

# AUDIT & GOVERNANCE COMMITTEE

29<sup>th</sup> March 2012

## Report of the Deputy Director Corporate Finance, Exchequer & Revenues

### FINAL ACCOUNTS 2011/12 – 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 2011/12 (including deadlines but not including detailed responsibilities) and to obtain Corporate commitment to the action plan.

#### Recommendations

##### That:

1. **the target of 15<sup>th</sup> June 2012 for closure of the final accounts and production of a draft statement for 2011/12 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); and**
3. **the Statement be presented to the Audit & Governance Committee on or around 20<sup>th</sup> September 2012 (or the contingency date of 27<sup>th</sup> September 2012).**

#### Executive Summary

The Accounts and Audit Regulations 2011, require that the statement of accounts be produced by 30<sup>th</sup> June and require approval of the final audited accounts by the Audit & Governance Committee of the Council ('those charged with Governance') before 30<sup>th</sup> September.

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 Audit Commission's 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).

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 15<sup>th</sup> June 2012;
- Detailed management quality assurance review by 28<sup>th</sup> June 2012 ;
- Submission to Audit Commission (and to Members) on or before 30<sup>th</sup> June 2012;
- Report to Audit & Governance Committee on or around 20<sup>th</sup> September 2012 (with a contingency date of 27<sup>th</sup> September 2012);
- Latest publish date 30<sup>th</sup> September 2012;

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

### Legal and Risk Implications

The Council has a statutory duty to prepare the Draft Statement of Accounts by 30<sup>th</sup> June 2012.

There is a risk that if the Council is not sufficiently pro-active, the Council's Statement of Accounts may not remain IFRS compliant 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.

<b>Risk No</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Action Required to Manage Risk</b>
<b>1</b>	Further research reveals the new requirements of IFRS to be more complex and time consuming than thought initially	<b>M H</b>	An early start, adequate research, adequate initial resources, sufficient resource/budget provision for contingencies
<b>2</b>	Inadequate training	<b>L M</b>	Research available training, ensure all relevant staff attend, training budget to be adequate
<b>3</b>	Failure to identify all leases	<b>L M</b>	Ensure staff are trained and understand exactly what is required. Explore all sources thoroughly
<b>4</b>	Key staff leaving	<b>L M</b>	Ensure there are sufficient skills within the team to cover

<b>5</b>	Incorrect interpretation of changes in IFRS	<b>M H</b>	Adequate training, sufficient resources. We have to comply with the new Code which has been prepared by CIPFA. Ensure all reasons for actions, inclusions and exclusions, are fully documented.
<b>6</b>	Guidance by CIPFA changing possibly causing delays	<b>M M</b>	Regular review and rescheduling of project timetable

### 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 April and early May to ensure completion of the Financial Statements by 15<sup>th</sup> June. There is a high risk of this deadline not being achieved should insufficient resources be directed towards the achievement of this goal – deadline / key milestones will be closely monitored.

### Report Author

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<b>Background papers</b>	Accounts and Audit Regulations 2011
	Implementation of International Financial Reporting Standards – Progress Report, Audit & Governance Committee 21 <sup>st</sup> October 2010
	Implementing International Financial Reporting Standards (IFRS), Audit & Governance Committee 29 <sup>th</sup> April 2009
	Revision and consolidation of the Accounts and Audit Regulations 2003 (SI 2003 No 533) as amended consultation (January 2011)
	Code of Practice on Local Authority Accounting in the United Kingdom (2011) 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 2011, require that the statement of accounts be produced by 30<sup>th</sup> June and require approval of the final audited accounts by the Audit & Governance Committee of the Council ('those charged with Governance') before 30<sup>th</sup> September. This was successfully achieved for the 2010/11 financial year with draft accounts being prepared by the 30<sup>th</sup> June 2011 and audited accounts approved by the Audit and Governance Committee, at its meeting on 22<sup>nd</sup> September - in compliance with the statutory deadline.

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

To meet the necessary deadlines, the closure process for 2010/11 has been reviewed to identify any lessons to be learned for future years – including the actions recommended by the Audit Commission within the Annual Governance Report (attached at **Appendix D**).

