

AUDIT & GOVERNANCE COMMITTEE

30th March 2017

Report of the Director of Finance

FINAL ACCOUNTS 2016/17 – ACTION PLAN

Purpose

To provide an outline of the corporate requirements that will need to be achieved in order to produce the Council's Annual Statement of Accounts for 2016/17 (including deadlines but not including detailed responsibilities) and to obtain corporate commitment to the action plan.

Recommendations

That:

- 1. the target of 26th May 2017 for closure of the final accounts and production of the Draft Statement of Accounts for 2016/17 be approved;**
- 2. staffing resources be committed to the provision of appropriate information and support in order to meet the published timescales and the Committee receive progress updates (if required);**
- 3. Corporate Management Team (CMT) receive a fortnightly update until completion of the audit; and**
- 4. the Audited Statement of Accounts be presented to the Audit & Governance Committee on 27th July 2017.**

Executive Summary

The Accounts and Audit Regulations 2015, require that the Draft Statement of Accounts be produced by 30th June and require approval of the final audited accounts by the Audit & Governance Committee of the Council ('those charged with Governance') before 30th September. From 2017/18 there will be a legal requirement to produce the Draft Statement of Accounts by 31st May each year, and have them audited and approved before 31st July.

This earlier deadline has been known for some time and as such, for production of the statutory accounts for 2014/15 and 2015/16, a deadline for production of 31st May was set and achieved in most respects. As part of the 2015/16 audit, the External Auditors commented that the Finance Team are in a good place to achieve the earlier preparation of the accounts in future in line with the statutory requirement to inform the public earlier.

This year is the final opportunity to make sure appropriate procedures are in place to ensure that the above deadlines are met. As such, a full dry run has been planned for the closedown and preparation of the 2016/17 draft accounts by 26th May 2017, an earlier audit (commencing 12th June 2017) with the audited accounts to be approved by the Audit and Governance Committee before the end of July 2017.

The key issues affecting the achievement of these deadlines are detailed in **Appendix A**. The action plan identifies key processes and milestones in achieving the statutory requirement.

The way the Council prepares and reports its accounts (including professional reporting standards and statutory timetables) is a key element within the Councils' External Auditor's, (Grant Thornton - GT) assessment of the Council performance within the Annual Audit Letter.

The action plan is a key element in the process to deliver the Council's final accounts in compliance with legislation and maintain a high quality standard.

Key milestone dates will be regularly reviewed / monitored to achieve deadlines with material variances reported to CMT and Members (with proposed remedial actions). It is proposed that CMT receive an update every 2 weeks until completion of the audit.

The information provided (detailed in **Appendix B**), although not comprehensive, highlights information that will need to be supplied in order to meet the deadline.

Key milestones – Provisional Dates:

- Completion of the draft accounts by 26th May 2017;
- Detailed management quality assurance review by 9th June 2017;
- Submission to Grant Thornton (and to Members) on or before 9th June 2017;
- Report to Audit & Governance Committee on 27th July 2017;
- Latest publish date 31st July 2017.

Consideration and approval of this report is a key control and evidence of the Council's plans for the closedown and production of its accounts in compliance with statutory requirements.

Future Changes

The Accounts and Audit Regulations 2015 have incorporated the changes to statutory reporting deadlines included in the Government Local Audit and Accountability Act 2014. The Act sets out the vision for the new local audit framework, and contains additional measures which are complementary to existing initiatives to increase transparency and enable local scrutiny of public bodies.

The Government's view is that earlier publication of the accounts would enhance authorities' accountability to local residents, and assist their own financial management by providing earlier assurance on the previous year's financial outturn. Local authorities are a significant component of the Government's Whole of Government Accounts, and the current local government timetable is one barrier to bringing forward the publication date of those accounts.

The Government believes that the disparity between the timetables for local government and other parts of the public sector justifies a reconsideration of the current dates.

The two key changes in the regulations are:

- An earlier timetable for the preparation and publication of the statements of accounts for authorities; and
- Reform of the rules on the exercise of the public's rights to inspect the accounting records and to put objections and questions to the auditor.

