

Report to the General Purposes Committee

# LONDON BOROUGH OF ENFIELD

Audit Completion Report: year ended 31 March 2020

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# CONTENTS

1	Introduction	3			
	Welcome	3			
2	Executive summary	4			
	Overview	4			
	The numbers	5			
	Other matters	6			
3	Financial statements	7			
	Coronavirus	7			
	Our methodology	10			
	Audit risks overview	11			
	Management override of controls	12			
	Expenditure Cut-off	13			
	Valuation of non-current assets	14			
	Valuation of non-current assets	15			
	Valuation of Pension Liability	16			
	Preparation of financial statements	19			
	Migration of fixed asset register	21			
	Allowances for non-collection of receivables	22			
	Implementation of IFRS 16	25			
	Going Concern	26			
	Other matters	27			
	Matters requiring additional consideration	28			
4	Audit differences	29			
	Unadjusted audit differences: Summary	29			
	Unadjusted audit differences: Detail	30			
	Unadjusted audit differences: detail 1	31			
	Adjusted audit differences: Summary	32			
	Adjusted audit differences: Detail	33			
	Adjusted audit differences: Detail	34			
	Adjusted audit differences: Detail	35			
	Adjusted audit differences: Detail	36			
	Adjusted audit differences: Detail	37			
	Adjusted audit differences: Detail	38			
	Adjusted audit differences: Detail	39			
	Adjusted audit differences: Detail	40			
	Adjusted audit differences: Detail	41			
	Adjusted audit differences: Detail	42			
	PRIOR YEAR Adjusted audit differences: Detail	43			
	PRIOR YEAR Adjusted audit differences: Detail	44			
	PRIOR YEAR Adjusted audit differences: Detail	45			
	PRIOR YEAR Adjusted audit differences: Detail	46			
	PRIOR YEAR Adjusted audit differences: Detail	47			
	PRIOR YEAR Adjusted audit differences: Detail	48			
	Adjusted disclosure omissions and improvements	52			
5	Other reporting matters	53			
	Reporting on other information	53			
	Whole of Government Accounts	54			
6	Use of resources	55			
	Overview	55			
	Sustainable Finances (use of resources)	56			
	Meridian water and other regeneration projects (use of resources)	58			
	Meridian water and other regeneration projects (use of resources)	59			
7	Control environment	60			
	Significant deficiencies	60			
	Other deficiencies	62			
	Other deficiencies	63			
	Follow up of prior year deficiencies	64			
8	Audit report	70			
	Overview	70			
9	Independence and fees	71			
	Independence	71			
	Fees	72			
10	Appendices contents	73			

# WELCOME

- Contents
- Introduction
- Welcome
- Executive summary
- Financial statements
- Audit differences
- Other reporting matters
- Use of resources
- Control environment
- Control environment
- Audit report
- Independence and fees
- Appendices contents

We have pleasure in presenting our Audit Completion Report to the General Purposes Committee. This 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 summarises the progress to date against the planned audit approach for the year ended 31 March 2020, specific audit findings and areas requiring further discussion and/or the attention of the General Purposes Committee. At the completion stage of the audit it is essential that we engage with the General Purposes Committee on the results of our audit of the financial statements and use of resources comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements. Should further matters of significance be identified in the course of completing remaining work, we may need to issue a further Audit Completion Report.

We look forward to discussing these matters with you at the General Purposes Committee meeting and to receiving your input. In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

This report contains matters which should properly be considered by the Council as a whole. We expect that the General Purposes Committee will refer such matters to the Council, together with any recommendations, as it considers appropriate.

We would also like to take this opportunity to thank the management and staff of the Council for the co-operation and assistance provided during the audit.

**David Eagles, Partner**  
For and on behalf of **BDO LLP**, Appointed Auditor

18 April 2021

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 and use of resources. This report has been prepared solely for the use of the General Purposes Committee and Those Charged with Governance and should not be shown to any other person without our express permission in writing. 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.



**David Eagles**  
**Engagement Lead**  
t: 01473 320728  
m: 07967 203431  
e: [David.Eagles@bdo.co.uk](mailto:David.Eagles@bdo.co.uk)



**Francesca Palmer**  
**Audit Manager**  
t: 01473 320739  
m: 07970 126254  
e: [Francesca.Palmer@bdo.co.uk](mailto:Francesca.Palmer@bdo.co.uk)



**Roopal Bakrania**  
**Assistant Manager**  
m: 07890 317879  
e: [Roopal.Bakarania@bdo.co.uk](mailto:Roopal.Bakarania@bdo.co.uk)



**Gerald Chanduru**  
**Assistant Manager**  
t: 01473 320759  
m: 07580 339830  
e: [Gerald.Chanduru@bdo.co.uk](mailto:Gerald.Chanduru@bdo.co.uk)

# OVERVIEW

## Executive summary

Contents
Introduction
Executive summary
Overview
The numbers
Other matters
Financial statements
Audit differences
Other reporting matters
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents

This summary provides an overview of the audit matters that we believe are important to the General Purposes Committee in reviewing the results of the audit of the financial statements of the Group and use of resources of the Council for the year ended 31 March 2020.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.



### Overview

Our audit fieldwork is substantially complete but work is ongoing, including in some significant risk areas and key Partner and Quality Reviewer reviews are pending completion of that work. A verbal update will be provided to the General Purposes Committee on 22 April 2021 relating to further progress made between the date of this Report and the Committee meeting.

Outstanding matters are listed on page 77 in the appendices.

Our audit approach was revisited when we received information relating to the results of the Council’s work on migrating its fixed asset register and proposed “prior period adjustments” linked to that and re-mapping of ledger codes. This did not result in additional significant audit risks, because accounts preparation and migration of the fixed asset were already identified, but our response needed to be amended.

Other than for this issue, there were no significant changes to the planned audit approach and no additional significant audit risks have been identified

No restrictions were placed on our work.

### Audit report

At this point we have not identified any issues that would prevent, subject to the successful resolution of outstanding matters, our being able to issue an unqualified audit opinion on the consolidated Group financial statements and the Council’s single entity financial statements, with the sole exception of the issue relating to valuation uncertainty linked to the Covid-19 pandemic as at 31 March 2020.

The opinion will be modified to include an Emphasis of Matter in relation to the valuation of land and buildings as a result of the material uncertainty included within the valuations.

We have no exceptions to report in relation to the arrangements in place to secure economy, efficiency and effectiveness in the use of resources, although the fieldwork is subject to Partner review.

We will be unable to issue our audit certificate until we have completed our work on the Council’s WGA and outstanding objections received in previous years.

# THE NUMBERS

## Executive summary

- Contents
- Introduction
- Executive summary**
- Overview
- The numbers
- Other matters
- Financial statements
- Audit differences
- Other reporting matters
- Use of resources
- Control environment
- Control environment
- Audit report
- Independence and fees
- Appendices contents

### Final materiality

Group final materiality was determined based on gross expenditure.

Changes were made from the planning materiality based on the draft accounts as a result of adjustments made to the accounts reducing gross expenditure.

### Material misstatements

Our audit identified the following material misstatements:

- Meridian Water development costs in the year of £29.7m being treated as assets under construction rather than as an integral part of surplus assets in line with the agreed accounting treatment.
- Pensions Liability being overstated by £310.9m due to incorrect assumptions being used by the actuary and the transfer of LBE employees to Children’s First Academy not being included in the figures initially provided.

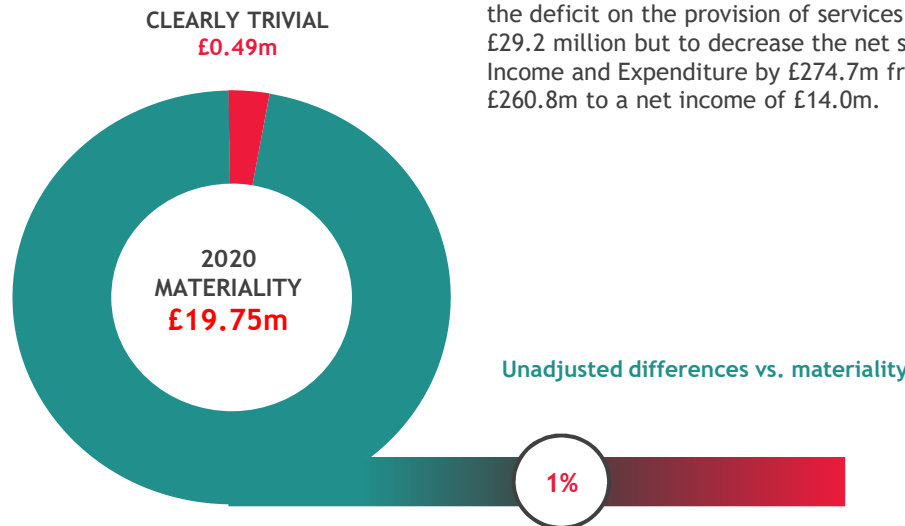
We have also identified a significant number of misstatements below our materiality level which Management has also adjusted for. The cumulative impact on the financial statements for these issues, is to increase the deficit on the provision of services for the year by £29.2 million but to decrease the net spend of Total Income and Expenditure by £274.7m from a net spend of £260.8m to a net income of £14.0m.

### Unadjusted audit differences

We identified audit adjustments that, if posted, would decrease the deficit on the provision of services for the year by £1,306k and reduce cumulative net assets and the General Fund balance by £194k.

### Audit scope

Our approach was designed to ensure we obtained the required level of assurance across the components of the Group in accordance with ISA (UK) 600 (Audits of Group Financial Statements). This objective has been not yet been achieved because the Group audit and review of consolidation is not complete, pending resolution of the single entity Council audit.



# OTHER MATTERS

## Executive summary

Contents
Introduction
Executive summary
Overview
The numbers
Other matters
Financial statements
Audit differences
Other reporting matters
Use of resources
Control environment
Control environment
Audit report
Independence and fees
Appendices contents

### Financial reporting

- To date we have not identified any non-compliance with Group accounting policies or the applicable accounting framework.
- No significant accounting policy changes have been identified impacting the current year.
- Going concern disclosures are deemed sufficient.
- We noted that the narrative report presented in version 2 of the accounts had a bias toward the positive actions the Council had taken in the years and have provided feedback to this effect. Therefore we cannot yet conclude that the Narrative Report is consistent with the financial statements and our knowledge acquired in the course of the audit.
- We will complete our review of the Whole of Government Accounts Data Collection Tool (DCT) after we have completed our audit of the financial statements. We plan to issue our opinion on the consistency of the DCT return following completion of the Financial statements audit

Work is ongoing relating to our review of the Annual Governance Statement. The aim is to enable us to report whether or not the Annual Governance Statement is not inconsistent or misleading with other information we are aware of.

Our review has identified that the drafting is similar to the Narrative Statement in that some key issues (including a number of no or limited assurance Internal Audit reports - see also page 53) are not sufficiently addressed either in terms of explaining the shortcomings identified or in setting out key actions that need to be taken to address and mitigate the issues.

### Other matters that require discussion or confirmation

- Significant deficiencies identified to date in relation to financial statements preparation,
- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation. This will be presented only once the audit is sufficiently progressed, including Partner and Quality Reviewer reviews.

### 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 Standard.



# CORONAVIRUS

## The effects on year-end reporting and auditing

Contents
Introduction
Executive summary
Financial statements
Coronavirus
Our methodology
Audit risks overview
Management override of controls
Expenditure Cut-off
Valuation of non-current assets
Valuation of non-current assets
Valuation of Pension Liability
Preparation of financial statements
Migration of fixed asset register
Allowances for non-collection of receivables
Implementation of IFRS 16
Going Concern
Other matters
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Control environment
Control environment
Audit report
Independence and fees

The emergence and spread of Coronavirus has had an effect on business and markets around the world. Guidance is now available to assist in identifying the potential corporate reporting and auditing issues and consequences of the virus, and there have been a number of Local Government specific issues, including relaxations to accounts preparation and audit timetables.

However, given the fast moving and ever changing nature of the situation, aspects of this corporate guidance will change over time. The outbreak is an in-year event and will impact the valuations, estimations and disclosures reflected in the financial statements for periods ending on or after 31 March 2020.

### Going concern

In respect of going concern, Management are required to consider events that have occurred both before and after the balance sheet date when determining whether there is a material uncertainty over the ability to continue as a going concern. Consequently, forecast financial information, sensitivity analysis (which may require additional and/or different potential variances to be included) and compliance with bank and other covenants will need to factor in the estimated effects of the Coronavirus pandemic.

A common approach that is developing, and which BDO is encouraging from directors, in relation to each set of financial statements that is prepared for audit is:

- The assessment of going concern Management are required to undertake needs to explicitly consider the impact of Coronavirus to accommodate the uncertainty prevailing and must cover the period of at least 12 months from the date of signing the financial statements. The assessment may not be limited to this period if there are foreseen events or conditions beyond this period which may influence the economic decisions of users.

- The assessment needs to consider the entity’s resilience through three lenses - operational capability (closed locations, reduced workforce through illness, breakdown in supply chain), demand for services (effect on income and expenditure) and structural finance (liquidity and access to committed facilities).
- If Management consider that there are material uncertainties, this will need to be referenced in the relevant disclosure and will result in a material uncertainty reference in the audit report (albeit the audit opinion is not qualified).
- The going concern disclosures in the basis of preparation note in the financial statements will also need to be enhanced.

Within local government, the Government’s commitment to ensure that local authorities are adequately compensated for additional expenditure incurred or income lost directly as a result of the Coronavirus pandemic, removes some of the uncertainty faced by non-public sector entities. However, Management’s assessment of going concern, and associated disclosures in the financial statements, are still expected to fully consider and record the impact of Coronavirus.

