

## AUDIT AND STANDARDS COMMITTEE

16 January 2019

<b>Title: Preparation of 2018/2019 Annual Accounts &amp; External Audit</b>	
<b>Report of the Monitoring Officer</b>	
<b>Open Report</b>	<b>For Decision</b>
<b>Wards Affected:</b> All	<b>Key Decision:</b> Yes
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<b>Accountable Director:</b> Helen Seechurn	
<b>Accountable Strategic Director:</b> Claire Symonds, Chief Operating Officer	
<b>Summary</b> <p>The Council is required by the Accounts and Audit Regulations 2015 to publish its audited Annual Accounts by the 31<sup>st</sup> July each year. Last year 2017/18 was the first year in which the Council had to meet a tighter deadline, which was two months less than in previous years. The Council met this new deadline and published its accounts by the 31 July 2018. However, meeting this deadline remains a significant challenge for Councils and Auditors going forward.</p> <p>This report outlines the process, plan and timetable for preparing the Statement of Accounts for 2018/19 to enable the Council to discharge its statutory responsibilities and publish the audited accounts by the 31<sup>st</sup> July 2019.</p> <p>The report also considers the lessons that were learned from the 2017/18 audit process in order to ensure continuing improvements in the closing processes for the future.</p>	
<b>Recommendation(s)</b> <p>(i) That the Committee notes the preparatory work which has been undertaken by Officers to plan and prepare for the closure of the 2018/19 Statement of Accounts to enable the audited accounts to be published by the 31 July 2019.</p> <p>(ii) That the Committee notes the key deadlines and process.</p>	
<b>Reason(s)</b> <p>To advise members of the Audit and Standards Committee of the preparatory work and planning and timetable for which have been put in place to ensure that the Council achieve the statutory deadline of publishing the Annual Accounts by the 31 July 2019.</p>	

## **1. Introduction and Background**

- 1.1 The Accounts and Audit Regulations 2015 require that the Statement of Accounts for 2018/19 are prepared by the 31<sup>st</sup> May and audited by the Council's external auditors by the 31<sup>st</sup> July with the publishing of the audited accounts immediately following the audit.
- 1.2 These targets represent a significant a challenge for all Councils and external auditors to achieve with one month less for preparing the draft accounts and two months less for reporting the audited accounts. Last year, the Council met the new targets for the 2017/18 Statement of Accounts.
- 1.3 The audit of the annual accounts forms an important element of the overall financial control framework for a Local Authority. The process gives local taxpayers a public right of access to examine the Council's statement of Accounts and supporting records enabling them to hold to account the Council in relation to its spending and financial performance. This provides local electors with confidence that the Council is exercising proper stewardship over monies raised by the Council and that the Council is discharging its fiduciary responsibility to tax payers by achieving value for money in the disbursement of monies upon the services for which the Council is responsible.
- 1.4 Despite achieving the statutory deadlines in 2017/18, identifying improvements and changes which will enable the Council to continue to meet these challenging deadlines more comfortably going forward is a priority for the Council.
- 1.5 In order to ensure that the Council meets the statutory deadlines for 2018/19 the Council has:
  - reviewed and updated the Closing of Accounts timetable
  - reviewed the financial guidance issued to departmental staff involved in the closing process
  - carried out a staff workshop to identify what closing activities went well in the 2017/18 closing of accounts process and those which did not go so well, to identify potential improvements and changes to processes and identify areas of risk.
  - considered the issues identified by external audit arising from the closing of accounts process which were reported to the Authority in 2017/18.
  - reviewed the Statement of Accounts to declutter the statements and make more accessible to the reader and prepare an abbreviated version for the lay person.
- 1.6 This report updates members on all of the work that has been undertaken to ensure that the Council achieves the statutory deadlines in 2018/19.