The Regulations bring forward the existing dates of **30 June and 30 September to 31 May and 31 July as from the accounts for 2017/18** for accounts being signed and certified by the Responsible Financial Officer and then approved and published. This period of notice is intended to give authorities time to make the necessary changes in their processes and auditing firms time to adjust their business models accordingly. But it is hoped that authorities will move to the new timetable as soon as they can; some indeed already comply.

For 2016/17 the Council plan to bring forward the completion date for the Statutory Accounts – with a target completion of 26th May in line with the new regulations.

Legal and Risk Implications

The Council has a statutory duty to prepare the Draft Statement of Accounts by 30th June 2017.

There is a risk that if the Council is not sufficiently pro-active, the Council's Statement of Accounts may not remain compliant with both the Code of Practice on Local Authority Accounts and International Financial Reporting Standards (IFRS) which would result in a potential delay or criticism over the production of the Accounts and potentially a qualified audit opinion.

The following top level risks have been identified. The full details are contained within the covalent risk register.

Risk No	Description of Risk	Likelihood Impact	Action Required to Manage Risk
1	Further research reveals the new requirements of either the Code of Practice or IFRS to be more complex and time consuming than initially thought.	M H	An early start, adequate research, adequate initial resources, sufficient resource/budget provision for contingencies
2	Incorrect interpretation of changes in either the Code of Practice or IFRS	M H	Adequate training, sufficient resources. Ensure all reasons for actions, inclusions and exclusions, are fully documented and agreed with External Audit.
3	Guidance by CIPFA changing possibly causing delays	M H	Regular review and rescheduling of project timetable
4	Delay in receiving information from external parties / contractors	M H	Ensure regular contact with all concerned and continually monitor completeness of the information provided
5	Inadequate training	L M	Research available training, ensure all relevant staff attend, training budget to be adequate
6	Failure to identify all leases	L M	Ensure staff understand exactly what is involved / process to outline the requirements
7	Key staff leaving	L M	Ensure there are sufficient skills within the team to cover

Resource and Value for Money Implications

There are no financial implications arising from this report.

A significant amount of work will need to be undertaken during the period March through to early June to ensure completion of the Financial Statements by 26th May and submission to the external auditors by 9th June. There is a high risk of this deadline not being achieved should insufficient resources be directed towards the achievement of this goal – deadlines / key milestones will be closely monitored.

Report Author

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Background papers	Accounts and Audit Regulations 2015
	Code of Practice on Local Authority Accounting in the United Kingdom (2016/17) based on IFRS

Key Issues in the Production of the Statement of Accounts

One of the main ways a Local Authority communicates its financial performance to local stakeholders and the wider community is through its published financial statements.

The Accounts and Audit Regulations 2015 require that the Draft Statement of Accounts be produced by 30th June, and require approval of the final audited accounts by the Audit & Governance Committee of the Council ('those charged with Governance') before 30th September. This was successfully achieved for the 2015/16 financial year with draft accounts being prepared by the 31st May 2016 and audited accounts approved by the Audit and Governance Committee at its meeting on 22nd September - in compliance with the statutory deadline.

Between completion of the draft statement in May and the conclusion of the on-site audit in July, a substantial amount of work will be required liaising with the external auditors to ensure an unqualified audit report.

Following the completion of the 2015/16 audit the only amendments to the Draft Statement of Accounts were minor and were only to enhance the disclosure notes – no change to the primary statements.

To meet the necessary deadlines, the closure process for 2015/16 has been reviewed to identify any lessons to be learned for future years.

The main issues affecting the closure of accounts for 2015/16 included:

- the need for corporate ownership of the process;
- reliance on staff in Directorates and third parties who have other priorities;
- the need for key officers (lead by Corporate Finance) to focus on the achievement of critical deadlines, in the face of and in preference to other competing priorities;
- the need to check/validate creditor accruals (and avoid large numbers of reversals where evidence cannot be provided) – it would aid timely completion of the process if accruals were processed by Managers in compliance with laid down parameters (i.e. receipt of goods/services **before** 31st March);

Commitment will be required to ensure that appropriate time and staffing resources will be focussed on the achievement of the key tasks within all directorates.

