

## 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
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<b>Accountable Director:</b> Nish Popat Interim Deputy S151 Officer, Resources	
<b>Accountable Executive Team Director:</b> Jo Moore, Interim Strategic Director, Resources	
<b>Summary</b>	
<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