



Report to the Audit and Standards Committee

# LONDON BOROUGH OF BARKING AND DAGENHAM

Audit status report: year ended 31 March 2020

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# INTRODUCTION

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This audit status report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two-way communication throughout the audit process with those charged with governance.

It follows our Interim Audit Completion Report presented to the March 2022 meeting of the Audit and Standards Committee (ASC).

Since the March meeting, there have been some notable changes to the audit team, with Kirsty Slater taking on the role of Audit Manager and the addition of Duncan Wallace, Assistant Manager, to the senior team responsible for completing the 2019/20 audit.

Lisa Blake

30 September 2022



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. This report has been prepared solely for the use of the Audit and Standards Committee and Those Charged with Governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

# OVERVIEW

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### Overview

Since presenting our last report to the Audit and Standards Committee (ASC) on 7 March 2022, we have no new audit matters arising to bring to your attention. You will know, however, from that interim report that we have identified material misstatements in the draft 2019/20 Statement of Accounts received for audit, a notable number of other non-trivial misstatements, non-compliance with the CIPFA/LASAAC accounting and reporting Code, significant deficiencies in the Council's internal controls and further improvements needed in respect of the quality assurances processes applied to the draft accounts, the working papers provided in support of those accounts and the accuracy/appropriateness of evidence provided in response to audit queries. Property, Plant and Equipment (PPE) valuation and group accounts consolidation, in particular, are two significant aspects of the Council's audit which have been the most troublesome and not well-prepared for audit.

The above has contributed significantly to the extended time it is taking to complete the audit.

We continued to progress our work in March and April 2022, as was agreed, but highlighted in June 2022 meetings with the Chair of the ASC, the Strategic Director, Finance & Investment (S151 Officer) and the Chief Accountant that we continued to experience difficulties obtaining satisfactory evidence to support the audit and scheduled for more work to be completed in July 2022.

In July 2022 we experienced the extended sickness absence of the then Audit Manager who did not return to work until a few days before leaving BDO. During the July 2022 booking, the team members continued to progress the audit fieldwork, in particular responding to points raised through senior team review processes. In September 2022 more senior team members returned to progress group accounts consolidation and PPE.

Going forward, Kirsty Slater, the Manager already planned to undertake the 2020/21 audit, has assumed responsibility for the completion of the 2019/20 audit. The handover had been planned on the assumption that the 2019/20 audit would have been completed, so also taking on this completion causes a clash with Kirsty's pre-existing commitments to other audited entities. Kirsty, supported by Duncan Wallace, has already undertaken a 'stock take' review of both the Council and Pension Fund audit files to ascertain the audit status and secure the right resources required to complete. There are also further manager-level reviews of detailed field work which need to be completed, but have not yet due to the pre-existing commitments.

A brief summary of the matters previously reported to the ASC is included on pages 5 to 8 of this status report. We have not repeated the detail of the matters arising as it has not changed notably since we reported them fully in March 2022. The final results of the audit will be reported in detail in our Audit Completion Report.

The reporting timeline, based on the current configuration of resources secured for the completion of the audit, is outlined on page 10. We have also included, on page 9, a summary of the latest information we have on the national issue being reviewed on the accounting treatment and audit of infrastructure assets within the Council's balance sheet.



# THE NUMBERS

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### Final materiality

Group and Council materiality was determined based on benchmark of 1.4% of gross expenditure.

Group materiality was determined at £13.5 million. We have increased our single entity materiality from £12.5 million to £12.7 million as a result of an increase in expenditure.

### Material misstatements

In March 2022 we reported that our audit had identified the following material misstatements to date, all of which will be corrected by management:

- Other land and buildings were overstated by £27.4m due to double counting of assets for Hewett Road Roding Primary School and Fanshawe College.
- Reversal of £49.7m of recharges from general expenditure to support services as supporting evidence could not be provided for this.

- Reclassification of £10.7m balance with the Pension Fund from cash and cash equivalents to short term investments due to not meeting the definition for cash and cash equivalents.

No further material misstatements have been identified since.

We also reported that we had identified several misstatements below our materiality threshold which management has adjusted for.

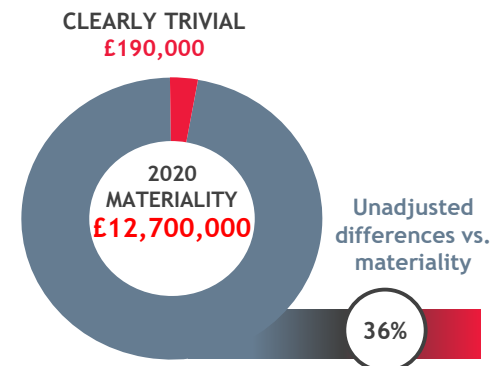
The cumulative impact on the finance statements for these issues, is to reduce the deficit on the provision of services for the year by £748k and to decrease the net surplus in Total income and expenditure by £26.7m.

