 1985, to ensure that there are proper arrangements in place to administer the Council's financial affairs. An essential component of sound administration is a sound audit function.

- 7.2 The Local Audit and Accountability Act 2014, established a new audit regime. Local Authorities must appoint a local auditor which in carrying out its' role must be satisfied that the authority has:
- made proper arrangements for securing economy, efficiency and effectiveness in its use of resources,
  - in its accounts comply with the requirements of the enactments that apply to them; and
  - observed proper practices in the preparation of the statement of accounts; and that the statement presents a true and fair view.
- 7.3 This is supported by the 2020 Code of Audit Practice published by the National Audit Office. Auditors now need to report significant weaknesses in arrangements when they identify them and make recommendations for improvement. A document called the Auditors Annual Report will cover arrangements for financial sustainability, governance and improving value for money. Audited bodies are required to publish the Auditors Annual Report on their Website.
- 7.4 The delay in completing local audits is a significant risk factor multiplied by the fact that for Barking and Dagenham's local audit is now several years behind the statutory target. It means that any signifiers of concern which may be highlighted by the local audit are submerged until the audit is completed. This weakens financial governance as the safeguard of an objective review by a professional audit is not at its full effectiveness. As detailed in the report to this Committee, there will be a change in the local auditor, and it will be a critical success factor for the Council and the new local auditor that their first local audit is effective as may be reasonable in all the circumstances in achieving completion to the statutory audit target date.

## 8. Other Implications

- 8.1 **Risk Management** - The preparation of timely, high-quality accounts is a key component of a system of good governance and accountability to our residents. This paper clearly sets out the operational, financial, and reputational risks that the Council face as a result of the amended timetable and fee update.

### List of appendices:

- **Appendix A** – BDO 31 March 2020 Audit Progress report – January 2024
- **Appendix B** – BDO 31 March 2019 Audit Fees Update – January 2024

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Report to the Audit and Standards Committee

# LONDON BOROUGH OF BARKING AND DAGENHAM

Audit Progress: year ended 31 March 2020

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## AUDIT UPDATE



I replaced Lisa Blake in January 2024 as the engagement Partner owing to Lisa's scheduled retirement. We are in the process of undertaking a detailed handover to me to ensure I am briefed on the current progress of our audit. This has included introductions to the Council's finance team.

Our intention is to finalise the remaining outstanding areas of the audit to enable reporting and issuing of our audit report in August 2024. I recognise that this is a longer timeframe than the Council would want. However, as I am taking over as Key Audit Partner, I will need to conduct a full review of our file and work to ensure I am content with the procedures performed to date. We have set out a proposed timeline for the conclusion of our audit on the following page.

There is an expectation that a consultation will take place shortly on a sector wide solution to addressing the backlog of Local Government auditor reporting. This is expected to include a revision to the Code of Practice to include a 'backstop date' by which all outstanding audit reports will be issued by. We are currently waiting on the detailed consultations from the National Audit Office, the Financial Reporting Council, and Public Sector Audit Appointments to understand the impact that the revised arrangements will have on the remaining audits to 31 March 2023.

Steve Bladen

24 January 2024



## BDO AUDIT TIMETABLE

We have proposed to officers the following timetable to progress the current audit

### JANUARY 2024

- ▶ Meet with senior members of the finance team and Chair of Standards and Audit Committee to provide an update on changes at Key Audit Partner level
- ▶ Provide update report to Standards and Audit Committee

### FEBRUARY - APRIL 2024

- ▶ Completion of Manager review of completed audit procedures and clearance of review points raised by Manager
- ▶ Completion of Key Audit Partner reviews and audit team clearance of any review points raised
- ▶ Clearance of review points raised by BDO's Financial Reporting Technical Standards reviewer on the draft financial statements and
- ▶ The Council to respond to queries relating to audit procedures and provide additional information as required

### JULY - AUGUST 2024

- ▶ Finalise audit procedures
- ▶ Reconsider any new information that has arisen
- ▶ Undertake BDO internal quality review procedures.
- ▶ Meet with Officers to discuss key audit findings.
- ▶ Draft reporting for TCWG
- ▶ Review revised financial statements
- ▶ Report the final position to TCWG
- ▶ Issue 2019/20 auditors report

### SEPTEMBER 2024

- ▶ Issue combined auditors annual report and commentary on VFM
- ▶ Issue auditors reports on 2020/21, 2021/22 and 2022/23 in line with new code requirements

