

MINUTES OF AUDIT AND STANDARDS COMMITTEE

Monday, 21 September 2020
(5:00 - 6:01 pm)

Present: Cllr Princess Bright (Chair), Cllr Adegboyega Oluwole (Deputy Chair), Cllr Josie Channer, Cllr Irma Freeborn, Cllr Kashif Haroon and Cllr Mohammed Khan

Also Present: Stephen Warren

Apologies: Cllr Simon Bremner and Cllr Emily Rodwell

34. Declarations of Interest

There were no declarations of interest.

35. Minutes - (27 July 2020)

The minutes of the meeting held on 27 July 2020 were confirmed as correct.

36. Statement of Accounts 2018-19 and BDO's ISA260 Report

The Council's Chief Accountant introduced a report on the Statement of Accounts 2018/19 and the associated ISA260 Report from the Council's external auditor, BDO. He regretted that Appendix 5 of the report, the Group Accounts for 2018/19, which was marked as 'to follow', was not provided to the Committee, as changes were still being made to these accounts. He assured the Committee however, that BDO had almost completed their work on these accounts, which would soon be subject to their internal review.

The Chief Accountant explained that any significant adjustments made to the Statement of Accounts since the Committee received the draft version in July 2019, had been highlighted in yellow to enable Members to compare and note the changes made.

BDO's Senior Manager provided an overview of the ISA260 report, highlighting that:

- Testing work relating to the single entity accounts was now almost complete; and
- The net value of uncorrected misstatements identified during the audit was £422k in the Comprehensive Income and Expenditure Statement and £422k in the Balance Sheet, which was below the materiality tolerance of £11m for the single entity accounts.

BDO's Assistant Manager provided an update on the audit of the group accounts, since the last meeting, stating that:

- BDO was unable to support some of the values being used in the version that was being reviewed at the time of the last meeting; however, these had

- now been corroborated;
- Some of the consolidation adjustments which were identified as incorrect had now been corrected;
- There were some errors in material intergroup loans in 2017/18 values that had now been corrected;
- The position now was that BDO considered the group accounts to be materially accurate, and they were now subject to senior review; and
- The next key piece of work in relation to the group accounts was to conclude the review on post balance sheet events.

The Chair expressed her significant disappointment in relation to the following issues, with regards to the Statement of Accounts:

- Despite all the assurances given at the previous meeting, the Committee still had not been presented with a complete set of accounts and a complete ISA260 report;
- There was no effective communication with her in advance of the papers being circulated and the meeting itself, about the delay in finalising the Statement of Accounts and the reasons for it; and
- The ISA260 report, in respect of the pension fund, was not provided until requested, and was only received this morning via email circulation.

Members concurred with the Chair's comments and asked what the reasons were for the further delay in presenting a final Statement of Accounts. They urged Council officers and BDO not to procrastinate and do everything necessary to conclude the audit of the 2018/19 accounts, so that the impact on the audit of the 2019/20 accounts could be minimised.

The Council's Finance Director stated that much hard work had gone on to get the audit to the current position. Whilst he understood and shared the Committee's frustration at not having a finalised Statement of Accounts, he noted that the vast majority of information relating to these accounts had been provided to the Committee. He clarified that the delays in completing the audit were not down to staff working from home due to the pandemic; in fact, the technology available to work virtually had made some aspects of the audit work easier. He assured the Committee that the audit was almost complete and that it was likely that the Statement of Accounts would be in the position to be signed off in a couple of weeks' time. Whilst working on the 2018/19 accounts, officers had also been working on preparing the 2019/20 statements, which had been published on to the Council's website on 31 August 2020 as draft, in accordance with the timetable agreed by the Government. Whilst preparing the 2019/20 accounts, officers had reflected on the lessons learnt as part of the audit of the 2018/19 accounts and were confident that the next audit would go more smoothly.

The BDO Partner agreed that it was unfortunate that a finalised Statement of Accounts had not been provided to the Committee; however, she assured Members that it was not uncommon for Audit Committees to receive a Statement of Accounts that was subject to some further clearance work, near the end of an audit. She was confident that she would be in a position to sign the audit opinion by the end of this month. BDO and Council officers had not been procrastinating; the delay behind the audit of the group accounts was due to the number of issues arising during the course of the audit, including those arising from having a complex group structure, as explained at previous meetings. Going forward, it was

expected that with the 2018/19 accounts audit process serving as good experience, this area of the audit would be smoother. She acknowledged that the Chair of the Committee should have been kept informed of the issues arising in relation to the group accounts leading up to the publication of the agenda papers for this meeting and was sorry that this had not occurred. With regards to the Chair's comments around the Pension Fund, the Audit Completion Report in that respect provided to the Committee at its meeting in July 2019 was complete at that time, and no further audit work had been undertaken on the Pension Fund since then.

The Chief Accountant apologised for the omission of the Pension Fund report and assured the Committee that in future, the full set of accounts would be provided to the Committee in advance of approval being sought.