### Unadjusted audit differences

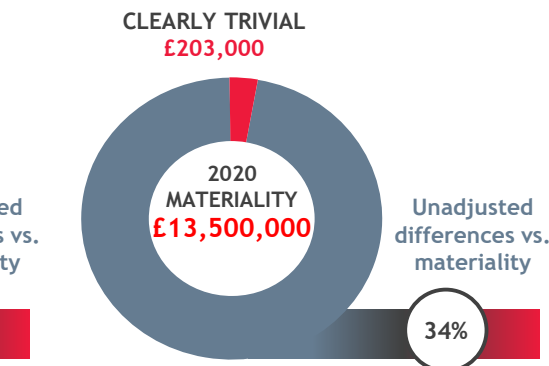
To date we have identified other unadjusted audit differences that, if posted, would increase the deficit on the provision of services for the year by £1.6m. We also identified audit differences relating to misclassification errors with an absolute value of £2.6m which management does not intend to adjust.

The impact of unadjusted differences in the current year and roll forward of prior year differences has resulted in an overstatement of the deficit on the provision of services for 2020/21 of £4.6 million for the Council.

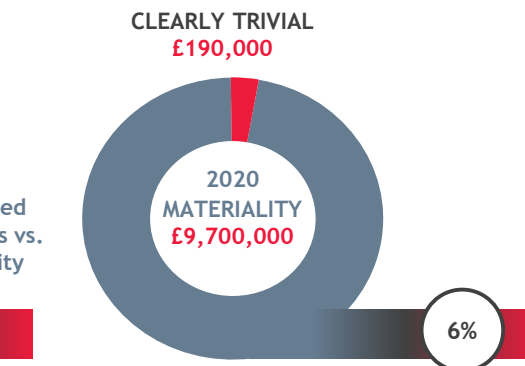
### Council materiality



### Group materiality



### Pension Fund materiality



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### Financial reporting

- We have identified non-compliance with Group accounting policies and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 in respect of classification of assets and impairment of receivables. This relates to £7.9m of HRA assets which were misclassified as Assets Under Construction in 2018/19 but should have been transferred to HRA assets. This has been transferred in 2019/20. In addition, the impairment allowance for council tax and NNDR was not based on historical collection rates which has resulted in an understatement of the NNDR provision of £2.0m.
- No significant accounting policy changes have been identified impacting the current year.
- Going concern disclosures are deemed sufficient.
- The Narrative Report and other information included in the Statement of Accounts with the financial statements is consistent with the financial statements and our knowledge acquired in the course of the audit. The final check of the figures within the Narrative Report to the accounts is to be completed.
- The Annual Governance Statement complies with relevant guidance and is not inconsistent or misleading with other information we are aware of.

### Other matters

We highlighted significant deficiencies in controls relating to:

- Employee contracts
- Loan interest workings
- Logical access controls to key systems eg AIM cash management, Controcc, Lloyds bank, Oracle and Capita Housing systems

### Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Council and the Group in accordance with the Financial Reporting Council's (FRC's) Ethical Standards.



# AUDIT RISKS OVERVIEW

As identified in our Audit Planning Report dated 8 January 2021 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. We subsequently included a further risk relating to non current asset disposals. These include those risks which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the engagement team.


There have been no notable changes since we reported to you in March 2022.

Audit Risk	Risk Rating	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported	Discussion points / Letter of Representation
Management override of controls	Significant	Yes	No	None to date	No	No
Revenue recognition - Grants received in advance	Significant	Yes	No	Yes, unadjusted	No	No
Expenditure cut-off	Significant	No	No	Yes, unadjusted	No	No
Valuation of non-current assets	Significant	Yes	Yes	Yes, adjusted (work ongoing)	Yes	Yes
Valuation of pension liability	Significant	Yes	Yes	None to date	No	Yes
Group Accounts	Significant	Yes	No	None to date	No	No
Property, Plant and equipment: additions	Significant	No	No	Yes, unadjusted (work ongoing)	No	No
Assets under construction	Significant	No	No	Yes, unadjusted	No	No
Debtors	Significant	Yes	No	Yes, adjusted	No	Yes
Creditors	Significant	Yes	No	Yes, unadjusted	No	No

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## Audit risks overview continued