## AUDIT SECTOR CONTEXT

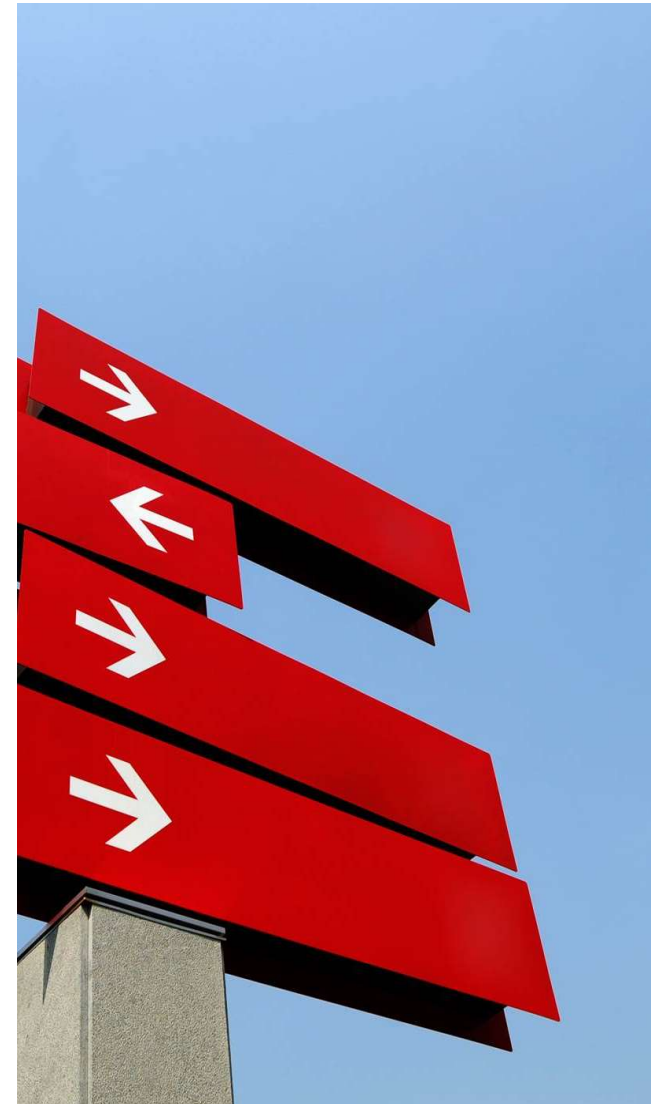
The sector has seen a number of pressures arising since the faster close agenda brought the reporting deadline forward for the 31 March 2019 period to 31 July 2019. Only 60% of local government bodies were able to publish audited accounts by this deadline. By exception, there remain a number of 2018/19 audits outstanding.

The 31 March 2020 publication deadline, initially revised from July 2020 to the end of September 2020, was then further extended to 30 November 2020. However, only 45% of local government bodies were able to publish audited accounts by this extended deadline.

Recruitment and retention of staff, reduction of fees and increased regulatory requirements have continued to add to this pressure sector wide. It has been widely recognised that the audit sector, and public sector audit specifically, requires reform to enable it to remain sustainable. The Redman review focuses on recommendations to help achieve this in the longer term.

Alongside these already present pressures, a global pandemic manifested additional impacts and pressure. New challenges of remote working, onboarding and training new staff remotely, communication, IT support and illness within the team directly impacting efficiency and delivery. A national issue with infrastructure asset reporting has further impacted delays.

