



Audit and Governance Committee agenda supplement

Date: Wednesday 1 February 2023

Time: 10.00 am

Venue: The Oculus, Buckinghamshire Council, Gatehouse Road, Aylesbury
HP19 8FF

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Report to Audit and Governance Committee

Date: 1st February 2023

Reference number:

Title: 2020/21 Accounts Update

Relevant councillor(s): N/A

Author and/or contact officer: David Skinner (S151)

Ward(s) affected: Not applicable

Recommendations: Members are requested to note the following:

External Audit progress report for 2020/21 Accounts (Appendix A) along with management overview in paragraphs 1.2 to 1.13.

Reason for decision: Not applicable

Executive summary

1.1 This report provides the Committee with an opportunity to consider the External Audit progress report for 2020/21 attached at Appendix A and summarised below: -

- i. Council – Considerable progress is made, however there is still significant work required as detailed in paragraphs 1.2 to 1.7.
- ii. Pension Fund – The 2020/21 audit is nearing completion and the 2021/22 audit is in progress with the anticipated completion of both the years by end of February 2023.
- iii. Housing Benefit – the 2020/21 audit is ongoing and expected to complete the final testing in February 2023.

Council Audit 2020/21

1.2 Substantial amount of work has been carried out on some of the Audit planning risks such as Pension Liability, Valuation of Land, Building and Investment properties and Opening Balances. Some further work is required in these areas which will be followed by the audit review.

1.3 Considerable work has been done on the hot review points and most of them have been resolved.

1.4 The key issue is around absolute values compared with the net figures on the 6 balances: Short term receivables, Long term debtors, Short term creditors, Long term creditors, Fees and Charges and Operating Expenditure

1.5 This issue of very high absolute balances is as a consequence of:

- i. the transactions as a result of managing all of the covid grant income and payments;
- ii. the golden staple and consequent realignment of budgets and associated actual income and expenditure in year and numerous journal entries to correct coding as staff settled into using SAP;
- iii. Collection Fund accounting which involved four different legacy Revenues and Benefits systems;
- iv. Passporting grants such as Dedicated Schools Grant to individual maintained schools.
- v. The audit regime is tightening nationally, and guidance is coming out during the audit resulting in additional requirements; and
- vi. legacy processes for balance sheet management.

1.6 We have developed and agreed an approach with the auditors to deal with the issues around absolute values. This is a positive move, however it still carries some risks around meeting the auditing standard requirements. This requires significant amount of work on all the six areas identified by the auditors to get to a stage which is acceptable for audit purposes. It is expected that the whole process of data cleansing followed by audit will take around four to five months which means that the completion of audit will take approximately six months.

1.7 Work has started to cleanse the data which has resulted in Operating Expenditure reducing from £2.1billion to £1.1billion and Fees and Charges income reducing from £289m to £204m.

1.8 Other councils are also delayed in the account's approval process with overall only about 50% being cleared on time. For reference Dorset and BCP are still outstanding for the 20/21 financial year.

1.9 This absolute gross value issue is not confined to 20/21 accounts and unfortunately will be a feature but on a decreasing basis across 21/22 and 22/23. Therefore, we need to

develop a methodology that allows GT to test and have assurance. We are already in the process of developing a communication and training plan to ensure correct coding first time is embedded as new ways of working to minimise use of journals.