Audit Risk	Risk Rating	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported	Discussion points / Letter of Representation
Allowance for receivables	Normal	Yes	No	Yes, adjusted	Yes	Yes
Going concern	Normal	Yes	No	No	No	Yes
Sustainable finances (use of resources)	Significant	N/A	No	No	No	No
Non current asset disposals	Significant	No	No	None to date	No	Yes
REFCUS (revenue expenditure funded from capital under statute)	Normal	No	No	No	No	No

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# ACCOUNTING FOR INFRASTRUCTURE ASSETS

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## Background

Historically it has been generally accepted public sector practice for authorities to not write out the value of replaced highways infrastructure components and/or those components which are fully depreciated from the balance sheet. This practice has recently been highlighted as contrary to the Code requirement that the carrying amount of replaced components be written out of the Balance Sheet. There are various reasons for the historic practice being adopted including; asset registers not recording infrastructure assets with sufficient level of detail to identify individual infrastructure assets or changes to them and processes which drive infrastructure spend (eg condition surveys) not recording historical information relating to previous spend.

London Borough of Barking and Dagenham adopts this common approach to accounting for infrastructure assets. At 31 March 2020 the Council had infrastructure assets in its balance sheet with a net book value of £107.84 million, which is material. Over time, this common approach is likely to have resulted in a material overstatement of gross book value and accumulated depreciation in the notes to the balance sheet and net book value may be materially overstated if infrastructure is being replaced more frequently than useful economic lives suggest.

This issue has been raised nationally with the NAO, CIPFA and all public sector audit suppliers and a task and finish group has been set up by those stakeholders to review the options for addressing this non-compliance. Several meetings have been held and CIPFA ran a consultation process to consider options including (but not limited to):

- Override of certain provisions within the Code and its guidance relating to the accounting for infrastructure assets
- Methods for obtaining missing data/records such that the extent of any misstatement can be reasonably quantified
- Modification of the audit opinion.

## Current status

This matter is not yet resolved but our understanding of the latest position is detailed below.

In respect of the gross book value and accumulated depreciation disclosures, we are anticipating that there will be an override of the existing Code requirement to disclose these amounts in the Statement of Accounts that will simply remove the requirement to do so. This is in the process of being agreed with CIPFA/LASAAC and the Financial Reporting and Advisory Board (FRAB). We understand that there is a FRAB session scheduled later this month to consider the proposed Code changes.

Once agreement has been reached, we understand that the wording of the Code override will be issued as an amendment to the Code, to apply retrospectively back to when IFRS was first introduced in 2010/11 and will be extant until at least 2024/25.

On the matter of the material accuracy of the net carrying value of infrastructure assets, it is anticipated that a direction will be made, by way of a Statutory Instrument, that seeks a way forward on this issue which aims to limit instances of qualification of the accounts.

We have not seen any proposed wording for this Statutory Instrument (which is being drafted by DLUHC and CIPFA/LASAAC) but we expect it will be designed to be retrospective to avoid a rolling qualification on infrastructure asset balances. The Statutory Instrument will need to be approved by Parliament and there is presently no clear timeline on when this might happen, but we know that once it is laid before Parliament it will take 21 days for it to clear that process.

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# COMPLETION AND REPORTING TIMELINE

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Our stock take review upon handover from the outgoing audit manager identified that the majority of the audit field work is complete but there are a notable number of senior team review points to clear, some areas of fieldwork that have not yet been subject to manager review and outstanding procedures in some areas, although these are biased toward fieldwork that we would not normally undertake until the completion stages of the audit.

On the next page we have set out the timeline for the completion and reporting of the audit, based on known and secured audit resources. It is important to note, when considering the complete picture of why audits become delayed, that once an original planned audit visit has occurred it becomes increasingly difficult to re-engineer resource planning and maintain core continuity to accommodate extended audits - staff are fully booked throughout the year to a portfolio of audits, with these bookings reflecting seniority, experience and development, so extracting staff from other audits to return to complete additional work on, for example, Barking and Dagenham will have notable impacts on other audits and will regularly involve significant replanning and rescheduling of multiple audits.

Resources are budgeted and booked (and audit fees agreed) taking into account the risk profile of the audited entity and the anticipated impact those risks will have on the audit strategy in terms of the extent and nature of procedures to be undertaken. Reasonable assumptions are made, however, that the draft Statement of Accounts received for audit will be materially accurate, those accounts and supporting working papers will be of good quality (having been subject to rigorous quality review prior to being provided for audit), the Code of Practice for Local Authority Accounting (the Code) will have been complied with and that responses we receive to audit queries are timely, accurate and right first time.

