

## EY Audit Briefing Paper

### General Purposes and Licencing Committee meeting 30 November 2021

#### **Background and Purpose**

This paper updates the Committee on the current status of the audits of the London Borough of Bromley and London Borough of Bromley Pension Fund audits for 2019/20. We make a number of recommendations on the actions the Council needs to take to:

- Ensure that the 2019/20 audits can be completed in a timely manner, and
- Facilitate a smoother completion of the subsequent audits.

We will work with the Council to agree a plan to implement those recommendations. However, we remain concerned that the Council is struggling to support the completion of the audit and so we also set out below further actions we may take, under the Local Audit and Accountability Act 2014 (Schedule 7), to bring those matters to the attention of the full Council and to require action in response from the Council, if the recommendations below are not actioned on a timely basis. Were we to report to Council under Sch 7, a copy of our report would also be sent to the Secretary of State.

#### **2019/20 audit**

We have encountered significant delays in resolving our audit queries.

The latest agreed due date for resolving all outstanding matters not related to asset valuations and property, plant and equipment is 19 November 2021.

The key issues in relation to asset valuations and property, plant and equipment (which is the largest incomplete section of the audit) including details of where we have encountered delays and some of the reasons for those delays are:

- Property revaluations
  - We identified issues with the property valuations methodology adopted by Montague Evans, as a result of our initial audit work in late 2020.
    - All investment property valuations except one have had to be revalued by Montague Evans.
    - Car park valuations – we raised concerns about the approach adopted, for example in relation to the valuation of multi-story car parks. We have worked with the external valuers to highlight issues with their valuation approach and to agree a revised methodology. That process, and the subsequent time required to revalue the assets, have resulted in significant delays to the audit process.
  - We have identified completeness and accuracy issues in relation to the responses from Montague Evans. Each request for revaluation work and responses to queries has taken several weeks for them to turn round and respond.
  - Subsequent delays in responses from Council officers responding to follow up queries.
- Depreciation not charged on assets revalued in year and delayed resolution of the issue.

- Existence of furniture and fittings – An initial approach was agreed to qualify our opinion for this issue (May 2021) but the Council changed their approach and decided they wanted to revise the statements (July 2021). We are still waiting for some information in this area.

### **Pension Fund**

We have encountered significant delays in resolving our audit queries. The main item outstanding at the date of this report is receiving revised financial statements. The initial agreed due date for these was 31 July 2021. The current revised due date is 30 November 2021.

There will be further procedures for us to complete once these have been received.

### **Recommendations**

We reported in June that we expected to be reporting the conclusion and outcome of the 2019/20 audit by early September 2021. However, we are now in November with issues still outstanding. We recognise that officers are working hard but there is a significant backlog and too many demands on their time to resolve this. In order to conclude the audit and to prepare for and support the audits of the 20/21 and 21/22 accounts, we make the following recommendations:

#### 2019/20

1. Set out a clear timeline of when queries will be responded to and meet these deadlines. Put in place escalation procedures that hold officers to account for their areas of responsibility.
2. Ensure that sufficient priority is given to responding to audit queries, and that sufficient resource is available within the finance function to provide capacity to undertake audit support and “business as usual”, such as budget preparation and management accounting and reporting.

#### 2020/21 and beyond

1. Set out a clear timeline of how the Council plans to address the backlog of work, including a resourcing plan and task allocation plan.
2. Ensure that the Council has a clear timeline for closing down 2020/21 and preparing the draft financial statements
3. Develop a sustainable resourcing strategy, with appropriate skills and capacity, to address future reporting requirements, such as changing business ( e.g. group reporting) and technical reporting requirements (e.g. changes to CIPFA codes).

### **Potential to issue a Schedule 7 report - Local Audit and Accountability Act of 2014**

Schedule 7 report is where the auditor may make recommendations about actions that the auditor thinks the body should take in response to the findings of an audit. Statutory recommendations under Schedule 7 must be considered by the body and responded to publicly. They can direct the body to respond to specific shortcomings or failures; or assist in monitoring the body’s progress on specific issues. The auditor must also copy a schedule 7 recommendation to the relevant Secretary of State.

If we were to report under schedule 7, our recommendations would highlight the investment required by the Council to support its financial reporting function to close out the 19/20 audit, prepare the 20/21 accounts and support that audit, and prepare the 21/22 accounts and support that audit, in order to address the reporting timetable backlog by the end of 2022. We would highlight the need for a clear timetable, accountability and consequences (e.g. performance management, escalation to GP&L committee, further auditor reporting etc) to complete the work. We would also include the need to ensure

that actions taken were sufficient to put the financial reporting function on a sustainable footing for the future, rather than just tackling the immediate issues.