

MINUTES OF AUDIT AND STANDARDS COMMITTEE

Wednesday, 12 October 2022
(7:00 - 8:05 pm)

Present: Cllr Princess Bright (Chair), Cllr Rocky Gill (Deputy Chair), Cllr Dorothy Akwaboah, Cllr Josie Channer, Cllr Manzoor Hussain, Cllr Adegboyega Oluwole and Cllr Muazzam Sandhu

Also Present: Stephen Warren

Apologies: Cllr Dominic Twomey

10. 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 had advised on the financial evaluation on the forthcoming tender, and the potential impact on the time that would be required as a result of changes in auditing and accounting standards requirements.

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

11. Minutes - To confirm as correct the minutes of the meetings held on 20 July 2022

The Chair requested an update on the actions referred to in the minutes. The Senior Governance Officer (SFO) disclosed that since the last meeting, the Head of Assurance reported that one of the four agreed actions had been implemented and a Parking Strategy report was submitted to the 12 July 2022 Cabinet, setting out the Controlled Parking Zone benefits realised to date and the Council's approach to future projects.

The three other actions, that related to Complaints, were outstanding and the Committee would receive an update at the next meeting taking place on 6 December 2022.

The IA asked that the minutes be amended to show that '*the IA assured the Committee that this did not **directly** affect Barking and Dagenham Council or the appointment of an external auditor.*'

Subject to the amendment, the minutes of the meeting held on 20 July 2022 were confirmed as correct.

12. Standards Complaints Update

The Head of Law (HoL) updated the Committee.

All complaints highlighted to the Committee at the previous meeting had now been closed. The complaints had been closed owing to lack of evidence or had been deemed vexatious. The Monitoring Officer had agreed to the closure of the complaints.

The Committee noted the update.

13. Audit Accounts 2019/20 Status Report

BDO's representatives updated the Committee.

An overview on the status of the audit was provided to the Committee. BDO said that the audit was ongoing, and progress had been made since BDO last attended the Committee on 7 March 2022.

There was a pause during May and June 2022, owing to priority being given to NHS audits. When the audit resumed, a new team was introduced to address sections of the audit that were incomplete or where concerns had been raised. These mostly related to Property, Plant and Equipment, as well as to the Group Consolidation Process.

BDO explained that the Audit Manager dealing with the Audit went on sick leave and subsequently tendered their resignation. This presented an unforeseen challenge which further delayed the audit during July and August 2022. BDO appointed two new auditors, Kirsty Slater and Duncan Wallace, to take over the management of the audit. BDO emphasised that both auditors were already scheduled to oversee the 2020/21 audit but would now also oversee the remainder of the 2019/20 audit.

BDO said that it was confident that the audit would be completed by January 2023. However, caution was expressed in relation to accounting for infrastructure assets. All local authority auditors were still awaiting the decision on an amended accounting treatment, after the generally accepted public sector practice of not writing out the carrying amount of replaced highway infrastructure components, and those components which were fully depreciated in the balance sheet, was highlighted as contrary the Auditing Code Requirement. BDO said that they understood that the Code would be amended to apply retrospectively but this still awaited confirmation.

The Committee, noting that previous assurances in relation to audit completion had not been met, asked why the Committee should have confidence in the latest assurance. BDO responded that the 2019/20 audit began later than planned owing to issues with the previous audit and that, whilst a root cause analysis was undertaken to avoid a repeat of issues with the 2018/19 audit, some of the issues re-emerged in the 2019/20 audit. BDO added that audits were planned in advance and resourcing was allocated based on the plan. Therefore, when unexpected issues emerged, it could affect resource allocation. In the case of the 2019/20 audit, other issues emerged with staff resources owing to illness and leave. BDO also emphasised the nationwide backlog in the delivery of public sector audits and, in common with other public sector auditors, BDO's audits of local authorities had also suffered delays.

As part of the review, areas requiring completion were identified, as well as the staff resources and time required to complete the audit. BDO acknowledged that it could not give an absolute guarantee regarding completion but that it was confident that, having reviewed resource allocations required to complete the audit and allocated accordingly, the draft audit report would be ready by January 2023. BDO was prioritising older outstanding audits and this would benefit Barking and Dagenham Council.

