

MINUTES OF AUDIT AND STANDARDS COMMITTEE

Monday, 7 March 2022
(7:00 - 7:50 pm)

Present: Cllr Princess Bright (Chair), Cllr Adegboyega Oluwole (Deputy Chair), Cllr Dorothy Akwaboah and Cllr Mohammed Khan

Also Present: Stephen Warren

Apologies: Cllr Simon Bremner, Cllr Josie Channer and Cllr Irma Freeborn

34. **Declarations of Interest**

The Independent Advisor (IA) disclosed that he was engaged as a consultant to Public Sector Audit Appointments (PSAA) which appoints the Council's external auditor. The IA disclosed that he was advising on the financial evaluation on the forthcoming tender and the potential impact on the time that will be required as a result of changes in auditing and accounting standards requirements.

The IA assured the Committee that it did not affect Barking and Dagenham Council or the appointment of an external auditor. The Chair agreed that this was not a disqualifying interest and permitted IA to continue to participate in the meeting.

35. **Minutes - To confirm as correct the minutes of the meeting held on 19 May 2021**

The minutes of the meeting held on 19 May 2021 were confirmed as correct.

36. **Minutes - To confirm as correct the minutes of the meeting held on 12 July 2021**

The Committee requested that the following edits be made;

- The fifth paragraph of the minutes referred to 'Housing Benefit payments'. The Committee agreed that this be amended so that it refers to 'a Housing Benefit subsidy payment' which is a more accurate description.
- The sixth paragraph of the minutes referred to 'the statutory deadline for completion of the Council's audit.' The Committee noted that Regulation 10 of the Accounts and Audit Regulations 2015, does not establish a deadline for completion of the audit but stated that if the audit was not completed by a specified date, the Council should publish a statement that it is not able to publish the audited statement of accounts with the reasons given. The Committee agreed that the wording be changed to refer to 'the statutory target for completion of the Council's audit.'
- The Committee observed that the seventh paragraph referred to 'Housing Benefits Audit' and stated that 'the audit will be completed'. The work undertaken by the external auditor on the Council's housing benefits claim

was not an audit designed to give a true and fair view opinion but 'certification work'. The Committee agreed that the wording be changed to refer to 'housing benefits certification' and to state that 'the certification work will be completed.'

The minutes of the meeting held 12 July 2021 were confirmed as correct subject to the edits listed.

37. Minutes - To confirm as correct the minutes of the meeting held on 28 September 2021

The Committee requested the following edits;

- In the ninth paragraph of the minutes on 'Accounts Audit Update 2019/20' there was reference to 'audit related work.' This phrase had a particular meaning in the context of external audits which the Committee agreed was not appropriate in the context it was mentioned. The Committee agreed that the wording be amended so that it read 'work relating to providing documentation to support the financial statements.'
- The fifth paragraph of the minutes referred to 'the statutory deadline for completion of the Council's audit.' Regulation 10 of the Accounts and Audit Regulations 2015 does not establish a deadline for completion of the audit but rather provides that if the audit is not completed by a specified date, the Council should publish a statement that the Council is not able to publish the audited statement of accounts with reasons. The Committee agreed that the wording be amended to 'the statutory target for completion of the Council's audit.'
- The sixth paragraph of the minutes referred to 'Housing Benefits Audit' and states that quote 'the audit will be completed.' The work undertaken by the external auditor on the Council's housing benefits claim is not an audit designed to give a true and fair view opinion but 'certification work'. The Committee agreed that the wording be amended to read as quote 'housing benefits certification' and to state that 'the certification work will be completed.'
- The seventh paragraph of the Minutes refers to 'accounts for 2019-10'. This should instead refer to 'accounts for 2019-20'.

The minutes of the meeting held 28 September 2021 were confirmed as correct subject to the edits listed.

38. Minutes - To confirm as correct the minutes of the meeting held on 31 January 2022

The Committee requested the following edits;

- That the second paragraph on page eighteen of the minutes and the second and third paragraphs on page nineteen be amended to show that the Council had engaged Grant Thornton to undertake certification (as opposed to audit) work on claims and returns rather than BDO doing so and

the relationship is directly between the Council and Grant Thornton.

- The fourth paragraph on page eighteen could be wrongly construed as it states that 'BDO noted that Reside had different sectors that required differing accounting requirements. The Committee agreed that the wording be amended to read 'BDO noted that the Reside Group comprised different entities for which the accounting requirements differed'

The minutes of the meeting held 31 January 2022 were confirmed as correct subject to the edits listed.