The Chief Accountant provided further context to the delay in finalising the group accounts. The group accounts were extremely complicated and this was the first time the group subsidiaries' accounts had been consolidated, so the Finance team had to start from scratch; whilst this was good in the sense that it would provide assurance as to the accuracy of the accounts, it also meant that BDO had to look into the prior year's accounts for comparison. The work involved in this process was akin to producing two years' group accounts in one go and was in addition to the work required to prepare the accounts for 10 of the Council's subsidiaries.

The Chair asked why the difficulties faced in the 2018/19 audit of accounts were not reflected in draft Annual Governance Statement for 2018/19. The Council's Head of Assurance stated that the drawn out nature of the 2018/19 accounts meant that the issues around financial governance to have arisen during this audit, would appear on the 2019/20 Annual Governance Statement. The BDO Partner stated that she felt it was important that the issues that arose as part of the audit of the 2018/19 accounts should be reflected in the Annual Governance Statement for the same year, as the ISA265 letter that BDO had issued which referred to weaknesses in significant control, related specifically to the 2018/19 accounts. The Chief Accountant stated that this would be corrected.

In response to questions:

- The Chief Accountant stated that officers had already produced a paper on some of the lessons learnt from the 2018/19 accounts audit process, focussing on creditors, debtors and grant income, with significant improvements already being made in these areas. With regards to the overall lessons learnt, the Council and BDO were exploring the option of using a third party to undertake a root cause analysis of the 2018/19 audit process, with recommendations for improvement. He stressed that it was important for any such work to look forward and build on the progress made, given that the next audit would be in the second year of the working relationship between the Council and BDO. The Finance Director stated that he was committed to bringing the result of any such work to a future meeting of the Committee, and both he and the BDO Partner stated they were confident that the improvements required would be made, due to the excellent working relationship between BDO and the council officers;
- The BDO's Senior Manager stated that the audit procedures in relation to the 2018/19 accounts had been carried out and completed;

- The Finance Director stated that the complexity of the group accounts lied in the structure of the Council's subsidiary companies. The Council had several groups of subsidiary companies that had been created for various purposes to get the most benefit from their arrangements. Officers were keen to address that complexity where possible- for example, they were currently looking into the Reside group of entities to review if there were any which could be closed. Going forward, it was important that when the Council creates new structures, this was done in a way that would bring the most benefit to the Council but also minimise the complexity of the accounting; and
- The Independent Advisor to the Committee stated that he fully supported the undertaking of the route cause analysis referred to earlier and that the results be presented to this Committee when available. He also agreed with the view that the issues relating to the 2018/19 audit process should be reflected in the Annual Governance Statement for the same year.

The Committee resolved to:

- Note the current version of the Audit Completion Report (ISA260) from BDO, as set out at Appendix 1 to the report;
- Delegate approval of the final Statement of Accounts to the Director of Finance, in consultation the Chair, on the proviso that the finalised Statement of Accounts, the explanations for movements from the draft accounts, and the finalised ISA (UK) 260 report from the auditors are circulated to the Committee, in sufficient time for Members to seek clarification of any matters; and
- Note that the final Statement of Accounts 2018/19 would be published as soon as practically possible thereafter.

37. Work Programme 2020/21

The Chair asked officers to update the Work Programme to include the report requested under item 4 of the agenda on the lessons learnt from the 2018/19 accounts audit process.

The Independent Advisor stated that the other issue to consider going forward was the implications on the Work Programme of the Redmond Report published this month, which detailed the outcome of a wide ranging review of how local government external audit is regulated, procured and market managed. Most of the recommendations to arise from this report were addressed to the Government, which was yet to formally respond. However, the following three recommendations were ones which local authorities could respond to on their own initiative:

- That audit committees include at least one Independent Member;
- That audit committees produce an annual report; and
- That local authorities produce a report in summary form of expenditure or financial performance against their budgets.

The Chair asked the Finance Director to make arrangements to prepare a report for a future meeting of this Committee, summarising the implications of the Redmond Report for the Council and the Committee, with recommendations as to any arrangements that need to be put in place in light of it. The Chair also asked

that the Redmond Report be circulated to the Committee for information.

The Finance Director stated that earlier in the year, the approval of the 2019/20 Accounts and the associated Audit Completion Report (ISA260) had been scheduled for the 16 November 2020 meeting; however, it was now clear that officers and BDO would not be in a position to present these reports in November. The draft 2019/20 accounts had been published and officers were working closely with BDO on the options as to the best approach to take to the audit.

The BDO partner described the challenges faced by external auditors in terms of resourcing and working in remote settings, with many audit firms, including BDO facing significant delays in audit work. Given the experience of the 2018/19 accounts audit, she did not wish to make promises to the Committee that could not be kept. She confirmed that it would not be possible to bring the Audit Completion Report for the 2019/20 accounts to the November meeting; however, she hoped that the audit would be completed within approximately, a four month period. A clear timeline for delivering this audit would need to be developed and shared with the Committee, and this could be presented at the meeting in January 2021.

The Council's Finance Director stated that he hoped that the 2019/20 accounts audit would be complete before the end of this financial year and officers would be working with BDO to develop a timetable. The Chair thanked Finance Director and the BDO Partner for their transparency.

The Chair asked that the Work Programme be updated to reflect the above discussions.