The auditor’s review of Management’s assessments must be greater than normal, will require more evidence, and will continue to be performed through to the point of signing the audit report.

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# CORONAVIRUS 2

## The effects on year-end reporting and auditing

### Financial reporting implications

#### Grant funding

Grant funding received before 31 March 2020 to fund expenditure related to the Coronavirus pandemic will need to be assessed for conditions and recognised in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

#### Valuations of financial and non-financial assets and liabilities:

Data used in valuations of financial and non-financial assets and liabilities should be based on forecasts, projections and assumptions that were reasonable and supportable at the balance sheet date. For 31 March 2020 year ends, given that the significant development and spread of Coronavirus occurred within the financial year and that the World Health Organisation announced a global health emergency on 31 January 2020, the estimated impact of the Coronavirus pandemic will need to be factored into this data.

#### Subsequent events disclosure

Significant income and expenditure incurred as a result of the Coronavirus pandemic after 31 March 2020 and up to the date of signing may need to be disclosed as a non-adjusting post balance sheet event, if considered of such importance as to affect the ability of users of the financial statements to make proper evaluations.

#### Leases:

IFRS 16 Leases will be effective from 1 April 2022 (a further one year deferral).

### Narrative reporting implications

The Annual Governance Statement should clearly set out the risks arising from Coronavirus.

Local authorities will need to monitor developments and ensure that they are providing up-to-date and meaningful disclosures when preparing their Statement of Accounts.

### Other guidance

The National Audit Office (NAO) has published a Guide for audit committees on financial reporting and management during the Coronavirus pandemic. This guide aims to help audit committee members support and challenge the organisations they work with in the following areas:

- Annual reports
- Financial reporting
- The control environment
- Regularity of expenditure.

In each section of the guide, the NAO has set out some questions to help audit committee members understand and challenge activities. Each section can be used on its own, although the NAO would recommend that audit committee members consider the whole guide, as the questions in other sections may be interrelated.

The guide may also be used as organisations and audit committees consider reporting in the 2020/21 period when more specific and detailed reporting on the outbreak will be required.

The guide is available through the following link:

<https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>



# CORONAVIRUS 3

## The effects on year-end reporting and auditing

### Implications for auditors

#### Risk assessment:

- The impact of Coronavirus on going concern is a risk focus area for the audit, and in some cases may be a significant risk. As part of our on-going risk assessment procedures, we need to think about other specific areas and balances where Coronavirus might cause an issue and if this presents an additional risk. This includes the specific considerations in relation to the risks of having services in an affected area and supply chain issues in relation to items coming from these locations. In summary there may be a heightened risk of misstatement for:
  - The valuation and disclosure of financial and non-financial assets including property, plant and equipment (PPE), investment properties, intangibles, investments and accounts receivable
  - The valuation and disclosure of financial obligations and any lending covenants
  - Going concern and/or working capital assessment and disclosure
  - Risk disclosures
  - Subsequent event disclosures
  - As noted above, entities need to consider their reporting of principal risks and uncertainties and we then need to consider this detail as part of our 'review and consider' of the Narrative Report / and Annual Governance Statement, in particular where we believe there are risks missing from the detail.

#### Sufficient and appropriate audit evidence:

- Personnel from audited entities may be unable to carry out their roles on site and/or be available to meet physically with our audit teams. Likewise, our people may be unable to work at audited entity sites or to travel to our offices, thereby potentially affecting the performance, review and supervision of the engagement team, including that of component or other auditors. We need to:
  - Consider the impact on the audited entity
  - Consider alternative ways of working including the use of our technology tools
  - Consider implications for the quality of audit evidence and reporting.
- In undertaking audit work on the valuation of property, particularly specialised property valued using the Depreciated Replacement Cost method and Modern Equivalent Assets assumptions (including alternative site models), auditors are able to draw upon relevant information and indices collated, assessed and reported on by a firm of valuers, Gerald Eve, as commissioned on behalf of local public auditors by the NAO.
- Valuers are also encouraged by updated RICS guidance to include caveats within valuation reports relating to potential material uncertainties in their assessed valuations. In these cases, such caveats should be included within the Council's financial statements and may be referred to by the auditor in their opinion/report.

# OUR METHODOLOGY

## Summary

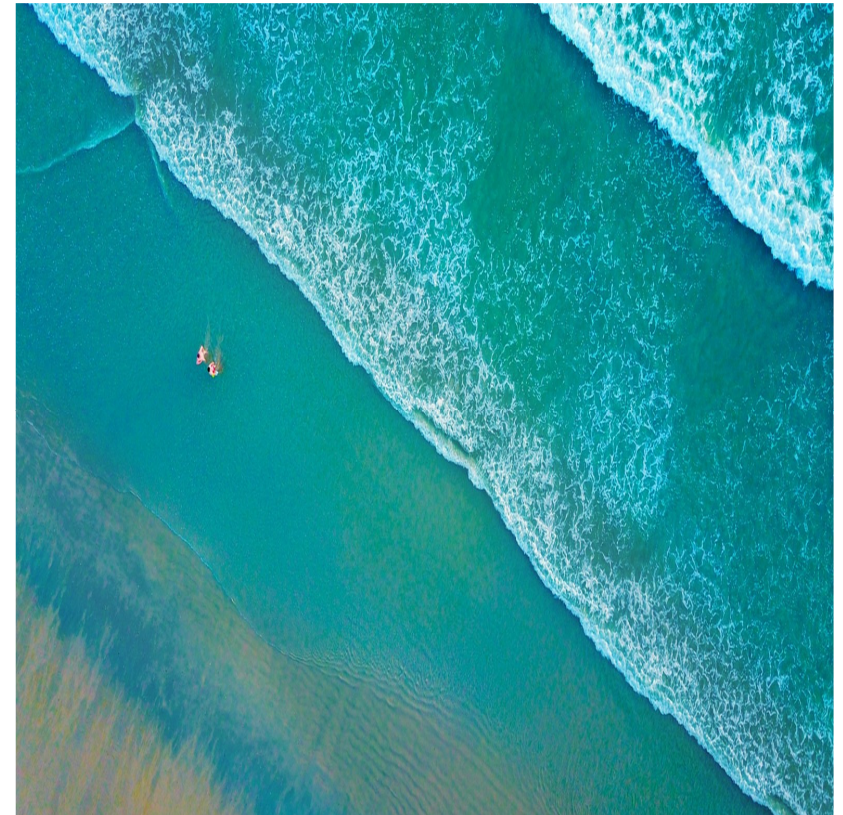
**We obtain our audit evidence through a combination of substantive testing, systems and compliance testing.**

We planned our audit using different testing methodology depending on the area being audited. Our testing can either be substantive where we directly verify items in the Comprehensive Income and Expenditure Statement (CIES) and Balance Sheet or assurance is obtained based on systems and compliance testing.

We set out here how we have obtained our audit assurance for the year ended 31 March 2020 for categories of the Balance Sheet. We also include a comparative to the approach undertaken in the prior year.

### Audit methodology used

Balance sheet category	2019/20	2018/19
All	Substantive	Substantive



- Contents
- Introduction
- Executive summary
- Financial statements**
- Coronavirus
- Our methodology**
- Audit risks overview
- Management override of controls
- Expenditure Cut-off
- Valuation of non-current assets
- Valuation of non-current assets
- Valuation of Pension Liability
- Preparation of financial statements
- Migration of fixed asset register
- Allowances for non-collection of receivables
- Implementation of IFRS 16
- Going Concern
- Other matters
- Matters requiring additional consideration
- Audit differences
- Other reporting matters
- Use of resources
- Control environment
- Control environment
- Audit report
- Independence and fees

# AUDIT RISKS OVERVIEW

As identified in our Audit Planning Report dated 9 January 2019, we assessed the following matters as being the most significant risks of material misstatement in the financial statements. 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.

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	No	No	No
Expenditure cut-off	Significant	No	No	Work ongoing	No	No
Valuation of non-current assets	Significant	Yes	Yes	Work ongoing	Yes	Yes
Valuation of pension liability	Significant	Yes	Yes	Yes, adjusted	No	Yes
Preparation of the financial statements	Significant	No	No	Yes, adjusted	Yes	Yes
Migration of fixed asset register	Significant	No	No	Work ongoing	Yes	Yes
Allowance for non-collection of receivables	Normal	No	No	Yes, unadjusted	Yes	Yes
Implementation of IFRS 16	Normal	No	No	No	No	No

 Areas requiring your attention

- Contents
- Introduction
- Executive summary
- Financial statements**
- Coronavirus
- Our methodology
- Audit risks overview
- Management override of controls
- Expenditure Cut-off
- Valuation of non-current assets
- Valuation of non-current assets
- Valuation of Pension Liability
- Preparation of financial statements
- Migration of fixed asset register
- Allowances for non-collection of receivables
- Implementation of IFRS 16
- Going Concern
- Other matters
- Matters requiring additional consideration
- Audit differences
- Other reporting matters
- Use of resources
- Control environment
- Control environment
- Audit report
- Independence and fees

# MANAGEMENT OVERRIDE OF CONTROLS

**Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls.**

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Contents
Introduction
Executive summary
Financial statements
Coronavirus
Our methodology
Audit risks overview
Management override of controls
Expenditure Cut-off
Valuation of non-current assets
Valuation of non-current assets
Valuation of Pension Liability
Preparation of financial statements
Migration of fixed asset register
Allowances for non-collection of receivables
Implementation of IFRS 16
Going Concern
Other matters
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Control environment
Control environment
Audit report
Independence and fees

## Risk description

ISA (UK) 240 - The auditor’s responsibilities relating to fraud in an audit of financial statements requires us to presume that the risk of management override of controls is present and significant in all entities.

## Work performed

We carried out the following planned audit procedures:

- Review and verification of journal entries made in the year, agreed the journals to supporting documentation. We have determined key risk characteristics to filter the population of journals. We have used our IT team to assist with the journal extraction and tested a sample of these journals;
- Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias;
- Reviewed unadjusted audit differences for indications of bias or deliberate misstatement; and
- Followed up on our significant control deficiency in the prior year to confirm that the Council are deactivating leavers from the system and that they are monitoring dates of journals including those which have been processed but not posted to the system.

## Results

From our testing performed on a selection of journals chosen based on key risk characteristics we did not identify any indications of management override. As part of this work we followed up on the significant control deficiency identified in the prior year in relation to leavers posting journals after the date of them leaving the councils employment. We did not identify any instances of former employees posting journals after their leaving date.

We did not identify any transactions that are outside the normal course of business of the council.

The Council has significant accounting estimates in respect of the valuation of property, plant and equipment, investment property and valuation of the pension liability. Our findings in respect of these are reported separately on pages 14 and 16.

Our discussion on the non-collection of receivables is on page 22.

## Conclusion

Our audit work has not identified any issues to date in relation to management override. However, our fieldwork on significant estimates is not yet complete, and the fieldwork is still subject to Partner and Quality Reviewer reviews

# EXPENDITURE CUT-OFF

Contents
Introduction
Executive summary
Financial statements
Coronavirus
Our methodology
Audit risks overview
Management override of controls
Expenditure Cut-off
Valuation of non-current assets
Valuation of non-current assets
Valuation of Pension Liability
Preparation of financial statements
Migration of fixed asset register
Allowances for non-collection of receivables
Implementation of IFRS 16
Going Concern
Other matters
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Control environment
Control environment
Audit report
Independence and fees

**For public sector bodies the risk of fraud related to expenditure is relevant.**

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

## Risk description

For net-spending bodies in the public sector there is also risk of fraud related to expenditure. For the Council, we consider the risk of fraud to be in respect of the cut-off of expenditure at year-end.

## Work performed

We carried out the following planned audit procedures:

- Checked that expenditure was recognised in the correct accounting period by substantively testing an increased sample of expenditure around year-end.
- Tested an increased sample of manual accruals to supporting documentation.

## Results

We tested a sample of expenditure around the year end and did not find any expenditure recorded in an incorrect period.

However, we have tested an increased sample of manual accruals and our work is pending resolution of a number of queries following review.

## Conclusion

We are not yet able to conclude our work.

# VALUATION OF NON-CURRENT ASSETS

<b>Contents</b>	
Introduction	
Executive summary	
<b>Financial statements</b>	
Coronavirus	
Our methodology	
Audit risks overview	
Management override of controls	
Expenditure Cut-off	
<b>Valuation of non-current assets</b>	
Valuation of non-current assets	
Valuation of Pension Liability	
Preparation of financial statements	
Migration of fixed asset register	
Allowances for non-collection of receivables	
Implementation of IFRS 16	
Going Concern	
Other matters	
Matters requiring additional consideration	
<b>Audit differences</b>	
Other reporting matters	
Use of resources	
Control environment	
Control environment	
Audit report	
Independence and fees	

## The valuation of non-current assets is a significant risk as it involves a high degree of estimation uncertainty.

<b>Significant risk</b>	
Normal risk	
<b>Significant management judgement</b>	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

### Risk description

Local authorities are required to ensure that the carrying value of land, buildings and dwellings is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date. The Council held dwelling of £681.7 million and other land and buildings (majority being schools) of £588.7 million which are required to be recorded at current value at the balance sheet date. Valuations of properties can be complex and key judgements include defining appropriate beacon groups (such that the level homogeneity of properties within each group is appropriate); the location and design of modern equivalent values, particularly for schools is appropriate. The Council is significantly increasing its sample of beacons to value for 2019/20 compared to previous years.