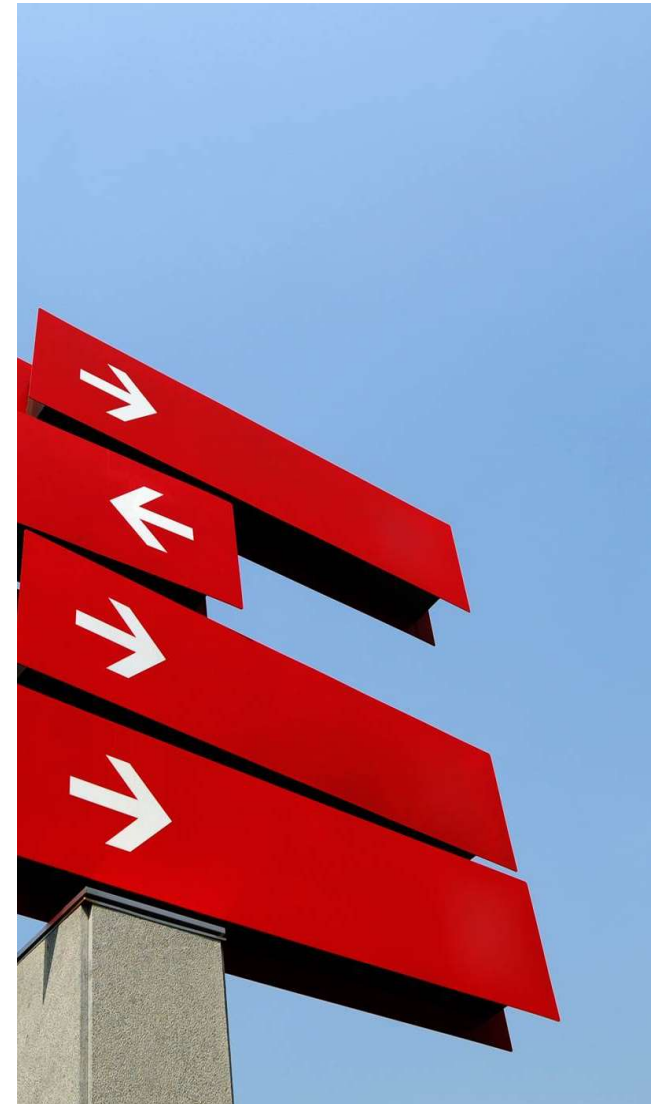
The 31 March 2021 publication deadline was set at end September 2021. Audit firms and audit regulation bodies did feedback that this was not realistically achievable. Only 9% of 2021 audits were completed by 30 September 2021, with 20% by 30 November 2021, 40% by 31 December 2021 and 50% by April 2022. 34% of 2020/21 audit opinions remained outstanding at 31 December 2022. As at October 2023 there were cumulatively 918 outstanding audit opinions.



## AUDIT SECTOR CONTEXT (CONT.)

As outlined by the Comptroller and Auditor General earlier this month we understand that the proposed backstop date for audits up to 31 March 2023 will be 30 September 2024. We await detailed guidance from the senior stakeholders on the mechanics of the backstop process and will update audited bodies in February 2024 with our plans, including plans to deliver the required VfM work for periods up to 31 March 2023.

Work on finalising the 2019/20 audits of the main Council's accounts and of the Pension Fund is progressing in line with the timetable outlined above. At this stage we anticipate that a full auditor report will be issued for 2019/20, however the imposition of the backstop date will likely apply to the remaining audit periods to 31 March 2023.



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# FEE UPDATE 2018/19

London Borough of Barking and Dagenham

January 2024

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# EXECUTIVE SUMMARY



This report includes the final fee information for the 2018/19 audit.

The final results of the 2018/19 audit were reported to the Audit and Standards Committee (ASC) on 21 September 2020 in our Audit Completion Report. In this report, and in our 2019/20 Audit Plan presented to the ASC on 18 January 2021, we highlighted that the scale fee set by Public Sector Audit Appointments Limited (PSAA) was insufficient to cover the significant amount of additional audit procedures and reporting time required to deliver the audit, as a result of the number of significant risks and errors identified, including a number of prior period adjustments.

Since that time we have:

- ▶ Completed a detailed Root Cause Analysis (RCA) process exploring the contributing factors to the number of issues identified during the audit and length of time to complete the audit
- ▶ Agreed an action plan with the finance team for securing improvements to accounts preparation and audit processes
- ▶ Reported the results of the RCA and the key actions to the ASC (18 January 2021)
- ▶ Discussed the audit fee implications at a granular level with the Strategic Director, Finance and Investment (S151 Officer) and agreed the appropriate level of additional scope audit work with him
- ▶ Presented this report to the ASC on 4 October 2023 where a fee analysis was requested which is now included on page 3.

## KEY ISSUES REPORTED FOR 2018/19

### Adjusted and unadjusted errors:

There were 42 adjustments made to the draft 2018/19 Statement of Accounts as a result of the audit. These had a net impact on the reported results of the Council of £70.4 million. Of these, 8 were individually material (materiality was £11 million).

A further 23 unadjusted misstatements were reported to ASC in our Audit Completion Report.

### Prior period adjustments:

In addition to in-year errors, 3 prior period adjustments were required because of matters identified during the audit:

- dedicated schools grant had been double counted in the year (£176.8 million) and £168.1 million had also been double counted in the 2017/18 financial statements
- correction of over receipting of purchase orders resulting in misstatement of creditors in the year (£877, 000) and £10.5 million relating to prior years
- correction of historical capital spend, which had not been correctly reclassified when assets became operational, to the value of £31.8 million.