## **2. Closing of Final Accounts Timetable & Guidance to Budget Managers**

- 2.1 The timetable is a key document in the closing of accounts process. It is essential that in order to achieve the tight deadlines for closing the final accounts that the Council has a timetable which identifies the activities, deadlines and individual staff

responsibilities which are key to deliver the audited Statement of Accounts by the deadline of the 31<sup>st</sup> July. The principle is that if every deadline within the timetable is achieved, then the ultimate deadlines will be achieved. If an activity does not meet the deadline then urgent management action has to be taken

- 2.2 A review has been undertaken of the Council's timetable and this has been updated to reflect the changes in staff responsibilities since 2017/18. As there has been a restructure which took place in 2018/19 within Finance it has been necessary to make changes to the timetable in relation to dates and to consider the allocation of activities and responsibilities amongst staff.
- 2.3 Consultation on the timetable has taken place with finance staff and departmental staff in relation to the deadlines and responsibilities in the draft timetable and their knowledge and information has been fully reflected.
- 2.4 Detailed financial guidance has been drafted for those staff in directorates who are involved in the closing of accounts process.
- 2.5 As this is an annual process, a series of training workshops has also been scheduled for new departmental Budget Managers and also as a refresher for those Budget Managers who have been through the process previously, but need an update on any changes. These workshops will take place between the 11 and 22 March to ensure all departmental and finance staff understand the activities and processes and to ensure they are clear on the deadlines by which they have to be completed.
- 2.6 BDO, the Council's new external auditor has advised that the records required list will be provided to the Council during January. A technical workshop has also been arranged for all finance staff to go through; the timetable, any changes to processes, the records required list and changes to accounting standards.
- 2.7 The key dates in the timetable are:-

<b>Activity</b>	<b>Deadline</b>
Interim Audit by BDO begins	4 February 2019
Interim Audit by BDO ends	22 February 2019
Timetable and Guidance issued	28 February 2019
Closing Workshops for Budget Managers and finance staff	11–22 March 2019
End of 2018/19 financial year	31 March 2019
Completion and Signature of Draft Accounts by S151	31 May 2019
Draft Accounts published & provided to BDO for audit	1 June 2019
BDO commence Final Audit	3 June 2019
Period for Public right to Inspect Statement of Accounts begins	3 June 2019
Period for Public right to Inspect Statement of Accounts ends	12 July 2019
Council receives ISA 260 from BDO	17 July 2019
Audit & Standards Committee considers ISA 260 Audited Accounts	* 31 July 2019
Chair signs Audited accounts confirming they have been approved	31 July 2019
Deadline for BDO to sign Audit Certificate	31 July 2019
2018/19 Statement of Accounts published	1 August 2019

\*date to be confirmed with Democratic Services

### **3. 2017/18 Closing of Accounts - Lessons Learned**

3.1 Following the completion of the 2017/18 Accounts, a workshop was convened with all staff in finance to review the processes which were undertaken to produce the 2017/18 Draft Statement of Accounts. In pursuit of continuous improvement, the workshop considered the processes and procedures which worked well in 2017/18 which should be continued and those which were problematic and need revision and improvement. The purpose was to build on the successful achievement of the new deadline by embedding the successful changes and by developing alternative arrangements to replace those changes which were not a success.

A number of areas were identified as having worked well in 2017/18 and these will be continued in 2017/18.

- The Council had a detailed timetable and guidance for Managers and Finance teams
- Effective team work took place between Finance, Budget Managers and Auditors
- Regular monitoring meetings took place to monitor progress against the timetable.
- The workshops provided enabled everybody to familiarise themselves with the process in advance enabling a better understanding the theory and outcomes required.
- Early engagement with the key stakeholders reduced the time taken to provide information
- Better in year financial monthly monitoring took place enabling an early view of the Revenue Outturn
- Accruals based on reasonable estimates and over analysis was avoided
- A better standard of quality working papers were prepared leading to less audit queries being requested
- Coordination of audit responses more organised
- The audit started earlier so there was better access to schools

#### **Activities/ procedures/ processes that could be improved**

- Balance sheet reconciliation
- Receipting process (over/under)- clear out old PO's/Accruals
- Schools balances
- A process for ensuring all Balance Sheet Accounts has been designed and is in operation.
- A proposal to review all under and over receipting and therefore accrual and remove all old transactions has been put designed and this is due to start in January.

Work has been put in place to strengthen the procedures for collecting data from schools in a timely manner so that more up to date data can be included in the draft accounts.