The land for the Meridian Water project reflected a surplus asset balance of £200 million in the 2018/19 financial statements. The classification within surplus assets requires constant review and reassessment that this is the most appropriate asset class. The outcome of the classification will indicate the basis for valuation to be used.

There is a risk over the valuation of these assets due to the high degree of estimation uncertainty and where updated valuations have not been provided for a class of assets at the year-end. There is also a risk that properties not valued in the year, or at the year-end, may have moved materially in value since their last valuation date.

### Work performed

We carried out the following planned audit procedures:

- Reviewed the instructions provided to the valuer and the valuer's skills and expertise in order to determine if we could rely on the management expert;
- Confirmed that the basis of valuation for assets valued in year was appropriate based on their usage;
- Reviewed accuracy and completeness of information provided to the valuer, such as rental agreements and sizes;
- Reviewed assumptions used by the valuer and movements against relevant indices for similar classes of assets;
- Followed up valuation movements that appeared unusual;
- Reviewed the classification of Meridian Water assets within the financial statements and confirmed that this was consistent with the basis for valuation; and
- Confirmed that assets not specifically valued in the year have been assessed to ensure their reported values remain materially correct.

# VALUATION OF NON-CURRENT ASSETS

**The valuation of non-current assets is a significant risk as it involves a high degree of estimation uncertainty.**

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Contents
Introduction
Executive summary
Financial statements
Coronavirus
Our methodology
Audit risks overview
Management override of controls
Expenditure Cut-off
Valuation of non-current assets
Valuation of non-current assets
Valuation of Pension Liability
Preparation of financial statements
Migration of fixed asset register
Allowances for non-collection of receivables
Implementation of IFRS 16
Going Concern
Other matters
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Control environment
Control environment
Audit report
Independence and fees

## Results

Our work on valuations is still ongoing as a result of the migration work and associated PPAs being significantly more challenging to complete than expected which has delayed some of the valuations work due to needing to confirm the opening position before we can look at movements in the valuations (see page 21).

We reviewed the instructions to valuers and considered the valuers skills and qualifications to confirm that they are appropriate to provide valuations for the purpose of the accounts.

We have confirmed that the valuation basis for assets valued in the year is appropriate based on their use and classification within the accounts, including the impact of the PPA's on the valuation basis of assets where applicable.

We reviewed the information provided to the valuer and have raised a number of queries in relation to the Other Land and Buildings. As part of this work we are also reviewing the assumptions used by the valuer, and following up any unusual/ unexpected movements in the valuations based on our expectations. This area is still ongoing due to the issues identified with the migration of the asset register and associated PPA's

We have reviewed the classification within the financial statements of Meridian Water and are satisfied that the valuation basis is appropriate based on the status of the development as at 31 March 2020. We identified a number of errors with the valuation which have been corrected within the revised accounts.

We will provide a verbal update to the Committee on progress made between the issue date of this report and the date of the General Purposes Committee.

## Conclusion

The work in this area is not yet complete at the time of drafting this report.

**Our work on valuations is still ongoing as a result of the migration work and associated PPAs referred to above.**

# VALUATION OF PENSION LIABILITY

Contents
Introduction
Executive summary
Financial statements
Coronavirus
Our methodology
Audit risks overview
Management override of controls
Expenditure Cut-off
Valuation of non-current assets
Valuation of non-current assets
Valuation of Pension Liability
Preparation of financial statements
Migration of fixed asset register
Allowances for non-collection of receivables
Implementation of IFRS 16
Going Concern
Other matters
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Control environment
Control environment
Audit report
Independence and fees

**The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty**

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

## Risk description

The valuation of the defined benefit obligation is a complex calculation involving a number of significant judgements and assumptions. The actuarial estimate of the pension fund liability uses information on current, deferred and retired member data and applies various actuarial assumptions over pension increases, salary increases, mortality, commutation take up and discount rates to calculate the net present value of the liability.

There is a risk that the membership data and cash flows provided to the actuary at year end may not be accurate, and that the actuary uses inappropriate assumptions to value the liability. Relatively small adjustments to assumptions used can have a material impact on the Council's share of the scheme liability.

## Work performed

We carried out the following planned audit procedures:

- Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data;
- Reviewed the controls in place for providing accurate membership data to the actuary;
- Contacted the pension fund auditor and requested confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data; and
- Checked that any significant changes in membership data have been communicated to the actuary.

## Results

We assessed the qualifications and competence of the actuary through the use of PwC consulting actuary (auditor's expert) and found no matters to concern us.

Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations initially identified that the assumption for the discount rate was significantly lower than expected (at 1.7% compared to an expected 2.3%).

The assumptions for the discount rate in relation to the pension increases were based on market conditions as at 29 February 2020. This resulted in a significant increase in gross liability for employers. The Actuary later revised the assumptions to be in line with those obtained as at 31 March 2020 which resulted in a reduction in gross liability for LBE from the previously reported £1,762m to £1,527m. An increase in scheme asset values of £75.7m led to a total reduction in net liability of £310.9m.

Management have revisited the assumptions, using updated information which when reviewed confirmed these were now considered to be reasonable and within the expected ranges, albeit at the higher end, and further details of these are on page 18 of this report.

We confirmed that there were appropriate controls in place in relation to the provision of information from the pension fund to the actuary and that the pension fund auditor had tested these.

The disclosures included within the accounts in relation to London Borough of Enfield have been agreed back to information provided by the actuary.



# VALUATION OF PENSION LIABILITY

The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty

## Results continued

The net pension liability valuation update carried out as at 31 March 2020 was based on the roll forward of 31 March 2019 data and various assumptions.

We were made aware by management that Children First Academy Trust formed on 1 April 2019 and had 269 transferees from LBE and 14 new starters. The transfer of Council employees to this new Academy Trust could have had a material impact on the roll forward data used in the 31 March 2020 valuation, and so we requested and obtained revised Actuary valuation report as at 31 March 2020 with adjusted pension liability balance to gain assurance over the respective figures.

The Council's liability reduced by £5m as a result and this has been amended in the revised accounts.

## Conclusion

Our audit work has not identified any issues to date which demonstrate that the net pension liability is materially misstated.

However, our fieldwork is not yet complete, and the fieldwork is still subject to Partner and Quality Reviewer reviews

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	■
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	■

# VALUATION OF PENSION LIABILITY

continued

## Significant accounting estimate: pension liability

### Overview

The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows.

#### Changes as at 31 March 2020

The net pension liability decreased by £293.4m from £789.8m in the first draft of the IAS 19 report as at 31 March to £496.4m as at 31 March 2020 in the revised report. The decrease was as a result of revision the discount rate from 1.70% to 2.3%, a decrease in CPI and future pension increases (from 2.10% to 2.00%) and decrease in salary increase (from 3.60% to 3.50%).

#### Changes in 2019/20

The net pension liability decreased by net £86.9 million from £583.3million in 2018/19 to £496.4million in 2019/20.

Changes in assumptions that have decreased the liability include a decrease in CPI and future pension increases (from 2.20% to 2.00%) and decrease in salary increase (from 3.60% to 3.50%), reduction to the discount rate (from 2.40% to 2.30%). Mortality assumptions have also changed by an average 1.8 years for males and 2.3years for females.

### Discussion

The net pension liability decreased from the previously reported £789.8m to £496.4m following revision of assumptions to align them with market data as at 31 March 2020.

We compared the revised assumptions and estimates used by the actuary with the expected ranges provided by the independent consulting actuary PwC.

	Actual	Expected / range	Comments
CPI increase	2.00%	2.10% - 1.90%	Reasonable
Salary increase	3.50%	3.00% - 3.60%	Reasonable
Pension increase	2.00%	2.10% - 1.90%	Reasonable
Discount rate	2.30%	2.30%	Reasonable
Mortality - LGPS:			
- Male current	23 years	22.5 - 24.7 years	Reasonable
- Female current	25.2 years	25.0 - 27.2 years	Reasonable
- Male retired	22.4 years	20.8 - 23.0 years	Reasonable
- Female retired	24.3 years	23.5 - 25.5 years	Reasonable
Commutation:			
- Pre 2008	50%	50%	Reasonable
- Post 2008	50%	50%	Reasonable

All the revised financial and mortality assumptions are within the expected range based on national data and therefore the assumptions are considered to be reasonable.

The revised net pension liability decreased from £583.3m in 2018/19 to £496.4m in 2019/20.

We are satisfied that the revised assumptions are not unreasonable or outside of the expected ranges. We will request management include specific representations that management confirm that the assumptions used reflect their understanding of the future expectations of the scheme.

# PREPARATION OF FINANCIAL STATEMENTS

**Our prior year audit identified weaknesses in the Council's arrangements for preparing the financial statements and working papers, and a significant number of misstatements were identified.**

Significant risk
Normal risk
Significant management judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant control findings to be reported
Letter of representation point

Contents
Introduction
Executive summary
Financial statements
Coronavirus
Our methodology
Audit risks overview
Management override of controls
Expenditure Cut-off
Valuation of non-current assets
Valuation of non-current assets
Valuation of Pension Liability
Preparation of financial statements
Migration of fixed asset register
Allowances for non-collection of receivables
Implementation of IFRS 16
Going Concern
Other matters
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Control environment
Control environment
Audit report
Independence and fees

## Risk description

Our prior year audit identified weaknesses in the Council's arrangements for preparing the financial statements and working papers, and a significant number of misstatements and control deficiencies were identified, particularly in the following areas:

- Mapping errors in the Comprehensive Income and Expenditure Statement
- Classification of non-current assets
- Schools balances (including internal recharges and cash balances)
- Preparation of the exit packages note
- Providing lease agreements and rent review letters for selected samples
- Production of the groups accounts by the agreed deadline

We acknowledge that the Council has a detailed project plan in place for delivering the month 9 interim accounts and year-end draft financial statements, however there is a risk that this will not be delivered to the agreed timescales or allow sufficient time for internal quality reviews.

## Work performed

We planned to carry out the following planned audit procedures:

- An early review of the interim month 9 financial statements against the requirements of the Code of practice for Local Authority Accounting 2019/20;

- Briefing for finance staff on our expectations for good quality working papers and our requirements for completing and detailed and thorough interim visit;
- Review the consistency of the financial statements with underlying working papers before the start on the onsite audit visit; and
- Obtain assurance that management has carried out a critical review of the financial statements before they are submitted for audit, including comprehensive explanations for all significant variances from the prior year.

## Results

The Council did not produce an interim set of month 9 financial statements, therefore we were unable to carry out our planned review. We reported this to the Audit and Risk Management Committee on 5 March 2020.

We were not able to agree working papers to the accounts in all cases because not all supporting working papers had been prepared before our on site work commenced on the agreed date. For example, the Council was unable to provide breakdown of the balances making up parts of accounts payable and receivable which delayed our sampling and testing.

Management confirmed that they had carried out an review of the financial statements before they were authorised for issue. However, given the number of presentational issues and inconsistency issues we identified in version 1 of the accounts, we are concerned as to the thoroughness and effectiveness of this review.

We have raised a significant control deficiency as a result (see page 60).

# PREPARATION OF FINANCIAL STATEMENTS

**Our prior year audit identified weaknesses in the Council’s arrangements for preparing the financial statements and working papers, and a significant number of misstatements were identified.**

Significant risk	■
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	■
Additional disclosure required	
Significant control findings to be reported	■
Letter of representation point	

## Results continued

Our work has encountered a number of delays, these included:

- The initial agreed date for the draft accounts of 1 July was missed due to a number of issues found by the Council in relation to Property, Plant and Equipment (PPE) and the associated reserves.
- Issues with access to the Council’s SharePoint site with both Council staff struggling to upload, and audit staff struggling to access, files.
- Incomplete audit trail of prior period adjustments (PPAs) made to the statement of accounts. When we challenged the adjustments being proposed it was determined that a significant number did not meet the definition of a PPA compliant with IAS8 either because they arose as a result of a change in estimation technique and not an error, or they were immaterial. Therefore a number of these adjustments have had to be reversed back to the original position. This has led to additional delays to the audit.
- Issues with obtaining audit trail breakdowns of debtors, creditors and payroll for sample testing which resulted in significant delays to the audit.
- Beacon sheets for HRA valuations being incorrectly completed by the valuer.
- Directly entered numbers (i.e. a number rather than a formula being shown) in some excel working papers meaning that it is hard to follow the audit trail through and draw appropriate conclusions on a timely basis because the numbers need to be manually checked rather than just reviewing formulas.

In addition the Enfield finance team has been under-resourced due to a number of contractors leaving and not being replaced in early 2020 prior to Covid-19. This meant that, for the initial period of the audit, responses to our queries were not timely and a back log built up.

We agreed with the Council that we would withdraw the booked audit team for two weeks in October to provide officers with time to address and respond to our queries. Unfortunately, officers were not able to make significant progress with our queries during this time.

Progress remained limited until the appointment of both an Interim Chief Accountant and Deputy Chief Accountant in late 2020. This additional resource has meant the Council has been able to respond to us on a more timely basis and also address the issues raised previously.

As a result, notable progress has been made since Christmas 2020. However, delays continue to occur due to residual clarity of trail issues and the need to explain and address reconciling items.

## Conclusion

There have been a significant number of delays to the 2019/20 audit and the initial plan agreed has not been delivered. The Council should consider carrying out a root cause analysis into the reasons for the failure of the plan to prepare M9 accounts, obtain early valuations and have the capacity to respond to audit queries on a timely basis. This should then feed in to planning for both the 2020/21 and 2021/22 audits.

# MIGRATION OF FIXED ASSET REGISTER

**There is a risk that the fixed asset register may not have been accurately and completely transferred to the CIPFA asset management system at the date of transition.**

## Risk description

The Council migrated from the SAP asset module to the CIPFA asset module in January 2020.