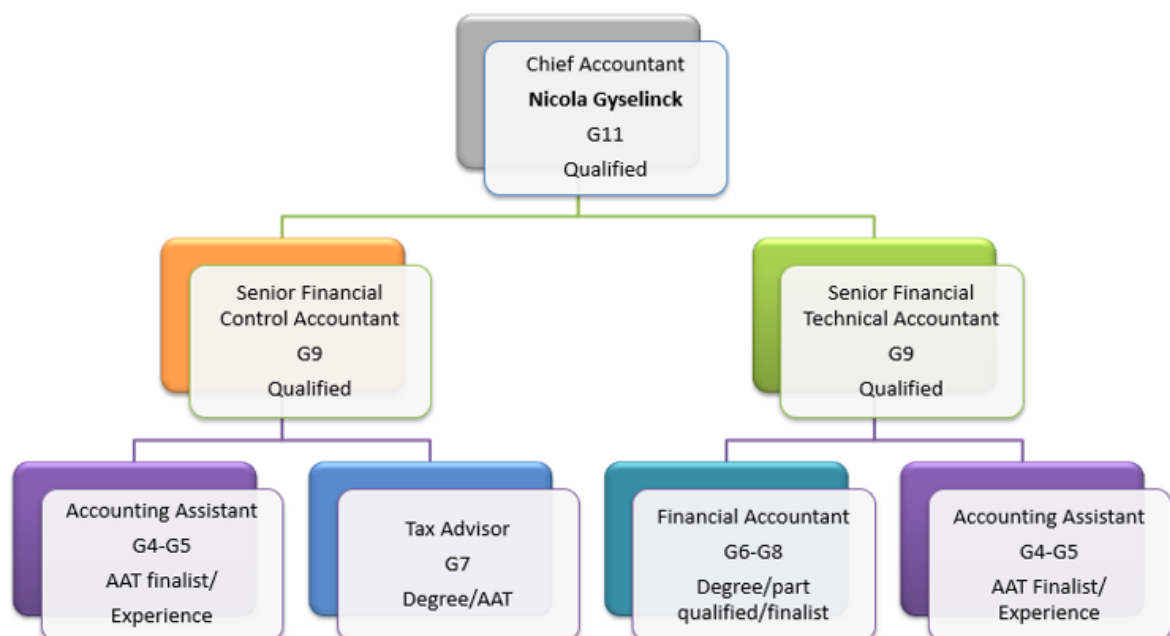
Resources

1.10 The newly appointed Chief Accountant started in November and has taken on responsibility of leading the audit process along with a dedicated team of 3 staff.

1.11 The Service Review for the closing team has addressed the challenges experienced in recent years as summarised below:

- i. Capacity: issues within closing team due to challenging recruitment environment.
- ii. Audit: additional testing and tighter audit regime resulting from new regulatory and auditing standards.

The new structure is built around developing a strong team, knowledge, experience, and resilience. The structure provides an opportunity to grow our own with a career pathway to attract and retain right candidates. The service review is complete and the recruitment process for vacancies has started. The capacity of the team will enhance once the recruitment is completed.



1.12 As highlighted in paragraphs 1.6 to 1.7, significant amount of work needs to be done to cleanse the data followed by audit testing. This will have significant resource implications both for the Council and the Grant Thornton.

1.13 We have explored various options to increase capacity, however this is challenging due to shortage of experienced accountants in the market and therefore we are going to

approach audit firms for additional capacity. This would potentially lead to additional cost for increasing the capacity and audit fees which will be managed through use of reserves.

Other options considered

1.14 Not applicable

Legal and financial implications

1.15 Not directly related to this report.

Corporate implications

1.16 Not applicable

Consultation and communication

1.17 Not applicable

Next steps and review

1.18 Not applicable

Background papers

1.19 Not applicable

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Section

Progress update

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Trust or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Progress update

Council audit

Our audit of the 2020/21 financial statements remains ongoing. We continue to have a number of concerns with regard to the quality of accounts and working papers presented for audit. We note that management have worked closely with us on the restatement of the accounts and continue to provide the information needed to the best of their ability given the legacy systems that they have inherited.

Our concerns relate to whether a number of balances presented for audit are suitable for audit. For example, the operating expenditure balance of £680m contains numerous debit and credit entries that result in an auditable balance of £2bn. Due to the large amount of contras we consider that even if we were to significantly increase our sample that the remaining population could contain material error. As such we have concluded that it is not possible to gain assurance over the balance as currently presented. We have presented our concerns to management who have developed an outline response to these matters. The response includes the removal of both debit and credit balances that do not form part of the final balance. We will work with management during the next few months to determine whether the response provides the assurance needed. We have provided more detail in Appendix A.

The methodology proposed by management will require considerable input by both management and ourselves as auditors. Given the unusual circumstances it is not possible to estimate when the audit will be completed. We note that the response lessens but does not entirely remove the risk of a modified audit opinion being given on the Council's financial statements. Due to the level of error noted in the financial statements and the matters highlighted above we have reduced the level of materiality applied. This will also increase our testing.

We note that the audit fee to date is c£460,000 subject to PSAA approval. If we continue with the audit the fee will be in excess of this amount.

We do not plan to commence our audit of 2021/22 until we have concluded the 2020/21 audit.

Pension Fund audit

Our audit of the 2020/21 pension fund audit is nearing completion. Due to the elapsed time from the initial audit we are revisiting the level of testing undertaken with regard to level 3 and level 2 investments. This reflects enhanced work procedures following changes in audit standards and regulatory inspection.