39. Accounts Audit Update - 2019/20

BDO had provided an Interim Audit Completion Report, following the publication of the meeting papers, which was published as a supplementary agenda.

BDO highlighted that a key issue in the report related to the accounting for infrastructure assets. BDO drew members' attention to the Property, Plant and Equipment (PPE) section of the audit report which explained that there was an emerging issue in relation to accounting for infrastructure assets. The Chartered Institute of Public Finance and Accountancy's (CIPFA) local authority code of accounting practice (the Code) required that component accounting, where component parts of an asset were treated and valued differently owing to differing economic lives, must consider any replacement or upgrading of a component part during the overall asset's life.

Therefore, the value of the replaced component part must be derecognised from the overall value of the asset and replaced with the value of the replacement component part of the asset.

BDO explained that over time it had become an accepted norm in local government accounting whereby highway authorities do not account for infrastructure assets on a component basis. This was due to the difficulty of obtaining relevant details relating to the life of an infrastructure asset such as a road. Instead, assets would often be brought to the balance sheet at cost and, where components were replaced or upgraded, the new component's value would be added to the balance sheet without the value of the replaced component being derecognised.

This results in the gross book value of the entire asset increasing and the accumulated depreciation of the asset also increases over time, with no de-recognition, which could result in a material misstatement of the gross book value and the associated accumulated depreciation over time. Therefore, in these circumstances, the note in the balance sheet on PPE could have a material disclosure misstatement within it.

BDO further went on to explain that, where the replacement component was of similar value to the original component and had a similar economic life, it was possible that the net book value, of the assets in question would not be misstated. However, where the replaced component was of a differing value or had a differing useful economic life, this could create a mismatch between the gross book value and the accumulated depreciation value which, in turn, could result in a material

misstatement of the net book value.

However, the potential level of misstatement of gross book value, accumulated depreciation and net book value was difficult to quantify as sufficiently detailed records did not likely exist. BDO stressed that this issue was not unique to Barking and Dagenham Council but that it was understood that the Council were not in a dissimilar position to that reported elsewhere.

BDO explained that this had recently been drawn attention to in light of the Financial Reporting Council's (FRC) sanction of a public sector audit firm for not properly considering the accounting for components of assets within its audit strategy. This has led to auditors reviewing their approaches in this area and whether auditors were doing what was required under the accounting framework. Infrastructure assets was one area where local authorities may not be complying with the Code and auditors may not have been highlighting this previously.

Barking and Dagenham Council's infrastructure assets had a net book value of circa £100 million and the materiality level was circa £11 million and BDO cautioned that this could be a material issue for the Council.

BDO participated in the Local Auditors' Advisory Group (LAAG) meeting, on 8th February 2022, which consisted of public sector auditors and the National Audit Office (NAO) to discuss the problem for audits resulting from this apparent widespread non-compliance with the Code. It was agreed that the ruling was a potential problem for audits. A paper on the issue was considered at the Local Government Technical Network (LGTN) on 24th February, which included CIPFA. It was agreed by all parties that, until these issues were resolved, auditors would put their opinions on hold regardless of the year the audit related to. Therefore, no opinions would be signed off in cases where there are material infrastructure assets on the balance sheet until an appropriate response to the matter has been determined.

A further meeting of the LGTN was due to take place on 10th March 2022 to discuss how to address the issue and BDO would attend. Whilst it was not possible to determine what the meeting outcome would be BDO indicated three possible options were;

- Hold opinions open until sufficient work was undertaken to rectify the deficit in knowledge around record keeping in relation to infrastructure assets, so that appropriate de-recognition and componentisation adjustments could be made retrospectively;
- Apply a qualification to the audit opinion which could be a 'limitation of scope' or a 'disclaimer'; or
- CIPFA/LASAAC agrees to amend or disapply certain parts of the Code of Practice on Local Authority Accounting in the United Kingdom.

BDO explained that other options may be considered and that the three options listed came with drawbacks.

In response to questioning, BDO said that, where it was agreed at the next meeting of the LGTN that qualifications be given, it was likely that auditors would approach the issue in the same manner and thus it would not be the case that

some auditors would adopt 'limitation of scope' whilst others adopted the 'disclaimer' approach.