There is a risk that the migration of data from the SAP asset module to CIPFA asset register may result in information being lost, incorrectly transferred or omitted leading to errors in the financial statements.

There is a risk over the completeness and accuracy of the information transferred to the new system.

## Work performed

We carried out the following planned audit procedures:

- Reviewed the work undertaken by the Council to test the migration of data from the previous fixed asset register to the new system, and the associated reconciliations.
- We carried out further testing as necessary to obtain assurance over the completeness and accuracy of the fixed asset transfer.

## Results

Our work on this area is still ongoing. However, we have raised a number of queries with officers in relation to the reconciliation from the SAP asset module to the CIPFA asset module.

Some of the adjustments made in previous years to the SAP asset module have been challenging to understand by both Council officers and BDO, which has resulted in a significant amount of Council and audit time being spent reviewing and reconciling the asset register to ensure that we have sufficient assurance over the transfer process.

As part of the migration work, the Council have identified a number of errors in relation to the classification of property assets in the SAP asset module which has resulted in a number of PPAs being required as part of the transfer to the CIPFA asset module.

Our review of these PPAs has identified a number of further adjustments being required, for example the removal of revaluation reserve balances for assets that have been reclassified from Other Land and Buildings to Investment Properties. These are being included in the revised accounts disclosure note.

## Conclusion

The work in this area is not yet complete at the time of drafting this report.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Contents
Introduction
Executive summary
Financial statements
Coronavirus
Our methodology
Audit risks overview
Management override of controls
Expenditure Cut-off
Valuation of non-current assets
Valuation of non-current assets
Valuation of Pension Liability
Preparation of financial statements
Migration of fixed asset register
Allowances for non-collection of receivables
Implementation of IFRS 16
Going Concern
Other matters
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Control environment
Control environment
Audit report
Independence and fees

# ALLOWANCES FOR NON-COLLECTION OF RECEIVABLES

Contents
Introduction
Executive summary
Financial statements
Coronavirus
Our methodology
Audit risks overview
Management override of controls
Expenditure Cut-off
Valuation of non-current assets
Valuation of non-current assets
Valuation of Pension Liability
Preparation of financial statements
Migration of fixed asset register
Allowances for non-collection of receivables
Implementation of IFRS 16
Going Concern
Other matters
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Control environment
Control environment
Audit report
Independence and fees

## There is a risk over the valuation of the allowance for the non-collection of arrears and debt.

Significant risk
Normal risk
Significant management judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant control findings to be reported
Letter of representation point

### Risk description

The Council recognises an allowance for the non-collection of receivables, primarily in respect of council tax, NDR, housing benefit overpayments, housing rents and trade debtors. The council assesses each type of receivable separately in determine how much to allow for non-collection.

In our testing in the prior year, we identified some weakness in the preparation of the calculations (for example not using the most recent collection rates and only looking at historical data over a couple of years rather than considering longer trends) and errors in the working papers which we reported as a management letter point.

There is a risk over the valuation of this allowance if incorrect assumptions or source data are used, or an inappropriate methodology is applied.

### Work performed

We carried out the following planned audit procedures:

- Reviewed the provision model for significant income streams and receivables and debt balances to assess whether it appropriately reflects historical collection rates by age of debt or arrears.
- For receivables classified as financial instruments, included appropriate assumptions for expected credit losses

### Results

We reviewed the provision models for the significant income streams and confirmed that the incurred loss model had been correctly applied to statutory debt (Council Tax, NNDR and Housing Benefit Overpayments). The basis for these calculations is now based on historical collection rates over the previous 6 years, rather than the short period used previously.

The non-statutory debt (trade and sundry debtors including Adult Social Care) non-collection allowance should be provided for on the Expected Credit Loss basis in line with the requirements of IFRS 39. This is a forward-looking provision basis with regard to the circumstances as at the year end. The Council has used an incurred loss model without applying a forward view to take account of any known changes in expected payment. The total value of the provision that has been incorrectly calculated is £3,567,000 based on a total debt of £40,064,000.

We identified two errors in the formulas used for calculating the bad debts:

- The Councils' share of the Council tax bad debt provision was over stated by £883,000
- The temporary accommodation bad debt provision was understated by £690,000.

Neither of these non-material errors have been adjusted.

### Conclusion

Our audit work has not identified any issues to date which demonstrate that allowances for non-collection of receivables is materially misstated.

However, our fieldwork is not yet complete, and the fieldwork is still subject to Partner and Quality Reviewer reviews

# ALLOWANCES FOR NON COLLECTION OF RECEIVABLES

## Estimate

### Council tax arrears (total collection fund £28.1m, Council share £22.6m)

The Council has recognised an allowance for non-collection in relation to its share of the council tax arrears of £8.4 million against its share of the arrears of £22.6 million. The Council's provision has increased by £2.3 million from the prior year. The provision is estimated using historic collection rate information from the last 6 years. We have reviewed the methodology and we are satisfied that this falls within a reasonable range for non-collection of arrears.



### NDR arrears (total collection fund £8.8m, Council share £4.2m)

The Council has recognised an allowance for non-collection in relation to its share of the NDR arrears of £1.8 million against its share of the arrears of £4.2million. The Council's provision has decreased by £0.7 million from the prior year. This is a decrease compared to the prior year as a result of the changes to the London pooling arrangements. The provision is estimated using historic collection rate information from the last 6 years. We have reviewed the methodology and we are satisfied that this falls within a reasonable range for non-collection of arrears.



### Housing Benefit overpayments (20.1m)

The Council has recognised an allowance for non-collection of housing benefit overpayment debt of £5.8 million on total debt of £20.1 million. In the prior year, a provision of £6.6 million was raised against arrears of £18.9 million. The provision is estimated using historic collection rate information from the last 6 years. We have reviewed the methodology and have noted that the Council has now split the calculation between current and former tenants to reflect the different collection rates. This is a change from the prior year methodology which did not split the debt types based on this methodology we are satisfied that this falls within a reasonable range for non-collection of arrears.



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# ALLOWANCES FOR NON COLLECTION OF RECEIVABLES

## Estimate

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### Temporary accommodation rent arrears (£14.8m)

The Council has recognised an allowance for non-collection of temporary rents arrears of £9.9 million on total debt of £14.8 million. The provision is estimated using collection rates for six years and splits the debt between current and former tenants. We have reviewed the methodology and noted that as this debtor balance falls under the scope of IFRS 9, this methodology should be updated to reflect expected (future) credit losses. However we are satisfied that this balance is not materially misstated as the total debtor is immaterial.



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### Sundry Debtors (£40.1m)

The council has recognised an allowance for the non collection of sundry debt of £3.6m. The provision has been estimated using collection rates for 2 years and splits the debt between Adult Social Care, Public Sector and other. The Public Sector debt is not provided for. We have reviewed the methodology and noted that as this debtor balance falls under the scope of IFRS 9, this methodology should be updated to reflect expected (future) credit losses. However we are satisfied that this debtor is not materially mis stated due to the total balance excluding public sector being less than twice materiality.





# IMPLEMENTATION OF IFRS 16

**There is a risk that disclosures for the implementation of IFRS 16 in 2020/21 are not complete and accurate if the Council has not undertaken the necessary preparatory work.**

Significant risk
Normal risk
Significant management judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant control findings to be reported
Letter of representation point

## Risk description

The Code of Practice on Local Authority Accounting requires the implementation of IFRS 16 (leases) in 2020/21. This is a significant change to the financial reporting requirements for the Council. The preparation for this change represents a major piece of work.

There is a risk that the disclosures required in the accounting standards not yet adopted note, and the full disclosures in the 2020/21 financial statements and not accurate if the Council does not undertake the necessary preparatory work to enable the smooth implementation of IFRS 16.

## Discussion and conclusion

We had planned to carry out the following audit procedures:

- Review the preparatory work undertaken by the Council;
- Review the disclosures in the accounting standards not yet adopted note;
- Test the completeness of the leases schedule to check that all relevant leases are identified; and
- As part of our testing of lease disclosures, we planned to test a sample, agreeing back to supporting documentation to agree the terms of the lease to the leases scheduled maintained by the Council.

## Results and Conclusion

The implementation date for IFRS 16 for local government has now been deferred to 2021/22 and therefore we have deferred our review of the preparatory work to the audit for the year ended 31 March 2021.

Contents
Introduction
Executive summary
Financial statements
Coronavirus
Our methodology
Audit risks overview
Management override of controls
Expenditure Cut-off
Valuation of non-current assets
Valuation of non-current assets
Valuation of Pension Liability
Preparation of financial statements
Migration of fixed asset register
Allowances for non-collection of receivables
Implementation of IFRS 16
Going Concern
Other matters
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Control environment
Control environment
Audit report
Independence and fees

# GOING CONCERN

**We are required to highlight any judgements about events or conditions that may cast significant doubt over the entity's ability to continue as a going concern**

## Management's assessment of going concern

Management have assessed that the Council remains a going concern and it is appropriate to prepare the accounts on a going concern basis.

## Discussion and conclusion

The assessment of going concern under the effects of the coronavirus outbreak will need to incorporate unprecedented shocks to forecasts. The increased demand on services, decline in income from services, deferrals of normal payment terms or impairment of debt, decreases in asset values and supply chain disruptions may be dissimilar to any previously encountered 'real world' scenario, making forecasting the precise results difficult.

The effects of the coronavirus are likely to affect the level of uncertainty that may exist in an assertion that the entity will be able to continue as a going concern. Regardless of the result of management's assessment, many entities will need to disclose key judgments and estimates it used to arrive at this conclusion.

Key areas in a going concern assessment may include: sources of assumed liquidity and cash flows, forecasts of future revenue or additional expenditure, and support from government.

Our work on this area is ongoing

The Council have revised their budget and cashflow forecasts as a result of the impact of Covid-19. This has been a continual process since the year end. We are currently reviewing and challenging the cash flow forecasts with the benefit of having had a year of Covid-19 experience on areas such as additional Covid-19 grants to cover increased expenditure, the impact of lost service income and increased likelihood of arrears in relation to investment property income, and council tax and NNDR arrears. The Council has updated the Treasury Management Strategy in February 2021 to reflect the current cash position.

Contents
Introduction
Executive summary
Financial statements
Coronavirus
Our methodology
Audit risks overview
Management override of controls
Expenditure Cut-off
Valuation of non-current assets
Valuation of non-current assets
Valuation of Pension Liability
Preparation of financial statements
Migration of fixed asset register
Allowances for non-collection of receivables
Implementation of IFRS 16
Going Concern
Other matters
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Control environment
Control environment
Audit report
Independence and fees

# OTHER MATTERS

The following are additional significant and other matters arising during the audit which we want to bring to your attention.

Issue	Comment
Negative Schools Reserves	Currently the Council has a negative schools reserve of £7,675,000 which is off-set against the general fund reserves.  For the year ended 31 March 2021 this will no longer be permitted and the negative reserve will need to be transferred to an unusable reserve.

Contents
Introduction
Executive summary
Financial statements
Coronavirus
Our methodology
Audit risks overview
Management override of controls
Expenditure Cut-off
Valuation of non-current assets
Valuation of non-current assets
Valuation of Pension Liability
Preparation of financial statements
Migration of fixed asset register
Allowances for non-collection of receivables
Implementation of IFRS 16
Going Concern
Other matters
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Control environment
Control environment
Audit report
Independence and fees

# MATTERS REQUIRING ADDITIONAL CONSIDERATION

Contents
Introduction
Executive summary
Financial statements
Coronavirus
Our methodology
Audit risks overview
Management override of controls
Expenditure Cut-off
Valuation of non-current assets
Valuation of non-current assets
Valuation of Pension Liability
Preparation of financial statements
Migration of fixed asset register
Allowances for non-collection of receivables
Implementation of IFRS 16
Going Concern
Other matters
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Control environment
Control environment
Audit report
Independence and fees

## Fraud

Whilst the directors have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Planning Report on [date].

## Related parties

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud.

We identified the following significant matter in connection to related parties:

- 5 Councilors failed to provide declarations of interest forms despite being reminded on a number of occasions by Council officers.

## Laws and regulations

We have made enquiries of management regarding compliance with laws and regulations and reviewed correspondence with the relevant authorities.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

## Group matters

Our review of the group accounts and component auditors is pending resolution of the single entity position

# UNADJUSTED AUDIT DIFFERENCES: SUMMARY

## Summary for the current year

Contents
Introduction
Executive summary
Financial statements
<b>Audit differences</b>
Unadjusted audit differences: Summary
Unadjusted audit differences: Detail
Unadjusted audit differences: detail 1
Adjusted audit differences: Summary
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
PRIOR YEAR Adjusted audit differences: Detail
PRIOR YEAR Adjusted audit differences: Detail
PRIOR YEAR Adjusted audit differences: Detail
PRIOR YEAR Adjusted audit differences: Detail



**We are required to bring to your attention unadjusted differences and we request that you correct them.**

There are two unadjusted audit differences identified by our audit work which would decrease the deficit on the provision of services for the year of £89,799k by £1,306k but would decrease net assets of £763,469k by £194k because the brought forward error represents a timing difference between 2018/19 and 2019/20 but has no cumulative impact beyond 31 March 2020.

The general fund balance would decrease by £194k if these audit differences were adjusted.

Details for these items are set out on the following page.

You consider these differences to be immaterial in the context of the financial statements as a whole.

# UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance Sheet	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
<b>Unadjusted audit differences</b>					
Retained deficit on the provision of services for the year before adjustments (as per current version of the Statement of Accounts)	89,799				
Adjustment 1: brought forward error from prior year - prepayment not recognised in correct period					
DR Expenditure	1,500	1,500			
CR Prepayments					(1,500)
Adjustment 2: net impact of bad debt provision errors					
DR Receivables				194	
CR Net cost of services	(194)		(194)		
<b>Total unadjusted audit differences</b>	<b>1,306</b>	<b>1,306</b>			
Deficit on the provision of services for the year if above issues adjusted	91,105				

Contents
Introduction
Executive summary
Financial statements
<b>Audit differences</b>
Unadjusted audit differences: Summary
Unadjusted audit differences: Detail
Unadjusted audit differences: detail 1
Adjusted audit differences: Summary
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
PRIOR YEAR Adjusted audit differences: Detail
PRIOR YEAR Adjusted audit differences: Detail
PRIOR YEAR Adjusted audit differences: Detail
PRIOR YEAR Adjusted audit differences: Detail

# UNADJUSTED AUDIT DIFFERENCES: DETAIL 1

## Details for the current year

	General Fund balance £'000	HRA balance £'000
<b>Impact on the General Fund balance and HRA balance</b>		
Balance before unadjusted audit differences	13,950	4,623
<b>Impact on deficit on the provision of services above</b> (NB: the brought forward unadjusted item only impacts upon the in-period movement, not the cumulative position)	(194)	-
Adjustments that would be reversed from the General Fund and HRA balance through the Movement in Reserves Statement	-	-
<b>Balances after the above adjustments</b>	13,756	4,623

### Contents

Introduction

Executive summary

Financial statements

**Audit differences**

Unadjusted audit differences:  
Summary

Unadjusted audit differences:  
Detail

Unadjusted audit differences:  
detail 1

Adjusted audit differences:  
Summary

Adjusted audit differences: Detail

Adjusted audit differences: Detail

Adjusted audit differences: Detail

Adjusted audit differences: Detail

Adjusted audit differences: Detail

Adjusted audit differences: Detail

Adjusted audit differences: Detail

Adjusted audit differences: Detail

Adjusted audit differences: Detail

Adjusted audit differences: Detail

PRIOR YEAR Adjusted audit  
differences: Detail

PRIOR YEAR Adjusted audit  
differences: Detail

PRIOR YEAR Adjusted audit  
differences: Detail

PRIOR YEAR Adjusted audit  
differences: Detail

# ADJUSTED AUDIT DIFFERENCES: SUMMARY

## Summary for the current year



To date there are 46 audit differences identified during our audit work that were adjusted by management.

This increased/decreased the draft deficit on the provision of services of £60.6m by £29.2m and increased draft net assets of £426.7m by £336.7m.

The general fund balance increased by £3.2m as a result of these adjustments.

Contents
Introduction
Executive summary
Financial statements
Audit differences
Unadjusted audit differences: Summary
Unadjusted audit differences: Detail
Unadjusted audit differences: detail 1
Adjusted audit differences: Summary
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
PRIOR YEAR Adjusted audit differences: Detail
PRIOR YEAR Adjusted audit differences: Detail
PRIOR YEAR Adjusted audit differences: Detail
PRIOR YEAR Adjusted audit differences: Detail





















# ADJUSTED AUDIT DIFFERENCES: DETAIL

## Details for the current year

	Income and expenditure			Balance Sheet	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
<b>Adjusted audit differences</b>					
Adjusted TCI&E brought forward	(13,486)				
<i>Cumulative audit adjustments brought forward</i>	<i>(274,239)</i>	<i>88,061</i>	<i>(362,300)</i>	<i>424,111</i>	<i>(132,279)</i>
Adjustment 24: Reversing immaterial prior period adjustment on vehicles, plant and equipment					
DR Non current assets (VPE, OLB and Investment Properties)				5,123	
CR Capital adjustment account					(8,150)
DR CIES	3,027	3,027			
Adjustment 25: Revaluation adjustments on other land and buildings					
DR Other land and buildings impairment loss (CIES)	15,010	15,010			
CR Other land and buildings					(15,010)
<i>Cumulative audit adjustments carried forward</i>	<i>(256,202)</i>	<i>106,098</i>	<i>(362,300)</i>	<i>429,234</i>	<i>(155,439)</i>
Adjusted TCI&E carried forward	4,551				



# PRIOR YEAR ADJUSTED AUDIT DIFFERENCES: DETAIL

## Details for the prior year

	Income and expenditure			Balance Sheet	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
<b>Adjusted audit differences</b>					
Adjusted TCI&E brought forward	(13,558)				
<i>Cumulative audit adjustments brought forward</i>	<i>(271,812)</i>	<i>106,098</i>	<i>(377,910)</i>	<i>447,343</i>	<i>(155,439)</i>
Adjustment PY 1: Opening balance adjustment for Intangible assets under development previously recorded as PPE Assets under construction					
DR Intangible assets				2,172	
CR Plant property and Equipment					(2,172)
Adjustment PY2: Restoring incorrectly written of Opening PY accumulated amortisation					
DR Capital adjustment account				5,358	
CR PY opening Accumulated amortisation costs (Intangible assets)					(5,358)
Adjustment PY3: Opening balances: Reversing reclassification recorded as additions in current year draft accounts					
DR PY Intangible assets (other movements)				2,505	
CR Intangible assets (additions)					(2,505)
<i>Cumulative audit adjustments carried forward</i>	<i>(271,812)</i>	<i>106,098</i>	<i>(377,910)</i>	<i>457,378</i>	<i>(165,474)</i>
Adjusted TCI&E carried forward	(13,558)				

<b>Contents</b>
Introduction
Executive summary
Financial statements
<b>Audit differences</b>
Unadjusted audit differences: Summary
Unadjusted audit differences: Detail
Unadjusted audit differences: detail 1
Adjusted audit differences: Summary
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
PRIOR YEAR Adjusted audit differences: Detail
PRIOR YEAR Adjusted audit differences: Detail
PRIOR YEAR Adjusted audit differences: Detail
PRIOR YEAR Adjusted audit differences: Detail





# PRIOR YEAR ADJUSTED AUDIT DIFFERENCES: DETAIL

## Details for the prior year

	Income and expenditure			Balance Sheet	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
<b>Adjusted audit differences</b>					
Adjusted TCI&E brought forward	(13,558)				
<i>Cumulative audit adjustments brought forward</i>	<i>(271,812)</i>	<i>106,098</i>	<i>(377,910)</i>	<i>778,669</i>	<i>(487,131)</i>
Adjustment PY 8: adjusting 2017/18 closing balances (Car parks, residential and commercial properties incorrectly classified as OLB)					
DR Investment Properties				19,841	
CR Other land and buildings					(19,841)
Adjustment PY 9: Recognising 39 Tando and Atlantic properties previously omitted from the Accounts.					
DR Other land and buildings				10,105	
CR Capital adjustment account					(5,053)
CR Revaluation reserve (OLB)					(5,053)
<i>Cumulative audit adjustments carried forward</i>	<i>(271,812)</i>	<i>106,098</i>	<i>(377,910)</i>	<i>808,615</i>	<i>(517,078)</i>
Adjusted TCI&E carried forward	(13,558)				

Contents
Introduction
Executive summary
Financial statements
<b>Audit differences</b>
Unadjusted audit differences: Summary
Unadjusted audit differences: Detail
Unadjusted audit differences: detail 1
Adjusted audit differences: Summary
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
PRIOR YEAR Adjusted audit differences: Detail
PRIOR YEAR Adjusted audit differences: Detail
PRIOR YEAR Adjusted audit differences: Detail
PRIOR YEAR Adjusted audit differences: Detail

# PRIOR YEAR ADJUSTED AUDIT DIFFERENCES: DETAIL

## Details for the prior year

	Income and expenditure			Balance Sheet	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
<b>Adjusted audit differences</b>					
Adjusted TCI&E brought forward	(13,558)				
<i>Cumulative audit adjustments brought forward</i>	<i>(271,812)</i>	<i>106,098</i>	<i>(377,910)</i>	<i>808,615</i>	<i>(517,078)</i>
Adjustment PY 10: Disposal of Caterhatch infant school					
DR Capital adjustment account				4,692	
CR Other Land & Buildings					(4,692)
Adjustment PY 11: Transfer of Tando and Atlantic properties from Council Dwellings					
DR Other land and buildings				13,337	
CR Council Dwellings					(13,055)
CR Assets under construction					(277)
CR Investment properties					(10)
<i>Cumulative audit adjustments carried forward</i>	<i>(271,812)</i>	<i>106,098</i>	<i>(377,910)</i>	<i>826,644</i>	<i>(535,112)</i>
Adjusted TCI&E carried forward	(13,558)				

Contents
Introduction
Executive summary
Financial statements
<b>Audit differences</b>
Unadjusted audit differences: Summary
Unadjusted audit differences: Detail
Unadjusted audit differences: detail 1
Adjusted audit differences: Summary
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
PRIOR YEAR Adjusted audit differences: Detail
PRIOR YEAR Adjusted audit differences: Detail
PRIOR YEAR Adjusted audit differences: Detail
PRIOR YEAR Adjusted audit differences: Detail

# PRIOR YEAR ADJUSTED AUDIT DIFFERENCES: DETAIL

## Details for the prior year

	Income and expenditure			Balance Sheet	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
<b>Adjusted audit differences</b>					
Adjusted TCI&E brought forward	(13,558)				
<b><i>Cumulative audit adjustments brought forward</i></b>	<b>(271,812)</b>	<b>106,098</b>	<b>(377,910)</b>	<b>826,644</b>	<b>(535,112)</b>
Adjustment PY 12: REFCUS expenditure on VA schools plus impairment loss for Reardon Court duplicated in OLB and surplus assets					
DR Capital adjustment account				10,035	
CR Other Land & Buildings					(10,035)
Adjustment PY 13: Adjusting from EUV-SH to market value for Tando and Atlantic properties transferred from Council Dwellings (£32.6m) plus adjusting asset register to reconcile to the valuation report for other OLB assets (£13.2m).					
DR Other land and buildings				32,675	
CR Revaluation reserve					(45,806)
DR Capital adjustment account				13,131	
<b><i>Cumulative audit adjustments carried forward</i></b>	<b>(271,812)</b>	<b>106,098</b>	<b>(377,910)</b>	<b>882,485</b>	<b>(590,953)</b>
Adjusted TCI&E carried forward	(13,558)				

### Contents

Introduction

Executive summary

Financial statements

Audit differences

Unadjusted audit differences: Summary

Unadjusted audit differences: Detail

Unadjusted audit differences: detail 1

Adjusted audit differences: Summary

Adjusted audit differences: Detail

Adjusted audit differences: Detail

Adjusted audit differences: Detail

Adjusted audit differences: Detail

Adjusted audit differences: Detail

Adjusted audit differences: Detail

Adjusted audit differences: Detail

Adjusted audit differences: Detail

Adjusted audit differences: Detail

Adjusted audit differences: Detail

PRIOR YEAR Adjusted audit differences: Detail

PRIOR YEAR Adjusted audit differences: Detail

PRIOR YEAR Adjusted audit differences: Detail

PRIOR YEAR Adjusted audit differences: Detail



# PRIOR YEAR ADJUSTED AUDIT DIFFERENCES - DETAIL

Details for the prior year

Adjusted audit differences	Income and expenditure			Balance Sheet	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjusted TCI&E brought forward	(13,558)				
<i>Cumulative audit adjustments brought forward</i>	<i>(271,812)</i>	<i>106,098</i>	<i>(377,910)</i>	<i>882,485</i>	<i>(590,953)</i>
Adjustment PY 14: Reversing errors in OLB data uploaded to the CIPFA register					
DR Capital adjustment account				3,307	
CR Other land and buildings					(3,307)
Adjustment PY 15: Impairing costs incorrectly capitalised as AUC					
DR Capital adjustment account				9,935	
CR Assets under construction					(9,935)
Adjustment PY 16: Asset transfers for completed schemes in AUC					
DR Investment Properties				396	
DR Intangible Assets				7,121	
DR Infrastructure Assets				8,959	
DR Other Land & Buildings				272	
CR AUC					(16,749)
<i>Cumulative audit adjustments carried forward</i>	<i>(271,812)</i>	<i>106,098</i>	<i>(377,910)</i>	<i>912,475</i>	<i>(620,944)</i>
Adjusted TCI&E carried forward	(13,558)				

# PRIOR YEAR ADJUSTED AUDIT DIFFERENCES - DETAIL

Details for the prior year

Adjusted audit differences	Income and expenditure			Balance Sheet	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjusted TCI&E brought forward	(13,558)				
<i>Cumulative audit adjustments brought forward</i>	<i>(271,812)</i>	<i>106,098</i>	<i>(377,910)</i>	<i>912,475</i>	<i>(620,944)</i>
Adjustment PY 17: Bringing in assets omitted in audited 2018/19					
DR Council Dwellings				4,068	
CR Revaluation reserve					(4,068)
Adjustment PY 18: Revaluation reserve adjustment for assets transferred from OLB to Investment Properties (2017/18)					
DR Revaluation Reserve				2,849	
CR Capital adjustment account					(2,849)
Adjustment PY 19: Meridian water loan misclassified as Grant income in 2018/19 now corrected					
DR Taxation & Non-Specific Grants 2018/19 (CAA)				2,500	
CR Short term Borrowing					(500)
CR Long term Borrowing					(2,000)
<i>Cumulative audit adjustments carried forward</i>	<i>(271,812)</i>	<i>106,098</i>	<i>(377,910)</i>	<i>921,892</i>	<i>(630,361)</i>
Adjusted TCI&E carried forward	(13,558)				

# PRIOR YEAR ADJUSTED AUDIT DIFFERENCES - DETAIL

Details for the prior year

	Income and expenditure			Balance Sheet	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
<b>Adjusted audit differences</b>					
Adjusted TCI&E brought forward	(13,558)				
<i>Cumulative audit adjustments brought forward</i>	(271,812)	106,098	(377,910)	921,892	(630,361)
Casting error in June published CIES (£382k) and rounding variances (£53k)	(435)		Net (435)		
<b><i>Cumulative audit adjustments</i></b>	<b>(272,247)</b>	<b>106,098</b>	<b>(378,345)</b>	<b>921,892</b>	<b>(630,361)</b>
<b>Adjusted TCI&amp;E per current version of the Statement of Accounts</b>	<b>(13,994)</b>				

# ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

## Disclosure omissions and improvements

**We are required to bring to your attention other financial reporting matters that the General Purposes Committee is required to consider.**

Disclosure matters were noted in respect of both the Narrative Report and the Annual Governance Statement that will require these documents to be revisited by officers.