A planning meeting has already been held with the Audit Lead from Grant Thornton to discuss the draft timetable of the year end process (**Appendix C**) with further meetings arranged prior to the commencement of the onsite audit of the accounts to discuss progress to date.

A detailed year end timetable has been prepared (**attached at Appendix B**) and communicated; ensuring tasks are allocated, in the right sequence, to named individuals. The timetable will include a firm cut-off date for accruals and practical details, such as publication and committee deadlines.

It is essential that there is a review at the end of closedown to highlight any lessons to be learned for next year. Equally vital is clear supporting documentation and an audit trail. These will not only help in the current year audit process but will be a sound base for future years.

A risk management approach is essential when resources are limited. The focus will be on known areas of risk based on past experience. A summary of issues from the 2015/16 closedown with material delays are detailed below.

An escalation process will be in place if it is evident that critical tasks are slipping – together with fortnightly updates to CMT. There is still some room for development to ensure an efficient closedown for 2016/17.

2015/16 - Significant Issues

Item	Issue	Proposed Solution / Action Already taken	Action
Manual Accruals	A number of manual accruals were received after the deadline and following identification by Accountant (i.e. not identified proactively by budget managers) – improvement needed as any late or missed accruals could delay the process and create additional work	By 31/3/17, Directorates will be asked to ensure that where goods/services have been received the majority of orders are 'goods receipted' within e-financials, thereby generating 'auto-accruals' on 1/4/17 The minimum level for manual accruals will be £5k (as set by Executive Director Corporate Services). However, should material accruals have been missed (i.e. over £5k) then the Service Accountant must be advised and appropriate action taken	ALL
Related Party Transactions	Again - Delayed return of some signed statements.	Requirements for any remaining Members to be contacted in person at Council/Committee meetings - for sign off by 30/4/17 at the latest.	Solicitor

A flexible 'teamwork' approach to make the most of scarce staff resources will be implemented, if necessary. Agreed variations to the flexible working policy or overtime pay (under the discretion of the Director of Finance) to speed up the closure of accounts would be considered as well as the need to bring in contract staff.

System weaknesses can cause delays and frustrations and appropriate contingency support will be essential, should problems arise.

Procedures have been in place for a number of years to ensure that key reconciliations are performed on a monthly basis during the year and centrally managed suspense or bank control accounts are cleared regularly. A full review of all working papers has been carried out with key staff during 2016/17 in preparation for the 2016/17 closedown.

The continued requirement to prepare accounts under IFRS will require a well thought-out approach to the use of estimates and de minimus levels for year-end accruals.

This has already been discussed and agreed with Grant Thornton during the planning meeting held in January 2017 with further planning meetings scheduled during the coming weeks to communicate progress and discuss any issues that may arise.

The aim should be to provide appropriate information to enable the efficient closedown without the need to re-open the accounts for late / omitted items i.e. a 'get it right first time' approach. Managers should make every endeavour to include appropriate accruals, temporary reserves and retained funds and provide the required information in a timely manner.

Knowing the previous year's outturn position earlier will help inform not only the current year's financial performance monitoring but the forthcoming year's budget strategy.

It could also further boost confidence in the Council's financial management - the timeliness and accuracy of the financial statements and the supporting records form part of the auditor's assessment within the Annual Audit Letter.