Our audit of the 2021/22 Pension Fund is in progress.

We anticipate completing both pension fund audits by 28 February 2023. There are no matters that we need to draw to members at present. It should be noted that we are prevented by statute from issuing an opinion on the pension fund until the Council's audit is finished and the opinion issued.

Auditors Annual Report

We have issued the Auditors Annual Report for 2020/21 and it is tabled with this paper for members attention.

Our work on the Auditors Annual Report for 2021/22 is ongoing. This will be issued to management as a draft in late February/early March and will be presented to the next Audit Committee.

Housing Benefits

Our audit work on the 2020/21 Housing Benefit claim is ongoing. We will complete our final testing in February. Our audit was initially paused on the advice of the Department for Work and Pensions as we were unable to gain assurance that the appropriate IT updates had been applied to the legacy housing benefit systems. We have confirmed with management that the Council is unable to resolve this matter. We have therefore recommenced our audit and propose to report this issue to the DWP, along with any other findings from our work.

We plan to start the audit of the 2021/22 Housing Benefit claim on completion of the 2020/21 claim.

Appendix A – Progress on 2020/21 Council financial statement audit

Council audit 2020/21

We have summarized below the work which we have completed to date our findings and the work which remains outstanding for each of the main balances in the draft accounts. We have categorized the work into 3 categories.

Areas where work is substantially complete pending review:

- Pension Liability – Our testing is substantially complete subject to review.
- Employee Benefit Expenditure – only testing of additional payroll samples to complete, no issues identified to date.
- Interest and Investment Income- a few more investment property income samples will be selected and tested, no issues identified to date.
- Depreciation, amortization and impairment- awaiting conclusion of PPE revaluations work to ensure revaluation loss is reasonable.
- Short Term investments and Short-Term borrowing- We need to check that the revised balances agree to confirmations and the errors which have been previously identified have been corrected.
- Long Term Borrowings - Our work is substantially complete subject to review.

Areas where further work is required but currently deemed reasonable for us to complete:

We have been able to agree the 2019/20 trial balances of each of the 5 councils to the individual financial statements and agreed to the opening trial balance of the Buckinghamshire Council (The unitary authority). We identified several adjustments in the opening balances work based on version 5 of the accounts which the council with agreed to amend. The most up to date set of account (version15) includes adjustments which we expected and other adjustments which we did not expect. The council has provided us with a working paper which explains the adjustments. From our review to date, we are satisfied with the nature of the adjustments, but further work needs to be completed before we can gain full assurance.

Property Plant and Equipment

- Opening Balances- We have identified errors including PPE classification issues, derecognition of assets in the opening balances instead of as in-year transactions, and revaluation reserve and accumulated depreciation balances which had not been brought forward.
- Additions: Our test to date has identified 1 error. An addition of £568 which relates to 2019/20 has been incorrectly included in the additions for 20/21.
- Disposals – We identified some schools which were converted to academies which have a total value of £12.7million have not been derecognized from the accounts. The authority has agreed to adjust for this error.
- Depreciation – Our work is substantially completed. We have not identified any issues from our work on depreciation.
- PPE Revaluation- From our test to date, we have identified a variance of £2.1m between our recalculated revaluation movement and Council’s calculation which is above triviality but below PM.
- Closing Balances: We have identified errors in assets which were incorrectly classified as assets under construction. The extrapolated error is £12.1 million, and the factual error is £4.3m. There were some vehicles, plant and equipment assets which were incorrectly classified as intangible assets. This results in a trivial error.

Appendix A – Progress on 2020/21 Council financial statement audit

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The following work remains to be completed for PPE:

- Testing of the adjustments on both the opening and closing balances for PPE between v1.5 and version 1.15 of the draft accounts
- Testing on additional samples selected for additions testing due to revised lower materiality.
- Testing of the assumptions used by the valuer for EUV assets and non-DRC schools.

Investment Properties - From our testing to date, we have identified that management didn't carry out an assessment to establish whether material changes in asset valuations occurred between the valuation date (31 December 2020) and 31 March 2021. We have estimated a potential understatement of £5.6m which is above triviality. We have also raised a control point for management to ensure that this is done in the future. The following work remains to be completed:

- Testing of additional investment property opening balances following the reduction in PM
- Obtaining and reviewing our auditor's expert (Montague Evans) view on the indices provided by Carter Jonas (management expert) for the movement in commercial and agricultural investment properties between 31 December 2020 and 31 March 2021.