**At the time of drafting this Report these documents have not been revisited and so are therefore subject to change.**



Contents
Introduction
Executive summary
Financial statements
<b>Audit differences</b>
Unadjusted audit differences: Summary
Unadjusted audit differences: Detail
Unadjusted audit differences: detail 1
Adjusted audit differences: Summary
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
PRIOR YEAR Adjusted audit differences: Detail
PRIOR YEAR Adjusted audit differences: Detail
PRIOR YEAR Adjusted audit differences: Detail
PRIOR YEAR Adjusted audit differences: Detail

# REPORTING ON OTHER INFORMATION

- Contents
- Introduction
- Executive summary
- Financial statements
- Audit differences
- Other reporting matters**
- Reporting on other information
- Whole of Government Accounts
- Use of resources
- Control environment
- Control environment
- Audit report
- Independence and fees
- Appendices contents

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

Matter	Comment
<p>We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.</p>	<p>We noted that the updated Narrative Report presented in version 2 of the accounts (March 2021) has a bias toward the positive actions the Council had taken in the years and have provided feedback to this effect.</p> <p>The Narrative Report will need to be revisited before we can issue our opinion.</p>
<p>We are required to report by exception if the Annual Governance Statement is inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council’s review of effectiveness and our knowledge of the Council.</p>	<p>Our review has identified that the drafting is similar to the Narrative Statement in that some key issues (including a number of no or limited assurance Internal Audit reports) are not sufficiently addressed either in terms of explaining the shortcomings identified or in setting out key actions that need to be taken to address and mitigate the issues.</p> <p>“No Assurance” reports were issued in respect of the internal audits of:</p> <ul style="list-style-type: none"> <li>• Homelessness</li> <li>• Facilities Management of Youth Centres</li> <li>• General Ledger</li> <li>• Enfield part-owned companies</li> <li>• Oakthorpe Primary School</li> </ul> <p>“Limited Assurance” report was issued in respect of the Payroll internal audit.</p> <p>The Annual Governance Statement will need to be revisited before we can issue our opinion.</p>

# WHOLE OF GOVERNMENT ACCOUNTS

Contents
Introduction
Executive summary
Financial statements
Audit differences
<b>Other reporting matters</b>
Reporting on other information
Whole of Government Accounts
Use of resources
Control environment
Control environment
Audit report
Independence and fees
Appendices contents

Matter	Comment
For Whole of Government Accounts (WGA) component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure we are required to perform tests with regard to the Data Collection Tool (DCT) return prepared by the Council for use by the Ministry for Housing, Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level. This work requires checking the consistency of the DCT return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.	<p>Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 30 September 2020. The Council did not meet this deadline, submitting on 10 December</p> <p>We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of the Council’s financial statements.</p> <p>We are planning to issue our opinion on the consistency of the DCT return with the audited financial statements during the summer of 2021.</p>

# OVERVIEW

- Contents
- Introduction
- Executive summary
- Financial statements
- Audit differences
- Other reporting matters
- Use of resources**
- Overview
- Sustainable Finances (use of resources)
- Meridian water and other regeneration projects (use of resources)
- Meridian water and other regeneration projects (use of resources)
- Control environment
- Control environment
- Audit report
- Independence and fees
- Appendices contents

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money) and report to you on an 'except for' basis. This is based on the following reporting criterion:

*In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

There are three sub criteria that we consider as part of our overall risk assessment:

- Sustainable resource deployment
- Informed decision making
- Working with partners and other third parties.

As identified in our Audit Planning Report we assessed the following matters as being the most significant risks regarding use of resources.

Audit Risk	Criterion	Risk Rating	Issues identified that impact on conclusion
Sustainable finances	Sustainable resource deployment	Significant	No (but detailed work is subject to Partner review)
Meridian water and other regeneration projects	Informed decision making/Working with partners and other third parties	Significant	No (but detailed work is subject to Partner review)

# SUSTAINABLE FINANCES (USE OF RESOURCES)

**The Council will need to deliver its savings and achieve income targets to maintain financial sustainability in the medium term and there is a risk that these projections will not be met.**

Significant risk

Normal risk

Sustainable resource deployment

Informed decision making

Working with partners and other third parties

Significant control findings to be reported

## Risk description

The update to the Medium Term Financial Strategy (MTFS) to 2024/25 undertakes accounts of expected increases in funding for adult social care, increase in pension contributions as well as demographic and inflationary pressures.

For 2020/21, the Council is reporting a funding gap of £1.565 million (after £11.4 million of savings), which is proposed to be met by one of use of reserves.

The total savings gap over the next five years is £66.9 million of which £21.3 million of potential savings are identified. The revised gap (after savings and income generation) is £10.7 million, £11.0 million, £11.8 million and £12.1 million for 2021/22, 2022/23, 2023/24 and 2024/25 respectively.

Delivering the required savings from 2019/20 will be a challenge and is likely to require implementation of difficult decisions around service provision and alternative delivery models. There is a risk that this will not be achieved, impacting on the financial sustainability of the Council in the medium term.

## Work performed

We carried out the following planned audit procedures:

- Reviewed the assumptions used in the Medium Term Financial Strategy and assessed the reasonableness of the cost pressures;
- Monitored the delivery of budgeted savings in 2019/20 and the plans to reduce service costs and increase income from 2019/20; and
- Reviewed the strategies to close the budget gap in the medium term.

## Results

In July 2020 the Council reported a revenue budget variance of £10.9m against a budget of £231m, after the application of £2.7m in flexible receipts. This was partially offset by the use of a £3m contingency budget as well as a further £2.3m in other contingent items. The remaining variance of £5.6m was met from reserves. This left the Council's general fund balance at £13.95m as at the 31 March 2020.

The Council identified £10.7m of savings and income generation for 2019/20. The majority of these savings targets were met during the year however, £1.7m of the targets were identified as 'high risk' at the end of 19/20. Of these, £1.4m was rolled over into the 20/21 savings and income targets.

Progress against the 20/21 savings was reported to Cabinet in October 2020. Overall a budget gap of £1.7m was remaining following savings and income generation proposal of £7.3m with additional savings proposals of £2.7m being planned to be presented in December 20. However, the budget gap was also updated to include the impact of COVID-19, showing a revised gap of £18.1m.

During 19/20 and to support the capital financing requirements going forward, the Council produced a 10 year Treasury Management Strategy Statement (TMSS). The TMSS identified that total capital spend in the 10 year period would be £2.25bn. With £1.22bn being funded from borrowings with the remaining being funded from a combination of 'external sources' (£485m) and 'LBE Resources' (£547m). Under the TMSS borrowing will peak at £2.22bn in 26/27.

Contents
Introduction
Executive summary
Financial statements
Audit differences
Other reporting matters
Use of resources
Overview
Sustainable Finances (use of resources)
Meridian water and other regeneration projects (use of resources)
Meridian water and other regeneration projects (use of resources)
Control environment
Control environment
Audit report
Independence and fees
Appendices contents



# SUSTAINABLE FINANCES (USE OF RESOURCES)

**The Council will need to deliver its savings and achieve income targets to maintain financial sustainability in the medium term and there is a risk that these projections will not be met.**

Significant risk	
Normal risk	
Sustainable resource deployment	
Informed decision making	
Working with partners and other third parties	
Significant control findings to be reported	

The borrowing and investment rates have been set at 3.5% and 0.75% respectively. The Council have informed us that these rates have been reviewed by the Council's advisors, Arlingclose, and are considered prudent.

We note that there has been no written correspondence to be obtained to support this and suggest that in the future, the support for key assumptions is clearly documented. Based on these financing assumptions the total charge to the General Fund for the 10 year period is £355m.

We understand that the TMSS is currently in the process of being refreshed with reduced interest rate assumptions which more closely align to current borrowing and lending rates.

### Discussion and conclusion

Overall we are satisfied the Council has adequate arrangements for budget monitoring and taking mitigating actions to eliminate the impact of any overspend and undeliverable savings. Although small overspend has been incurred in 2019/2020, the Council has adequate resources to bridge the gap. Historically, the Council has been able to identify new savings and income generation areas which help to alleviate the budgetary pressures.

In addition, the newly introduced savings monitor reporting tool allows the Council to see the progress being made on the agreed savings targets and focus on areas where officers believe they are at risk of delivery. Each of these targets will be managed by the responsible team and any deviations will be flagged through the savings monitor process.

The Council has also factored into its financial management plans, its long term financing requirement. Officers have produced a 10 year Treasury Management Strategy Statement which outlines how the Council's capital programme will be met. The headline figures are very substantial with borrowings peaking at £2.2bn in 26/27. The assumptions used in the TMSS appear prudent and we understand that officers have recently refreshed the strategy to reflect better interest rates on borrowings.

Although closing the budget gap will remain challenging given the current environment and the long term capital projects the Council has embarked upon, we are satisfied that the Council has adequate arrangements in place to remain financially sustainable in the medium term.

# MERIDIAN WATER AND OTHER REGENERATION PROJECTS (USE OF RESOURCES)

**These projects represent significant investment by the Council and there is a significant risk that the public money being invested does not deliver value for money if the projects are not successfully managed.**

Significant risk	
Normal risk	
Sustainable resource deployment	
Informed decision making	
Working with partners and other third parties	
Significant control findings to be reported	

## Risk description

The Council is continuing the work to deliver a range of large scale regeneration projects aimed at increasing the capacity of the Borough to provide housing and employment for the resident of the Borough, most notably the Meridian Water project.

These projects represent significant investment by the Council and there is a significant risk that the public money being invested does not deliver value for money if the projects are not successfully managed.

## Work performed

We carried out the following planned audit procedures:

- We have reviewed the programme and project management arrangements instigated by management to govern the delivery of the regeneration projects and ensured that the anticipated benefits are realised.

## Results

### Governance:

There is an appropriate governance structure in place which sees the oversight and strategic direction of the project managed by the Meridian Water Programme Board and MW Executive Board. The programme board is supported by a number of sub-boards which meet on a regular basis and are responsible for specific elements of the job.

### Budget:

In October 2019 the Council approved an update to the original financial plan approved by full Council in January 2019 which includes a 30 year financial model.

Within this model there is £286m budget for 19/20, 20/21 and 21/22, and indicative budget of £245m for the period 22/23 to 28/29.

There are a number of key assumptions included in the above budget which include, but are not limited to the cost per square foot to construct each unit type, the number of unites being constructed under each phased, the rent per unit, inflationary costs, management fees, discount rate and sales prices.

### Meridian One:

Following the successful appointment of Vistry Partnerships (formerly Gallford Try Partnerships) in April 2019, following a competitive tender using the GLAs LD2P framework, the Council have now finalised the Development Agreement (DA) with Vistry Partnerships.

The DA includes the provision of 950 homes, of which 50% are to be 'affordable'. Construction is due to start in within 2021 and the first completions are expected to be in 2022.

Contents
Introduction
Executive summary
Financial statements
Audit differences
Other reporting matters
<b>Use of resources</b>
Overview
Sustainable Finances (use of resources)
Meridian water and other regeneration projects (use of resources)
Meridian water and other regeneration projects (use of resources)
Control environment
Control environment
Audit report
Independence and fees
Appendices contents

# MERIDIAN WATER AND OTHER REGENERATION PROJECTS (USE OF RESOURCES)

Contents
Introduction
Executive summary
Financial statements
Audit differences
Other reporting matters
<b>Use of resources</b>
Overview
Sustainable Finances (use of resources)
Meridian water and other regeneration projects (use of resources)
Meridian water and other regeneration projects (use of resources)
Control environment
Control environment
Audit report
Independence and fees
Appendices contents

**These projects represent significant investment by the Council and there is a significant risk that the public money being invested does not deliver value for money if the projects are not successfully managed.**

Significant risk	
Normal risk	
Sustainable resource deployment	
Informed decision making	
Working with partners and other third parties	
Significant control findings to be reported	

*Employment Strategy:*

In March 2020, the Meridian Water Employment Strategy was approved by the Council. This included the aim of creating 6,000 new jobs at the London Living Wage or above, 250+ local people in construction jobs for a sustained period of 25 years and to support 1000 Small and Medium Enterprises in the area.

As at January 2021, the MW Employment project was showing that the Strategy was behind target with a total of 449 jobs against a target of 1000.

*Meridian Two:*

Phase two of the MW project was approved by Council in December 2019. This included approving the appointment of the preferred development partners to take this forward. At the time of writing the Development Agreement has not yet been finalised for this phase, but this is anticipated to be signed in May or June 2021.

The project however, is underway with the planning application for 2,300 new homes having been submitted to the Council in April 2019.