BDO then presented the Interim Audit Completion Report. BDO said that there had not been any significant changes to the initial audit plan that was initially provided to the Committee nor had any restrictions been placed on BDO's work. BDO also had no exceptions to report on economy, efficiency or effectiveness.

There had been an increase in the materiality level adopted for the audit than was recorded in the audit plan, and this was due to an increase in finance expenditure. Three material errors were discovered in relation to;

- **Buildings and land-** material errors were still being found as part of BDO's PPE work. Although the number of errors were less than previous years, further work was needed by the Council to address the occurrence of errors within the valuation of buildings and land;
- **Reversal of recharges** – the methods and source data used to determine recharges was out of date. In response to issues raised during the audit, the Council had undertaken a further review of the recharges applied to the draft financial statements and identified that they should have been £10.5 million not £35 million of recharges. Circa £25 million should not have been recharged and this was corrected; and
- **Reclassification of a Pension Fund Balance-** There was a reclassification error of £10.7m balance with the Pension Fund from cash and cash equivalents to short term investments due to the amount recognised not meeting the definition for cash and cash equivalents.

BDO said that there had been improvements in cooperation during the audit process, compared to previous audits and working papers produced by council officers also showed improvement. However, there was, again, a significant delay in the Council providing the group accounts for audit.

BDO also noted that, in relation to the risk scope, this was wider than would be usual in an audit of a London Borough and was a result of the large volume of issues identified in the previous year's audit and thus more testing was required to address the higher levels of audit risk. BDO also drew the Committee's attention to the schedule of unadjusted audit differences and their effect on the Council's income statement and balance sheet, advising that management expected to correct for all unadjusted error where they have not been extrapolated upon. At this stage of the audit, the balance sheet impact of misstatements identified to date was reaching the level at which it would be regarded as cumulatively material and would prevent an unqualified opinion from being issued.

BDO cautioned that as their work was still ongoing and the outcome was subject to change. The outcome would be provided in the final audit completion report and BDO would highlight any changes from the Interim Report.

In response to questioning, BDO clarified that they audited the Council's pension fund, however that audit was treated separately and are the Council's accounts and the Pension Fund accounts are signed off by different persons.

The Chief Financial Officer (CFO) in response to questioning, noted that there had been historic issues in relation to impairment, bad debt provision and appeal provisions. However, work had been undertaken to improve provisions and collection rates to improve the accuracy of figures. This work was being undertaken with the Council's Revenue and Benefits Section and an agreed plan of action was being drawn up.

Following questioning from the IA, BDO elaborated on significant deficiencies in control in respect of grants received and securing the completeness and accuracy of PPE. These deficiencies had also been reported in the 2018/2019 audit and, although there had been improvements since, deficiencies remained. In relation to PPE work was still ongoing, and the outcome would be reported in the final Audit completion report.

BDO acknowledged that, considering the present economic situation and the impact of Covid-19, that the use of historical data would not be entirely appropriate adding that one of the issues they would assess was how the Council would factor in the effects of the economic situation and Covid-19 into its future calculations.

The CFO indicated that business rates and council tax income had remained constant during the pandemic and that the collection of both had been brought in house having previously been contracted out.

The Committee noted the interim report and looked forward to receiving the final report in April 2022.

40. Risk Management Update

The Head of Assurance (HoA) updated the Committee. It is the responsibility of all managers to manage risks within their remit. The HoA explained that he provided support and advice to managers in risk management but is not responsible management of risks themselves. Each risk owner had undertaken an assessment of their area, and this was discussed at a corporate level to ensure regular monitoring.

There were fourteen risks on the risk register at the last review and this remains the case at this review. One risk, relating to data centre failure, had been removed whilst another risk, relating to cybersecurity compromise had been added.

The data centre failure risk was removed because the Council had improved its IT environment and the Council's core infrastructure was cloud hosted. The HoA stressed that the risk had not been completely eliminated and remained under review, however it was no longer a core risk.

In relation to cybersecurity, the HoA noted that three local authorities had been affected by high profile cybersecurity incidents which affected service provision, data loss or compromise and imposed substantial financial costs.

The Committee noted the update.

41. Standards Complaints update

The Head of Law (HoL) updated the Committee and drew the Committee's attention to the status, outcomes of actions that had been taken.

The Committee noted the report.

42. Work Programme 2022-2023

The Committee noted the work programme.