- 3.2 The Auditors' report (ISA260) on the 2017/18 accounts identifies a number of areas where the Council can improve, in order to improve the closing process.

### **Risks identified in the Auditors Report ISA 260**

- 3.3 It was identified that the Valuer omitted providing a value for one of the properties on the asset list and therefore an asset value was not included in the draft accounts. This was adjusted in the final audited accounts.
- 3.4 The auditors also identified some issues with ownership and existence of assets. This arose because one asset which had been disposed of in 2016/17 still remained in the asset register and was shown in the draft accounts although the school had received Academy status in 2016/17 which meant that the asset should have been removed. This was adjusted in the final audited accounts. It was also noted that there were weaknesses in the processes and procedures to maintain accurate valuations of some assets.
- 3.5 The auditors also identified an issue in that an estimate of school balances was £1.3m different from that included in the draft accounts. This was because the draft accounts had been prepared based on the schools quarter 3 returns. This was adjusted in the final audited accounts.

### **Recommendations made in the ISA 260 for action in 2018/19**

- 3.6 **Recommendation 1** was made in relation to segregation of duties between the raising of manual journals and the authorisation. Whilst the Council's systems have embedded arrangements so that all journals have to be separately raised and authorised. The arrangement is such that the Council is not able to evidence this by reporting from the system as this is carried out by workflow and the data is not retained beyond a month. Consequently, the Council was not able to provide this evidence to the auditors during the audit.

*The Council has put in place arrangements in 2018/19 to capture this data manually on a monthly basis to provide the evidence to auditors in future. This will also enable the Authority to routinely review manual journals which have been raised and approved to ensure that no override of the segregation of duties control is taking place or has taken place.*

- 3.7 **Recommendation 2** was made in relation to Related Party Declarations. It was identified during the 2017/18 audit that two declarations had not been received from Councillors. The noted that there is therefore a risk that conflicts of interest are not identified. This arose because two councillors who were not standing for re-election did not return their forms. The auditors recommended that the process of collecting Related Party Declaration is started earlier to enable more time for collecting these returns.

*The Authority has brought forward the date in the 2018/19 closing of accounts timetable for the collecting of Related Party Declarations from Members and Officers which it is hoped will prevent this occurring in future.*

- 3.8 **Recommendation 3** recommends that a quality check of assumptions and the accuracy of the valuation report is carried out. This was concluded because the audit identified an error in the valuation report by the valuer with part of an asset

being omitted from a value provided in the valuation report. The external auditor recommends that a sample check of the valuer's report and valuer's assumptions is carried out by the Council. They also noted an improvement in this area over previous years.

*The Council has requested that the valuer undertakes an analysis of the changes in the values between 2017/18 and 2018/19 and provides an explanation for the changes in values for each asset and any change in their assumptions as part of their report. The Council will sample check these changes and values and assumptions and discuss these with the valuer.*

- 3.9 Recommendation 4** this recommended that a stringent review is carried out in relation to the Fixed Asset Register (FAR) to confirm the existence assets and accuracy of asset data so that the FAR can be updated and the valuers provided with accurate floor area data. It is also recommended that the data in valuers report is reviewed.

*The Capital team has already met with the Chief Valuer in My Place to request a complete review of Assets and Asset data and requested that this is signed off by a Senior Officer in My Place to confirm that the data has been checked and is accurate. The Capital team will also request the Legal Department to provide independent confirmation of all acquisitions and disposals, to ensure all changes to the asset portfolio and check assets to deed packets. The data in the 2018/19 valuers report will be reviewed when received.*

## **4 Financial Implications**

- 4.1 The financial implications are considered throughout this report.

## **5 Legal Implications**

- 5.1 The Council is required by the Accounts and Audit Regulations 2015 to publish its audited Annual Accounts by the 31<sup>st</sup> July each year.

## **6. Other Implications**

- 6.1 **Risk Management** – The risk management implications are identified in the body of the report
- 6.2 **Customer Impact** – There are no customer impact implications arising from this report.

**Public Background Papers Used in the Preparation of the Report:**2017/18 External Audit Report (ISA 260) report.