**Discussion and conclusion**

There have been a number of key developments in year which suggest that the overall project is progressing as intended. Although this is a challenging project there is an appropriate governance framework in place to manage the delivery.

We do not consider there to be an impact on our use of resources conclusion, but we will continue to monitor progress against the project.

# SIGNIFICANT DEFICIENCIES

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the General Purposes Committee.

As the purpose of the audit is for us to express an opinion on the Group’s financial statements and the Council’s use of resources, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

**Please note: Management responses are preliminary, and more comprehensive responses, including specific actions to be taken, timelines and responsible officers, will be agreed in due course.**

- Contents
- Introduction
- Executive summary
- Financial statements
- Audit differences
- Other reporting matters
- Use of resources
- Control environment**
- Significant deficiencies
- Control environment
- Audit report
- Independence and fees
- Appendices contents

Area	Observation & implication	Recommendation	Management response
Financial Statements Preparation	<p>Resource shortages and pressures within the finance department have contributed to reduced levels of quality control reviews of the financial statements and of the supporting working papers. Whilst the draft financial statements were submitted to the scheduled General Purposes Committee on 23 July 2020, the accounts were presented later for audit than had originally been agreed (end June). The compressed timetable prevented the Council undertaking of the originally planned quality review and control processes.</p> <p>These quality control issues are evident, for example, in:</p> <ul style="list-style-type: none"> <li>• Prior Period Adjustments (PPAs). This is a critical and sensitive area, even in “normal” years, but particularly given the high profile reworking of the closedown process in 2019/20.</li> <li>• Meridian Water assets classification paper. This key element of the Council’s audit accounting and valuations trail was agreed as being necessary at a very early stage. The absence of the paper was not identified in quality review.</li> </ul>	<p>The Council should, as part of a wider root cause analysis process:</p> <ul style="list-style-type: none"> <li>• Reflect on the experiences of the 2019/20 closedown experience</li> <li>• Revisit finance department structures, and skill set and experience needs, updating as necessary</li> <li>• Secure necessary additional resources</li> <li>• Ensure the closedown plan for 2021/22 enables the support for “hard close” (both for trial run but also as a key interim audit step)</li> <li>• Ensure the closedown and preparation of draft Statement of Accounts allows for a thorough and robust quality control and review process</li> <li>• Ensure that there is a clear plan for what will be undertaken during the quality control and review and who will undertake the various steps, with clear guidance on documentation and evidence of these processes</li> </ul> <p>The General Purposes Committee should receive and review these plans</p>	<p style="color: #e91e63;">Agreed, a number of these actions have already been undertaken including: Restructuring the team, securing interim support, the 2020/21 timetable sets aside 4 week review period, quality assurance boards have been set up for working papers, a CIPFA review of the team structure has been undertaken.</p>

# SIGNIFICANT DEFICIENCIES

Contents
Introduction
Executive summary
Financial statements
Audit differences
Other reporting matters
Use of resources
Control environment
<b>Control environment</b>
Other deficiencies
Other deficiencies
Follow up of prior year deficiencies
Audit report
Independence and fees
Appendices contents

Area	Observation & implication	Recommendation	Management response
Quality review and challenge of valuers' reports	<p>The Council had intended to subject the valuations information provided to a thorough review and challenge as part of the closedown process. However, due to compressed timescales and significant finance team resource shortages, this was reduced.</p> <p>We have identified a number of issues that should have been identified by management's own quality checking, including:</p> <ul style="list-style-type: none"> <li>• Errors with beacon sheet entries and supporting valuations trail</li> <li>• Errors in certain investment property valuations (wrong values reported) and these needing to be reissued</li> <li>• Supporting information not provided as part of the initial working paper</li> <li>• A draft unsigned report being provided to the audit team as a final version and the finance team taking some time to accept that it was not a final version.</li> <li>• Errors found in the classification and valuation of additions to Meridian Water</li> </ul>	<p>Linked to the preceding accounts review quality control point and recommendations above, the Council should, as part of a wider root cause analysis process:</p> <ul style="list-style-type: none"> <li>• Ensure the closedown step relating to valuations of no current assets allows for a thorough and robust quality control and review process</li> <li>• Ensure that there is a clear plan for what will be undertaken during the quality control and review and who will undertake the various steps, with clear guidance on documentation and evidence of these processes</li> </ul> <p>The General Purposes Committee should receive and review these plans.</p>	<p>Agreed, for 2020-21 challenge review sessions between Finance and the Valuers have been timetabled in and additional quality review processes are planned.</p>

# OTHER DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Authorisation of journals under £100,000	The journals template has a maximum 999 journal lines and it is possible to post manual journals in SAP without approval as long as the value in each journal line on the journals template is below £100,000. Journals authorisation is only required when there is a journal line with a value greater than £100,000. Unauthorised or fraudulent entries with significant impact on the financial statements may not be identified and impact the financial statements without relevant approvals if journals lines values in each journal template are below £100,000.	Manual journals should be parked/submitted for approval and then posted by different people to ensure appropriate segregation of responsibilities. Approval of journals should be by a senior member of the finance team.	An internal audit during 20/21 has identified this risk and an action plan is underway to address this.
Casual worker contracts	Our testing of payroll balances noted that when a casual worker is employed, a letter of engagement is not always produced (equivalent of contract for permanent staff) and signed by the manager and the employee.	We would recommend that a letter of engagement is issued which outlines the terms and conditions of the employment and the salary /pay scale for each casual worker hired.	Agreed
System access reviews	Following the recommendation raised in the prior year with regard to Ash and CareFirst, we noted that there is a lack of access reviews across all systems we have reviewed (except SAP) There is no regular user access review with regards to the Ash Debtors system. This could mean that users could have inappropriate access to the system	A regular review of users of all IT Systems should be implemented	Agreed

Contents
Introduction
Executive summary
Financial statements
Audit differences
Other reporting matters
Use of resources
Control environment
<b>Control environment</b>
Other deficiencies
Other deficiencies
Follow up of prior year deficiencies
Audit report
Independence and fees
Appendices contents

# OTHER DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Accumulated absence accrual	The Council has a policy to review the accumulated absence accrual every 3 years as it is an immaterial balance. This was last reviewed in 2016/17 and therefore should have been reviewed in 2019/20, however this was not done.	As the balance is immaterial it is unlikely that there would be a material error, however the council should ensure that it complies with its own policy.	Agreed

- Contents
- Introduction
- Executive summary
- Financial statements
- Audit differences
- Other reporting matters
- Use of resources
- Control environment
- Control environment
- Other deficiencies
- Other deficiencies
- Follow up of prior year deficiencies
- Audit report
- Independence and fees
- Appendices contents

# FOLLOW UP OF PRIOR YEAR DEFICIENCIES

Contents
Introduction
Executive summary
Financial statements
Audit differences
Other reporting matters
Use of resources
Control environment
Control environment
Other deficiencies
Other deficiencies
Follow up of prior year deficiencies
Audit report
Independence and fees
Appendices contents

Area	Issue and impact	Original recommendation	Progress	Management response
Accounts production process	A complete and auditable set of group financial statements was only received on 23 June 2019. This caused significant delays to our audit.	Management should ensure that they undertake their own detailed review of the draft financial statement, including an analytical review, of both the single entity and group financial statements before they are submitted for audit on 31 May.	The group financial statements were submitted for audit on 20 July 2020 in line with the revised timetable, however as noted previously these contained a significant number of errors, and a significant deficiency in relation to the accounts production process has now been raised	This is being addressed as part of the 2020/21 timetable.
Management assessment of Meridian Water classification	As part of our planning discussions with management, we requested a working paper detailing the justification for the classification and valuation basis for the Meridian Water assets. This was not received as part of the working papers and management's justification for the classification as surplus assets was only received in July.	We recommend that management prepare a working paper (making reference to the CIPFA Code) to justify their classification for these assets on an annual basis, prior to the instruction of valuations as the classification will determine the basis for valuation.	Management had proposed that a meeting to agree this would take place during the interim audit in early February 2020. this did not take place as planned and the justification for the valuation basis of Meridian Water was only provided to audit in September 2020 after the Council had engaged a third party consultant to assist with this.	Agreed, we will commission the third party earlier in the process for 2020/21.
Review of the fixed asset register and asset management system (KEL)	We identified a number of properties on the fixed asset register which are no longer in use by the Council, and a number of discrepancies between the KEL system and land area documentation.	Management should perform a thorough and detailed review of the assets held on the fixed asset register and KEL system and make all necessary adjustments.	Management have completed a review of all properties as part the transfer from the SAP asset register to the CIPFA asset register. A PPA has been done as part of this to ensure all assets are correctly classified.	Agreed, the work undertaken to set the 2018/19 and 2019/20 base position and CIPFA asset register should place us in an improved position for 2020/21.



## FOLLOW UP OF PRIOR YEAR DEFINICENCIES

Area	Issue and impact	Original recommendation	Progress	Management response
Journals posting by employees leaving the Council	<p>We identified two employees who had posted journals after they had left the organisation, one of which left in September 2018 and the system was showing a journal posted in January 2019. The Council informed us that if an individual has processed a journal but someone else posts it, the posting date is shown as the latter date, however there is still a four month delay between processing and posting this journal.</p> <p>We identified six employees with access to the SAP system has posted journals in the month of leaving the Council, however we were unable to determine if these were postings after they had left the organisation as this detail was not available in the system.</p> <p>We also identified one employee who had two user accounts.</p>	<p>The Council should ensure that leavers are deactivated from the system immediately after their leaving date.</p> <p>The Council should review their core financial system to create reports to enable internal monitoring of journal posting dates, by performing a reconciliation to leavers dates and identifying journals which have been processed but not posted to the system.</p>	We increased our testing of this issue in 2019/20 and did not identify any instances where leavers had posted journals after their leaving date.	<b>Noted.</b>

## FOLLOW UP OF PRIOR YEAR DEFINICENCIES

Area	Issue and impact	Original recommendation	Progress	Management response
Removing schools employees from the payroll system	We noted within our sample testing of schools payroll, we identified a number of schools employees paid after their leaving date. Although all of these balances have since been recovered by the Council, there is a risk that payroll expenditure could be overstated.	The Council should perform regular checks to reconcile the leavers listing provided by the schools to the payroll system. This is to ensure that schools leavers are not inappropriately paid for work after their leaving date.	No issues relating to payment after leaving dates noted in the 2019/20 schools payroll testing.	Noted
Internal recharges for schools balances	As noted on page 24, within our mapping on income, we identified that £1.7 million, being the transfer from reserves due to overspends by schools had been incorrectly recorded as income and expenditure within net cost of services.	The Council should ensure that all internal recharges are corrected netted off within the financial statements, as part of the review of the draft financial statements process.	We have not found any issues with schools internal recharges this year, however we have found that short term investments was over overstated by £17m as a result £8.7m of schools banks balances being shown as investments rather than cash and £8.3m of schools balances being off set by a negative debtor.	Noted - adjustment made.
Redundancy process	We identified a lack of audit trail regarding the redundancy process between the employee and the Council. The final redundancy payments are not formally approved (calculated by the payroll and pensions team based on salary and other payroll data).	This Council should ensure that there is an audit trail of communication with the employee being made redundant and final payment calculations are appropriately approved, and that this process is communicated to the finance team to make the relevant accruals.	The audit trail has improved this year and no issues were noted from our testing.	Noted.

## FOLLOW UP OF PRIOR YEAR DEFINICENCIES

Area	Issue and impact	Original recommendation	Progress	Management response
Lease agreements and rent review letters	Difficulties were faced by the audit team in reviewing signed lease agreements for our testing on investment properties. The Council informed us that the person responsible for maintaining the contracts left the organisation before the audit began and there is no nominated person to take on these responsibilities.	The Council should ensure that there are contingencies measures in place for when an employee leaves the organisation, and that key documents are held securely by more than one person.	The council was able to provide us with leases as required this year.	Noted.
IT general controls (user access reviews)	For both the Ash and Carefirst IT systems, we identified that there are no specific processes in place whereby user access levels and permissions are reviewed periodically. The only reviews which are performed are to identify users who have not logged into their account for more than 90 days. There is a risk that users may have inappropriate levels of access to the system.	The Council should perform monthly checks on user access levels and perform regular reconciliations of leavers to the access listings.	The Council has not introduced these checks in full yet. Currently are done after users have not logged in for 60 or 90 days. There remains a risk that existing users may have access to information that is not required for their job role,	Agreed - action will be taken.