Cash and Cash Equivalent- Following the revised balance for cash in version 1.15 of the accounts, we will retest the cash balance. The test carried out previously identified issues with some reconciling items which were incorrectly classified as debtors. Our work will also focus on testing those reconciling items.

Provisions – We are awaiting evidence from the Council to complete our testing.

Government Grants and Contributions- once received reconciliations splitting Grant income and Grant utilization as well as a schedule setting out grants were acting as an agent we can set out a testing strategy

Council Tax and NDR – we have had to update our testing in line with firm guidance which now includes reliefs testing and revised analytical procedures as part of collection fund testing once this has been completed will be reconciled to note 8

Interest expenditure testing- this was originally out of scope of our testing however as materiality has been revised down this will now need to be tested.

Precepts and levies - testing to be completed as part of collection fund work and reconciled to note 8 figures

Gains and losses on disposal of non-current assets - will be covered by our disposals testing which is still in progress.

Appendix A – Progress on 2020/21 Council financial statement audit

Council audit 2020/21

Areas where we have issues with the listings and so taking to Internal Panel for consideration.

There are 6 balances which the Council has provided population listings for which have very high absolute values compared with the net figures which has been disclosed in the accounts. The high absolute balances prevent us from developing an appropriate audit strategy as there remains a significant risk that errors may exist in the untested population. We do not consider we can get reasonable assurances that these balances are free from material misstatements. We are taking these six balances to a panel to determine whether we should qualify them or carry on testing them.

Short Term Receivables £94m

The short-term debtor balance has changed between v5 and v15 of the financial statements.

Our testing to date provides us with a small percentage coverage of the absolute population (10% for short term debtors excluding sundry debtors and 3% of sundry debtors). We have identified a factual error of £14.8m and an extrapolated error of £834k giving a total of £15.1m from the work which we have done to date.

There is a large absolute population which are due to collection fund debtors as shown in the table below. The Council has explained that the reason for this is that transactions were transferred from the collection fund systems of each of the four legacy councils into SAP which required a lot of entries. To get a 50% coverage of the absolute value, we will need to evaluate forty-three of the largest samples plus sample test the residual 50% if collection fund debtors can be removed and tested separately.

Due to the large amount of contras we consider that even if we were to significantly increase our sample that the remaining population could contain material error. As such we have concluded that it is not possible to gain assurance over the balance as currently presented. We have presented our concerns to management who have developed an outline response to these matters. The response includes the removal of both debit and credit balances that do not form part of the final balance. We will work with management during the next few months to determine whether the response provides the assurance needed.

Net £	Debits £	Credits £	Absolute £	% Debits within Absolute	% Credits within absolute	Description
94,724,496	709,193,103	-614,468,607	1,323,661,710	54%	-46%	With collection fund debtors
81,712,066	139,226,151	-57,514,084	196,740,235	71%	-29%	Without collection fund debtors

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Areas where we have issues with the listings and so taking to Internal Panel for consideration.

Long Term Debtors £100.2m

The analysis below shows a net value of long-term debtors as £100.2m compared with the total of the absolute balance of £153m. There are credits of £26million within the listing and debits of £126m. We cannot obtain reasonable assurance over this balance unless the Council cleanses the transaction. Due to the large amount of contras we consider that even if we were to significantly increase our sample that the remaining population could contain material error. As such we have concluded that it is not possible to gain assurance over the balance as currently presented. We have presented our concerns to management who have developed an outline response to these matters. The response includes the removal of both debit and credit balances that do not form part of the final balance. We will work with management during the next few months to determine whether the response provides the assurance needed.

Net £	Debits £	Credits £	Absolute £	% Debits within Absolute	% Credits within absolute
100,209,943	126,968,861	-26,758,917	153,727,778	83%	-17%

Short Term Creditors

Like debtors, the population listing for creditors as shown in the table below, has a high absolute balance of £379m compared with a net of £196m disclosed in the accounts. Currently, the Council has not been able provide a cleansed listing setting out the creditors balance.

We have tested sixty-five samples of short-term creditors and accrual excluding collection fund creditors. The total value of samples tested (£72m) represents 44% of the absolute value of the population of £164m per version 1.5 of the accounts. Our testing to date has identified a factual error of £299k and an extrapolated error of £862k. This gives a total error of £1.16m in the short-term creditor balance. Based on version 1.15 of the accounts, we will need to test thirty-five of the highest items which total £190m to gain 50% coverage of the absolute population and then test 50% of the residual balance.