Appendix B

Ref	CORPORATE REQUIREMENTS	LEAD OFFICER	DEADLINE
	FINAL ACCOUNTS 2016/17		
1	Temporary Reserve / Retained Fund information	ALL	14/04/2017
2	Review all outstanding orders and delete where necessary	ALL	03/03/2017
3	All "goods receipts" should be on e-financials by 31/03/17, with evidence held by the Service Departments, in order to ensure 'auto-accruals' are generated. (It is recommended as many as possible done by 03/03/17)	ALL	31/03/2017
4	Deadline for approved manual accruals. (ie goods need to be received by 31/03/17.) Refer to year end guidance	ALL	07/04/2017
5	Staff Holiday and Flexi Leave entitlement as at 31/03/17	ALL	07/04/2017
6	Manual accruals to be kept to a minimum, with EDCS approval/authorisation only. The minimum level for manual accruals will be £5,000. (However, should material accruals have been missed (i.e. over £5,000) then the Directorate Accountant must be advised and appropriate action taken)	ALL	07/04/2017
7	Notify all stock holders of the need for stocktakes to be carried out at 31/03/17 and information returned to accountancy	ALL	05/04/2017
8	Petty Cash imprest reconciliation. A reminder of the need to complete returns at 31/03/17 will be issued	ALL	05/04/2017
9	IT stock purchases and disposals (hardware and software) information	DTCP	05/04/2017
10	Bad debt information:	DF	07/04/2017
	e-financials Sundry Debtors and overpayments	DF	
	Homelessness and Housing Rents	DHH	
11	Completion of asset acquisitions / disposals / revaluations / impairment and production of the asset register certified by qualified valuer	DAES	Draft by:
			01/04/2017
			Final Certified by:
			07/04/2017
12	All reconciliations to be complete and returned to accountancy; debtors, benefit, HAA/mortgages, rent, car loans, rent allowance etc. (monthly reconciliations should be completed during the year)	ALL	07/04/2017
13	HAA SOCH Mortgage principal repayment information	DF	07/04/2017
14	Related Party Transaction information. Requirement to be sent by 21/03/17 - Approach at Committee if delayed	EDCS	07/04/2017
		S&MO	
15	Housing Capital salaries detailed by capital project	DAES	07/04/2017
16	Managers confirmation of continued existence and responsibility for assets	ALL	07/04/2017

Ref	CORPORATE REQUIREMENTS	LEAD OFFICER	DEADLINE
	FINAL ACCOUNTS 2016/17		
17	Information for completion of DWP and Subsidy estimated claims from benefits	Head of Benefits	07/04/2017
18	Sale of council house enhancement information (Reg 14)(final quarter)	DAES	07/04/2017
19	Improvement grant reconciliation	DAES	07/04/2017
20	Collection fund information (NDR3)	EDCS	21/04/2017
		DF	
21	FRS17 Pension information from SCC Pension Fund	SCC	21/04/2017
22	Review Code of Corporate Governance and prepare Annual Governance Statement	Head of Internal Audit	28/04/2017
23	Review grant estimates (Benefits) / comparison to actual submissions	Head of Benefits	28/04/2017
24	Review potential post balance sheet events / impact on accounts	ALL	Up to 31/07/17

Audit Planning Timetable 2016/17

Date / Deadline	Completion of:	
23/01/17	Interim Visit (9 days) – walkthrough and early testing	
27/01/17	Audit Planning Meeting / requirements (following changes to code, financial analysis, working papers & format, use of estimates etc) key dates to be agreed with Grant Thornton	
Feb/ Mar 2017	Grant Thornton Year end Workshops	
22/03/17	Audit Planning Meeting / requirements	
30/03/17	Opinion audit plan to Audit & Governance Cttee	
26/05/17	Draft Statement of Accounts preparation	
2 weeks	Quality assurance	
09/06/17	Submission of Accounts (to GT / Members)	
09/06/17	High Level Audit Plan for 2016/17 Audit confirmed (for planning / management purposes)	
Early June	Engagement Lead review	
12/06/17	On Site Audit Commences (prepare working papers / reconciliations / quality assurance process) (DM)	
16/06/17	Weekly Meeting with Audit Manager (including emerging Governance report issues) - issues to date documented in one logical list i.e. no repeated issues	Accountants / Key Officers to be available for Auditor questions by appointment
23/06/17	Weekly Meeting with Audit Manager (DM/WG)	
30/06/17	Weekly Meeting with Audit Manager (DM/WG)	
07/07/17	On Site Audit Concludes (the statement will be changed, as necessary, as the audit proceeds) - Weekly Meeting with Audit Manager (DM/ANO)	
Weekly	Draft list of audit amendments / issues received (subject to Engagement Lead review)	
14/07/17	Final list of audit amendments / issues received (after Engagement Lead review)	
By		
14/07/17	Close out meeting (with Engagement Lead review)	
14/07/17	Amended Statement of Accounts prepared	
14/07/17	Audit Findings Report received	
27/07/17	Audit Findings Report to Audit & Governance Committee	
27/07/17	Sign Off	
31/07/17	Publish at latest	