In response to further questioning, BDO said that, given previous issues, there were contingency plans in the event of issues with resourcing

The Strategic Director of Finance and Resources (SDFR) explained to the Committee that the Council was striving to improve audit working papers, and that the new financial IT system would assist in preparation of the accounts. The SDFR added that the audit of the group accounts was complicated which had contributed to the audit delays. Council subsidiaries had lacked resources to meet the audit deadline set by Companies House. This had required resources from the Council, which reduced resources to assist auditors, as the consequences for not meeting the Companies House deadline for subsidiaries were fines or being struck off. This was not the case for local authority audits.

Steps had been taken to address the issues with the subsidiaries and they now had the resources to meet the Companies House deadline in November 2022. The Committee asked that a briefing note on the subsidiaries be sent offline to Committee members, unless a formal report was provided at the next meeting.

The Committee also enquired about Thurrock Council, the running of which was taken over by a commissioner appointed by the Government, owing to concerns relating to its debt and general financial risk level. The Committee noted that Barking and Dagenham Council had a relationship with Thurrock Council and sought BDO's view on whether the Council's financial arrangements resembled Thurrock Council or risked doing so.

BDO responded that it was not a risk in the 2019/20 audit but that in the 2020/21 audit, consideration would be given to the Council's exposure to the crisis in Thurrock as well as to any lessons learned from Thurrock's financial problems that could be applied to the Council.

BDO and the SDFR clarified that this did not mean that past financial problems at Croydon and Slough councils, among others, had not been considered in the planning of previous audits; however, it was important not to draw comparisons where none were justified or where strategies differed. The SDFR stated that the increasingly challenging economic situation would be factored into the Council's spending plans. The SFDR also stressed that the Council maintained adequate reserves.

The SDFR then clarified that the issues with Thurrock related to the use of short-term loans from other local authorities to fund longer-term investment, which it was now having to convert to long-term loans at a higher cost. In contrast, Barking and Dagenham Council had borrowed long-term and at relatively low rates of interest. The SDFR said that the majority of the Council's loans were from the Public Works Loan Board, whose rates were based on the Gilt rate. The rate had risen from 2%

to 5.5%; however, the SDFR emphasised that existing borrowing was on a fixed rate so the increase would not immediately affect the Council. However, the SDFR warned that future interest rates on borrowing would be higher and that this was something that the Council would have to consider going forward.

Barking and Dagenham Council did provide short-term loans to other councils and organisations where money was available, and a return could be made. However, such loans required approval by the Cabinet and had to comply with the Treasury Management policy.

Following further questioning, it was disclosed that most Council investment was in housebuilding and estate regeneration via Reside and BeFirst. There was debt relating to the Housing Revenue Account, though this was connected to borrowing for capital purposes. The Council was prohibited from borrowing for day-to-day expenditure.

The Chair emphasised the importance of learning from the issues that emerged during 2019/20, in order to ensure that the audit for 2020/21 was much smoother. BDO said that an action plan from the previous root cause analysis had been drawn up and that this plan could be updated to incorporate issues that emerged and to address situations where new approaches had not delivered the desired outcomes.

The Principal Accountant (PA) updated the Committee on the actions being taken by the Council to assist the auditors, including weekly meetings with BDO and to set targets for responding to BDO queries. The PA indicated that the March 2023 sign off by the Committee was later than anticipated, noting that the completion target was January 2023. The Chair suggested, and the Committee and BDO agreed, that an additional meeting be held in February 2023 to receive the auditor's report prior to completion of the audit.

Following questioning by the IA, the PA confirmed that spreadsheets were used in the preparation of group accounts and not consolidation software. The SDFR explained that a new financial IT system, that was introduced in April 2022, would be used to prepare group accounts and assist audits going forward.

The IA observed that BDO had opted not to bid for work from PSAA from 2023/24. The IA asked about the capacity of BDO to deliver its outstanding work under the existing contract. BDO explained that having undertaken a strategic review of its operations and the challenges in the local authority audit market, it had concluded that it was optimal not to undertake new local government contracting activity and to focus on existing contracts. BDO did not intend to permanently withdraw from local authority contracts but noted that its staff were dealing with a substantial backlog that placed additional pressure on them.

The Committee noted the Audit Status Report.

14. Work Programme 2022/23

BDO requested that the workplan be updated to include the 2020/2021 audit plan for the meeting taking place on 6 March 2023.

The IA recommended that an audit progress update be included as an item for the meeting on 6 December 2022 and that the additional meeting, scheduled for February 2023, be added to the work programme.

The Committee agreed to the proposals.

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