### Significant deficiencies in internal control:

We reported 7 significant deficiencies in internal control, most of which resulted in our audit strategy having to be amended to include an increased level of substantive procedures and increased sample sizes to be necessary in order to gain the required level of assurance to support the audit opinion. We issued an ISA265 letter to the ASC (22 October 2019) highlighting significant weaknesses in the effectiveness of the arrangements for preparing a materially accurate Statement of Accounts.

### Additional audit procedures:

A significant level of additional audit procedures were required in a significant number of areas, including:

- opening balances in respect of non-current asset valuations
- valuation and classification of property, plant and equipment
- consolidation of group accounts, which had been done by the Council for the first time and was the source of numerous errors and technical accounting issues.



# FEES

	2018/19 Actual £	2018/19 Planned £	2017/18 Actual £
Audit fee			
Code audit fee: Consolidated Group and Council financial statements and use of resources <sup>1</sup>	390,114	127,801	165,975 N/A
Group consolidation audit fee <sup>2</sup>	39,677	N/A	
Audit fees	429,791	127,801	165,975
Non-audit assurance services			
Fees for reporting on government grants:			
• Housing benefits subsidy claim	19,800	19,800	34,354
• Pooling of housing capital receipts return	3,250	3,250	5,750
• Teachers' pensions return	3,250	3,250	2,900
Fees for other non-audit services	26,300	26,300	43,004
<b>Total fees</b>	<b>456,091</b>	<b>154,101</b>	<b>208,979</b>

<sup>1</sup> Additional fees of £262,313 in respect of the substantial amount of additional scope audit procedures, and increase in associated Manager and Partner time, required to address the audit risk profile of the Council and the volume of errors, significant deficiencies in internal control and other issues identified as part of the audit. These are summarised on the previous page and the detail previously reported to the Audit and Standards Committee. These fees have been discussed and agreed with the Strategic Director, Finance and Investment (S151 Officer).

<sup>2</sup> In 2018/19 the Council consolidated the group accounts for the first time. The scale fee set by PSAA does not include an amount for the audit of the group consolidation and we have agreed £39,677 for this first year. Although this will be a recurrent addition to the scale fee, there were a significant number of errors identified as part of the audit of the group consolidation in 2018/19 and we do not anticipate the same level of misstatements to recur in future years. For this reason, we proposed and agreed a recurrent fee of £23,581 for group consolidation work, on the assumption that the group accounts and working papers received in future years will be of good quality and free from material misstatement.

There is a requirement for all additional fees to be approved by PSAA before they can be invoiced. This will be the next step in the process.

Additional fees £262,313 <sup>1</sup>	£
Planning and risk assessment revisions - additional procedures	32,847
Extended sampling procedures for significant and material misstatements:	
• Non-current assets valuations - PPE & Investment properties	31,848
• Debtors and creditors	34,987
• Income inc. grant recognition	37,121
• Expenditure	14,252
• Pensions inc. McCloud and GMP	5,340
• Other inc. notes to the accounts	18,002
• Opening balances and audit of PPAs	18,100
Technical consultation accounting matters:	
• Pension contribution pre-payments & pension pass-through arrangements	10,380
Additional procedures for other specific deficiencies in arrangements:	
• Journals extraction from ledger (IT specialist additional procedures)	2,908
• Component shared ledger arrangements (disaggregation testing)	3,827
Additional accounts reviews for call & cast, checking journal processing extensive corrections	9,533
Additional reporting, liaison, project management, senior team consultation and quality reviewer engagement	43,168
<b>Total</b>	<b>262,313</b>

# ROOT CAUSE ANALYSIS



## ROOT CAUSE ANALYSIS AND 2019/20 IMPACT

### Root cause analysis

- ▶ The RCA process and the action plan implemented subsequently has led to improvements in the accounts preparation processes.
- ▶ While the timing of the RCA and action planning was after the 2019/20 Statement of Accounts had been prepared, so not all actions could be implemented for 2019/20, a number of actions were implemented retrospectively.
- ▶ While there are still reportable matters arising from the 2019/20 audit, some of which are material, there have so far been fewer errors identified and no prior period adjustments (as reported in our reports to the ASC on the 2019/20 audit in March & September 2022).

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