## FOLLOW UP OF PRIOR YEAR DEFINICENCIES

Area	Issue and impact	Original recommendation	Progress	Management response
Review of useful economic lives	We identified a significant variance for the useful economic life of one asset in the fixed asset register compared to the yearend valuation report. There is a risk that if the depreciation charge is calculated over the incorrect useful economic life, then the expenditure charge could be misstated.	The Council should review the remaining useful economic lives of property provided by the external valuer on an annual basis and ensure that any adjustments are posted to the fixed asset module.	The council has been reviewing the useful economic lives of assets as part of the asset register transfer undertaken in the year.	Noted
Depreciation of schools transferring to academies during the year	We performed a review of all schools which transferred to academies during the year, and identified that a full years worth of depreciation had been recognised on all transfers, rather than up to the point of transfer. The depreciation calculation is therefore overstated.	The Council should update the fixed asset register on an ongoing basis throughout the year, and recognising disposals of academy transfers at the point they incur to ensure that the depreciation charge is not overstated.	This issue has been addressed as part of the migration to the new asset register for 2019/20.	Noted
Signed declarations from Councillors	We were unable to obtain one signed declaration. As the Council place reliance on these declarations for the completion of the related party transactions note, there is a risk that this note is not complete.	The Council should endeavour to obtain signed related party declarations from all Councillors and senior officers in position during the year.	Four declarations were not provided by councillors this year. The Council officers have continued to chase these throughout the audit period but the councillors concerned have not responded.	Noted

# FOLLOW UP OF PRIOR YEAR DEFINICENCIES

Area	Issue and impact	Original recommendation	Progress	Management response
Land registry documents	Within our sample testing of non-current assets, we identified a large number of assets (in particular schools and council dwellings) which are not registered by the Council at Land Registry. For three of these assets, we were unable to obtain assurance over these properties. This meant that we were unable to directly gain assurance that the Council had the rights and obligations to these assets.	The Council should performed a detailed review of the assets which are not specifically registered to them and obtain the relevant documentation from the Land Registry.	The council still has a number of assets that have not been registered at the land registry. We were able to obtain assurance via the review of title deeds that the Council had the rights and obligations to these assets.	Noted
Calculation of non-collection of receivables	The calculations prepared are overly cumbersome and difficult to follow. the Council has applied the historical default rates (incurred losses) using system data to determine the credit losses on trade receivables within the scope of IFRS 9, but has not updated this to reflect expected (future) credit losses. However, this is unlikely to result in a material difference in the amount of credit losses recognised. Also, the Council does not calculate different collection rates for housing benefits arrears for former and current tenants where the methods of collection are different (by invoice and clawback respectively).	The Council should revise their calculation of non-collection of receivables to make their easier to follow and to take into consideration expected credit losses under IFRS 9 going forward.	The method of calculation of non collection of receivables has not changed from previous years. However, the Council do now split the collection rates for housing Benefit arrears for former and current tenants between cash and clawback.	Noted

# OVERVIEW

Contents
Introduction
Executive summary
Financial statements
Audit differences
Other reporting matters
Use of resources
Control environment
Control environment
<b>Audit report</b>
Overview
Independence and fees
Appendices contents

### Opinion on financial statements

At this point we have not identified any issues that would prevent, subject to the successful resolution of outstanding matters, our being able to issue an unqualified audit opinion on the consolidated Group financial statements and the Council’s single entity financial statements, with the sole exception of the issue relating to valuation uncertainty linked to the Covid-19 pandemic as at 31 March 2020.

The opinion will be modified to include an Emphasis of Matter in relation to the valuation of land and buildings as a result of the material uncertainty included within the valuations.

### Conclusion on use of resources

We are proposing to issue an unmodified conclusion

### Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting or the Group’s ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

There are no material uncertainties in relation to going concern disclosed in the financial statements of which we are aware that we need to draw attention to in our report.

### Other information

The Narrative Report needs revisiting (see page 53).

### Annual Governance Statement

The AGS currently needs revisiting (see page 53).

### Audit certificate

We will be unable to issue the audit certificate until the completion and submission of our work on WGA and completion of work on objections received in previous years.

# INDEPENDENCE

Contents
Introduction
Executive summary
Financial statements
Audit differences
Other reporting matters
Use of resources
Control environment
Control environment
Audit report
<b>Independence and fees</b>
Independence
Fees
Appendices contents

**Under ISAs (UK) and the FRC’s Ethical Standard we are required, as auditors, to confirm our independence.**

Under ISAs (UK) and the FRC’s Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2020.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Planning Report.

We have not identified any relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC’s Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Group.

We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit comply with relevant ethical requirements including the FRC’s Ethical Standard and are independent of the Council and the Group.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

# FEES

Contents
Introduction
Executive summary
Financial statements
Audit differences
Other reporting matters
Use of resources
Control environment
Control environment
Audit report
<b>Independence and fees</b>
Independence
Fees
Appendices contents

<b>Fees summary</b>	2019/20 Actual £	2019/20 Planned £	2018/19 Actual £
<b>Audit fee</b>			
• Code audit fee: consolidated Group and single-entity financial statements and use of resources	TBC	£132,104	£132,104
• Additional fee	TBC	-	£55,900
<b>Total fees</b>	<b>TBC</b>	<b>£132,104</b>	<b>£188,004</b>

An Additional fee as a result of the additional work required and the impact of Covid-19 will be agreed with Management following the completion of our work.





# APPENDICES CONTENTS

Contents
<u>Appendices contents</u>
Our responsibilities
Communication with you
Outstanding matters
Audit report
Ethical standard
Audit quality

A	Our responsibilities	74
	Our responsibilities	74
	Additional matters we are required to report	75
B	Communication with you	76
	Communication with you	76
C	Outstanding matters	77
	Outstanding matters	77
D	Audit report	78
	Audit report	78
	Latest regulatory developments	79
E	Ethical standard	80
	FRC Ethical standard	80
F	Audit quality	81
	Audit quality	81

# OUR RESPONSIBILITIES

## Responsibilities and reporting

Contents
<a href="#">Appendices contents</a>
<a href="#">Our responsibilities</a>
Communication with you
Outstanding matters
Audit report
Ethical standard
Audit quality

### Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your consolidated and Council financial statements. We report our opinion on the financial statements to the directors of the Council.

We read and consider the ‘other information’ contained in the Statement of Accounts such as the Narrative Report. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

We report where we consider that the Council had not put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We review the Whole of Government Accounts Data Collection Tool provided to HM Treasury and express an opinion on whether it is consistent with the audited financial statements.

### What we don’t report

Our audit is not designed to identify all matters that may be relevant to the General Purposes Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.



# ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

Contents
Appendices contents
<b>Our responsibilities</b>
Additional matters we are required to report
Communication with you
Outstanding matters
Audit report
Ethical standard
Audit quality

	Issue	Comments
1	Significant difficulties encountered during the audit.	We encountered a number of difficulties in our audit please see pages 19-21
2	Written representations which we seek.	Our draft representation letter will be presented once audit work has been completed and potential issues for inclusion concluded.
3	Any fraud or suspected fraud issues.	No exceptions to note to date.
4	Any suspected non-compliance with laws or regulations.	No exceptions to note to date.
5	Significant matters in connection with related parties.	5 Councilors failed to provide declarations of interest forms despite being reminded on a number of occasions by Council officers.
	<b>Group matters</b>	
6	Limitations on the audit where information was restricted.	No exceptions to note to date.
7	Any issues with the quality of component auditors work.	Our work is still on going
8	Any fraud or suspected fraud at group or component level.	Our work is still on going

# COMMUNICATION WITH YOU

- Contents
- [Appendices contents](#)
- Our responsibilities
- [Communication with you](#)
- Outstanding matters
- Audit report
- Ethical standard
- Audit quality

### Those Charged with Governance (TCWG)

References in this report to Those Charged With Governance are to the Council as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the General Purposes Committee.

In communicating with TCWG of the Council and the Group, we consider TCWG of subsidiary entities to be informed about matters relevant to their subsidiary. Please let us know if this is not appropriate.

### Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Communication	Date (to be) communicated	To whom
Audit Planning Report	January 2020	Audit and Risk Management Committee
Report on significant weaknesses in controls (ISA265) / Audit Progress Report	October 2020	General Purposes Committee
Audit Completion Report (ISA260) [preliminary]	April 2021	General Purposes Committee
Annual Audit Letter	TBC	General Purposes Committee

# OUTSTANDING MATTERS

Contents
<a href="#">Appendices contents</a>
<a href="#">Our responsibilities</a>
<a href="#">Communication with you</a>
<a href="#">Outstanding matters</a>
<a href="#">Audit report</a>
<a href="#">Ethical standard</a>
<a href="#">Audit quality</a>

We have substantially completed our audit work in respect of the financial statements and use of resources for the year ended 31 March 2020.

The following matters are outstanding at the date of this report and could impact our audit opinion. We will update you on their current status at the General Purposes Committee meeting at which this report is considered:

- Completion of Audit work on:
  - PPE valuations
  - Cashflow
  - HRA
  - Group Accounts
- Resolution of differences between bank statement and bank letter for 4 schools.
- Completion of Manager and Partner reviews and clearance of related review points
- Internal quality reviews not yet started
- Review of updated accounts including the Narrative Report
- Revised Annual Governance Statement
- Updated going concern review.
- Receipt of letter of representation



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# AUDIT REPORT

**Audit report to be inserted on completion of audit**

Contents
<a href="#">Appendices contents</a>
Our responsibilities
Communication with you
Outstanding matters
<a href="#">Audit report</a>
Ethical standard
Audit quality

---

# LATEST REGULATORY DEVELOPMENTS

## Redmond

On 8 September 2020, Sir Tony Redmond published his *Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting*

The Report includes a number of key recommendations, including:

- The establishment of new body, the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit, taking on certain responsibilities from Public Sector Audit Appointments (PSAA), Institute of Chartered Accountants in England and Wales (ICAEW), FRC/ARGA, and the Comptroller and Auditor General (C&AG)
- The governance arrangements within local authorities be reviewed by local councils with the purpose of:
  - an annual report being submitted to Full Council by the external auditor;
  - consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and
  - formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.
- The current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements.
- Quality be consistent with the highest standards of audit within the revised fee structure. In cases where there are serious or persistent breaches of expected quality standards, OLAR has the scope to apply proportionate sanctions.
- The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.
- The external auditor be required to present an Annual Audit Report to the first Full Council meeting after 30 September each year, irrespective of whether the accounts have been certified; OLAR to decide the framework for this report.

On 17 December 2020, The Ministry of Housing, Communities and Local Government (MHCLG) published their response to the Redmond review recommendations. This included rejecting the proposal to establish OLAR, but accepting other aspects, and establishing various work-streams to progress issues. £15m has been promised to assist authorities with increased audit fees, although the exact distribution basis has yet to be finalised.

On 9 March 2021, following a consultation exercise, MHCLG laid The Accounts and Audit (Amendment) Regulations 2021, to come into force on 31 March 2021. Link: <http://www.legislation.gov.uk/id/uksi/2021/263> These introduce a 2 years (only) extension to 30 September with additional flexibility provided by the removal of the common inspection date, requiring instead that the draft accounts be published no later than 1 August.

Contents
Appendices contents
Our responsibilities
Communication with you
Outstanding matters
Audit report
Latest regulatory developments
Ethical standard
Audit quality

# FRC ETHICAL STANDARD

## Issued in December 2019

- Contents
- [Appendices contents](#)
- Our responsibilities
- Communication with you
- Outstanding matters
- Audit report
- [Ethical standard](#)
- Audit quality

In December 2019 the FRC published the Revised Ethical Standard 2019 ('ES'), which is applicable from 15 March 2020. There are some transitional provisions for services and arrangements that are not currently prohibited under the existing Standard. The ES aims to further strengthen auditor independence and enhance confidence in the profession. The table below provides a high level summary of the key headlines.

Key headlines	Impact
<b>The objective, reasonable &amp; informed third party test</b>	Reinforcement that ethical principles take priority over rules. A need to take care where particular facts and circumstances are either not addressed directly by the rules or might appear to 'work around' the rules, or result in an outcome that is inconsistent with the general principles.
<b>Extra-territorial impact</b>	For group audits where the audited entity has overseas operations, the ES will require all BDO Member firms to be independent of the UK audited entity and its UK and overseas affiliates in accordance with the UK Ethical Standard, irrespective of if their audit work is relied upon.
<b>Contingent fees</b>	Non-audit services with contingent or success-based fee arrangements will be prohibited for audited entities.
<b>Secondments</b>	All secondments/loan staff to audited entities are prohibited with the exception of secondments to public sector entities.
<b>Recruitment and remuneration services</b>	Prohibition on providing remuneration services to audited entities such as advising on the quantum of the remuneration package or the measurement criteria for calculation of the package. In addition, the prohibition on providing recruitment services to an audited entity that would involve the firm taking responsibility for, or advising on the appointment of, any director or employee of the entity.
<b>Non-audit services to a public interest entity (PIE)</b>	Moving to a "white-list" of permitted non-audit services for PIEs. The white-list largely consists of services which are either audit-related or required by law and/or regulation. The provision of services not on the white-list are prohibited. The ES separates those permitted services which are exempt from the 70% fee cap and those services which are subject to the fee cap.
<b>Other entities of public interest ('OEPI')</b>	OEPI is a new term in the Ethical Standard. The FRC have imposed the 'white-list' applicable to PIE audited entities to also apply to OEPIs. OEPIs are entities which, according to the FRC, do not meet the definition of a PIE but nevertheless are of significant public interest to stakeholders. They include AIM listed entities which exceed the threshold to be an <i>SME listed entity</i> - generally those with a market cap of more than €200m; Lloyd's syndicates; Private sector pension schemes with more than 10,000 members and more than £1billion of assets; Entities that are subject to the governance requirements of The Companies (Miscellaneous Reporting) Regulations 2018 (SI/2018/860), excluding fund management entities which are included within a private equity or venture capital limited partnership fund structure. These would be entities which: <ul style="list-style-type: none"> <li>- Have more than 2000 employees; and / or</li> <li>- Have a turnover of more than £200 million and a balance sheet total of more than £2 billion.</li> </ul> The FRC have noted that the rules applicable to OEPIs will apply from periods commencing on or after 15 December 2020.



# AUDIT QUALITY

Contents
<a href="#">Appendices contents</a>
Our responsibilities
Communication with you
Outstanding matters
Audit report
Ethical standard
<a href="#">Audit quality</a>



### **BDO is totally committed to audit quality**

It is a standing item on the agenda of BDO’s Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream’s objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the FRC’s Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at [www.bdo.co.uk](http://www.bdo.co.uk)



FOR MORE INFORMATION:

**David Eagles, Partner**

t: 01473 320728

m: 07967 203431

e: David.Eagles@bdo.co.uk

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 company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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