You will know, from the interim report on the audit that we presented to the March 2022 ASC, that many of these assumptions were not met by the Council. A further challenge to the rescheduling of the audit completion is the backlog currently being experienced in the delivery of local government audits nationwide, which has been regularly discussed. In common with other public sector audit suppliers, BDO has its share of delayed audits, for a variety of reasons. In response, the programming of our audits is continually under review.

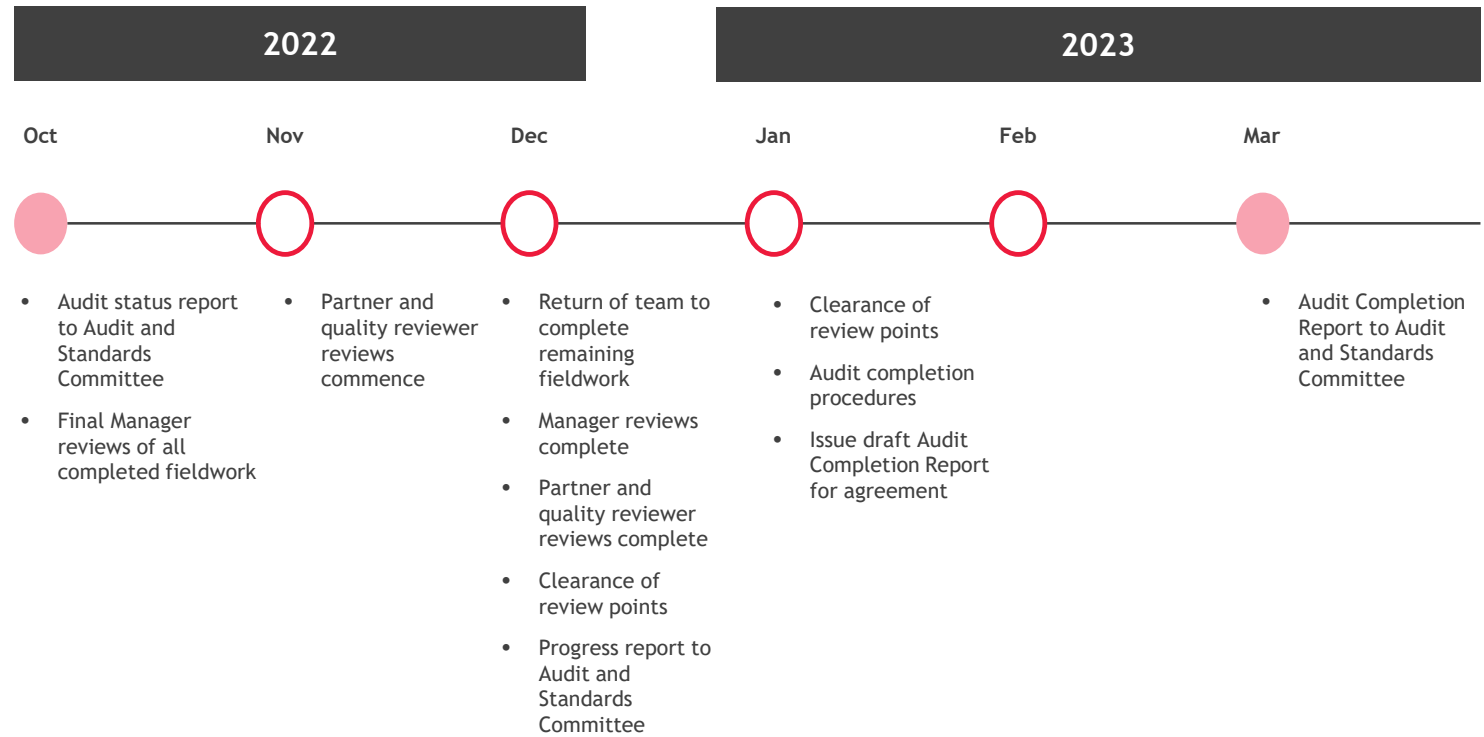
Our priority is currently, predominantly, to allocate our resources to the completion of delayed audits in relative date order e.g. completing all outstanding 2019/20 and 2020/21 audits before allocating resources to 2021/22 audits.

We have taken, and continue to take, a number of strategic measures to improve recruitment and retention of auditors and ease the pressure on public sector audit resources, as well as working to improve the preparedness for audit of the entities we engage with.

Although the timeline set out on page 11 supports commitment to present the final Audit Completion Report to the March 2023 Audit and Standards Committee (as the next scheduled committee after we anticipate issuing our draft report in January 2023), we would like to take this opportunity to assure the ASC that we will continue to work on potential alternative resource options and will alter this timeline if we are able to bring our work further forward and report to the earlier December ASC.

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the audited body and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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