The main issues affecting the closure of accounts for 2010/11 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** 30<sup>th</sup> March);
- The need to ensure that payroll details are properly checked to HR records on a regular basis and that evidence of the check is being properly maintained.
- The introduction of a systems control to require service managers to confirm continued existence and responsibility for assets.

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

A planning meeting has already been held with the Audit Commission to discuss the draft timetable of the year end process (**Appendix C**) with further meetings arranged prior to the commencement of the on-site 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 time. 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 2010/11 closedown with material delays are detailed below.

An escalation process will be in place if it is evident that critical tasks are slipping. There is still some room for development to ensure an efficient closedown for 2011/12.

### 2010/11 - Significant Issues

Item	Issue	Proposed Solution / Action Already taken	Action
Manual Accruals	The majority 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 30/3/12, Directorates will be asked to ensure that the majority of orders are 'goods received' within e-financials, only where goods/services have been received, thereby generating 'auto-accruals' on 1/4/12  The minimum level for manual accruals will be £5k (as set by CDR). However, should material accruals have been missed (i.e. over £5k) then the Service Accountant must be advised and appropriate action taken	ALL
Asset Register / Valuations / Disclosures	Delay in finalisation of valuations	Meetings held with Audit Commission to agree date and basis of valuations prior to commencement of awarding contract for valuations work with ongoing reviews. Earlier deadline for return of valuations agreed. A regular review / reconciliation will be carried out as part of the quality control / monitoring process.	DD Corporate Finance / Chief Accountant
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 30/4/12 at the latest.	Solicitor
Transition to IFRS based Accounts	There were problems with the transition process in particular with the identification of Finance Leases	Any proposal to enter into a lease agreement has to be authorised by the Corporate Director of Resources which ensures that any necessary information is acquired early	

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 Corporate Director - Resources) 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 to be cleared regularly.

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

This has already been discussed and agreed with the Audit Commission during the planning meeting held on 26<sup>th</sup> January 2012 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 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	<b>CORPORATE REQUIREMENTS – FINAL ACCOUNTS 2011/12</b>	<b>DIRECTOR/ DD/AD</b>	<b>DEADLINE</b>
1	Temporary Reserve / Retained Fund information	ALL	09/03/2012
2	Review all outstanding orders and delete where necessary	ALL	09/03/2012
3	Postal Franker Reading / Costs	DD AE	Close of Business 30/03/12
4	All "goods receipts" should be on e-financials by 30/03/12, with evidence held by the Service Departments, in order to ensure 'auto-accruals' are generated. (It is recommended as many as possible done by 16/03/12)	ALL	31/03/2012
	Deadline for approved manual accruals. (ie goods need to be received by 31/03/12.) Refer to year end guidance	ALL	11/04/2012
5	Manual accruals to be kept to a minimum, with CD-R 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	11/04/2012
6	Staff Holiday and Flexi Leave entitlement as at 31/03/12 (balances to be obtained from Tensor)	ALL (sign off confirmation)	11/04/2012
7	Notify all stock holders of the need for stocktakes to be carried out at 31/03/12 and information returned to accountancy	ALL	04/04/2012
8	Petty Cash imprest reconciliation. A reminder of the need to complete returns at 31/3/12 will be issued	ALL	04/04/2012
9	IT stock purchases and disposals (hardware and software) information	AD BP	04/04/2012
10	Bad debt information: e-financials Sundry Debtors and overpayments Homelessness and Housing Rents	CD-R DD CFER DD Hsg	11/04/2012
11	Completion of asset acquisitions / disposals / revaluations / impairment and production of the asset register certified by qualified valuer	DD OS	Draft by: 30/03/2012 Final Certified by: 30/04/2012
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	11/04/2012
13	HAA SOCH Mortgage principal repayment information	DD CFER	11/04/2012
14	Related Party Transaction information. Requirement to be sent by 23/03/12 / Approach at Committee if delayed	CDR S&MO	11/04/2012
15	Housing Capital salaries detailed by capital project	DD AE	11/04/2012
16	Managers confirmation of continued existence and responsibility for assets	ALL	13/04/2012
17	Information for completion of DWP and Subsidy estimated claims from benefits	Head of Benefits	13/04/2012
18	Sale of council house enhancement information (Reg 14)(final quarter)	DD AE	13/04/2012
19	Improvement grant reconciliation	DD AE	13/04/2012
20	Collection fund information (NNDR3)	DD CFER	30/04/2012
21	FRS17 Pension information from SCC Pension Fund	SCC	30/04/2012
22	Review Code of Corporate Governance and Prepare Annual Governance Statement	Head of Internal Audit	18/05/2012
23	Review grant estimates (Benefits) / comparison to actual submissions	Head of Benefits	30/04/2012
24	Review potential post balance sheet events / impact on accounts	ALL	Up to 30/09/12