Due to the large amount of contras we consider that even if we were to significantly increase our sample that the remaining population could contain material error. As such we have concluded that it is not possible to gain assurance over the balance as currently presented. We have presented our concerns to management who have developed an outline response to these matters. The response includes the removal of both debit and credit balances that do not form part of the final balance. We will work with management during the next few months to determine whether the response provides the assurance needed.

Net £	Debits £	Credits £	Absolute £	% Debits within Absolute	% Of credits within absolute
-192,920,857	93,307,336	-286,228,193	379,535,528	25%	-75%

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Areas where we have issues with the listings and so taking to Internal Panel for consideration.

Long Term Creditors

The value for long term creditors was £57,784k in version 15 of the accounts. This has been revised to £1.58m. The residual balance, £56m, has been moved to capital grants received in advance. See the table below for an analysis of the capital grants received in advance. The absolute value of £289m is high compared with the net amount of £56m. The proportion of debits is also high within the listing. To get 50% coverage, would need to test the ninety-eight largest samples plus sample test the residual 50%. As such we have concluded that it is not possible to gain assurance over the balance as currently presented. We have presented our concerns to management who have developed an outline response to these matters. The response includes the removal of both debit and credit balances that do not form part of the final balance. We will work with management during the next few months to determine whether the response provides the assurance needed.

Net £	Debits £	Credits £	Absolute £	% Of Debits within Absolute	% Of credits within absolute
-56,205,119	116,466,699	-172,671,818	289,138,517	40%	-60%

Fees and charges income £129,229k

Upon receipt of v1.15 of the accounts we noted the value of fees and charges had moved by a material amount at c£20m. We therefore requested a revised cleansed listings which reconciled to v1.15 of the accounts. We reviewed the listing and noted very large absolute balances compared to the net value and therefore large debit and credit populations see summarized below:

Our original sampling was largely uncompleted. However, of the original sample, 36 remained in the listing population with a total absolute value of £35.3m which represents only an approximate 12% coverage of the absolute balance as it stands. To illustrate the scale of the balance, to get 50% coverage of the absolute of this listing would require testing approximately the largest 280 transactions and further sample testing of the residual samples would still be required as well.

Due to the large amount of contras we consider that even if we were to significantly increase our sample that the remaining population could contain material error. As such we have concluded that it is not possible to gain assurance over the balance as currently presented. We have presented our concerns to management who have developed an outline response to these matters. The response includes the removal of both debit and credit balances that do not form part of the final balance. We will work with management during the next few months to determine whether the response provides the assurance needed.

Net £	Debits £	Credits £	Absolute £	% Debits within Absolute	% Credits within absolute
(129,228,967)	84,984,131	(214,213,098)	289,138,517	40%	60%

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Areas where we have issues with the listings and so taking to Internal Panel for consideration.

Operating expenditure

Upon receipt of v1.15 of the accounts we noted the value of other service expenditure had moved significantly c£130m. We therefore requested revised cleansed listings which reconciled to v1.15 of the accounts. We reviewed the listing and noted very large absolute balances compared to the net value. This was due to large debit and credit populations being contained in the net balance. We have summarised this in the table below.

	Net £	Debits £	Credits £	Absolute £	% Debits within Absolute	% Credits within absolute
Including HB expenditure	681,246,702	1,432,435,211	(751,188,509)	2,183,623,720	66%	34%
Excluding HB expenditure	585,602,694	1,334,341,282	(748,738,587)	2,083,079,869	64%	36%

The testing performed by the original audit team consisted of 142 samples with a total net value of £15,311,306, a total abs value of £44,351,168 constituting Dr value of £29,831,237 and Cr value of £14,519,931. We have not yet confirmed if any of the original samples (abs value £44,351,168) remain in the listing. However, even if this were the case this would only give total coverage of approximately 2% of the absolute balance. To achieve 50% coverage of the absolute balance we would need to test approximately (the largest) 800 transactions and then would still need to sample the residual.

Within the original testing there were 3 failed samples with factual error of £13,210 and extrapolated error over the original population of £12.97m which is above our performance materiality threshold.

Due to the large amount of contras we consider that even if we were to significantly increase our sample that the remaining population could contain material error. As such we have concluded that it is not possible to gain assurance over the balance as currently presented. We have presented our concerns to management who have developed an outline response to these matters. The response includes the removal of both debit and credit balances that do not form part of the final balance. We will work with management during the next few months to determine whether the response provides the assurance needed.



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