## Audit Planning Timetable 2011/12

<b>Date / Deadline</b>	<b>Completion of:</b>	
Jan 2012	Audit Commission Workshops	
26/01/2012	Audit Planning Meeting / requirements (following changes to code, financial analysis, working papers & format, use of estimates etc) key dates to be agreed with Audit Commission	
20/03/12	Quarterly meeting with Chief Executive / Deputy Chief Executive (Corporate Director Resources)	
29/03/12	Opinion audit plan to Audit & Governance Cttee	
w/c 16/04/12	Audit Planning Meeting / requirements	
10/05/12	Audit Planning Meeting / requirements (including detailed Audit Plan for 2011/12 Audit from Audit Commission)	
15/06/2012	Draft Statement preparation	
2 weeks	Quality assurance	
<b>28/06/2012</b>	<b>Submission of Accounts (to Audit commission / Members)</b>	
28/06/2012	Detailed Audit Plan for 2011/12 Audit confirmed (for planning / management purposes)	
02/07/2012	On Site Audit Commences (prepare working papers / reconciliations / quality assurance process)	Leave Restricted - Accountants / Key Officers to be available for Auditor questions
06/07/2012	Weekly Meeting with Audit Manager	
13/07/2012	Weekly Meeting with Audit Manager	
20/07/2012	Audit Amendments / issues to date documented	
27/07/2012	Audit Amendments / issues to date documented	
20/07/2012	Appointed Day	
03/08/2012	On Site Audit Concludes (the statement will be changed, as necessary, as the audit proceeds) - Weekly Meeting with Audit Manager	
<b>06/08/2012</b>	<b>Final list of audit amendments / issues received</b>	
17/08/2012	Amended Statement of Accounts prepared	
16/09/2012	Annual Governance Report received	
20/09/2012	ISA260 - Report to those charged with governance (Audit & Governance Committee 29/09/11)	
20/09/2012	Audit & Governance Committee	
20/09/2012	Sign Off	
30/09/2012	Publish at latest	



Extract from Audit Commission Annual Governance Report 2010/11  
(as presented to the Audit & Governance Committee 22<sup>nd</sup> September 2012)

### Quality of your financial statements

**14** I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statement disclosures.

**15** Table 4 contains the issues I want to raise with you. None of these issues are of major concern and prevent me issuing an unqualified opinion.

Table 4: **Accounting practices, policies and estimates and financial statement disclosures**

Issue	Finding
All signed valuation certificates and reports should be provided at the start of the audit.	The delay in receiving the signed certificates meant that the related audit work could not be completed until late in the audit process.
The Council has not applied the requirements of IAS 16 in relation to component accounting for its housing stock because the impact has been assessed as not material.  This relates to the annual depreciation charge on housing stock.	A working paper was provided demonstrating that the increase in the annual depreciation charge (£76 per property or £350k for the whole stock) was not material.  I am satisfied that the Council's approach and assumptions made are reasonable. I am also satisfied that this estimated impact is significantly lower than the materiality level of £1.966m. Therefore I am satisfied that no adjustment is required to the accounts.

### Recommendation

**R1** The Council should ensure that all signed valuation and impairment reports are provided at the beginning of the audit.

**R2** The Council should annually review whether the application of component accounting would make a material difference to the estimated depreciation charge in the accounts.