

## AUDIT & GOVERNANCE COMMITTEE

28<sup>th</sup> March 2013

### Report of the Director of Finance

#### FINAL ACCOUNTS 2012/13 – 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 2012/13 (including deadlines but not including detailed responsibilities) and to obtain corporate commitment to the action plan.

##### **Recommendations**

###### **That:**

- 1. the target of 14<sup>th</sup> June 2013 for closure of the final accounts and production of a draft statement for 2012/13 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 26<sup>th</sup> September 2013.**

##### **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 Council's External Auditors' (Grant Thornton - GT) assessment of the Council's 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 14<sup>th</sup> June 2013;
- Detailed management quality assurance review by 27<sup>th</sup> June 2013;
- Submission to Grant Thornton (and to Members) on or before 30<sup>th</sup> June 2013;
- Report to Audit & Governance Committee on 26<sup>th</sup> September 2013;
- Latest publish date 30<sup>th</sup> September 2013;

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.

### Legal and Risk Implications

The Council has a statutory duty to prepare the Draft Statement of Accounts by 30<sup>th</sup> June 2013.

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.

<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 either the Code of Practice or IFRS to be more complex and time consuming than initially thought.	<b>M H</b>	An early start, adequate research, adequate initial resources, sufficient resource/budget provision for contingencies
<b>2</b>	Incorrect interpretation of changes in either the Code of Practice or IFRS	<b>M H</b>	Adequate training, sufficient resources. Ensure all reasons for actions, inclusions and exclusions, are fully documented.
<b>3</b>	Guidance by CIPFA changing possibly causing delays	<b>M H</b>	Regular review and rescheduling of project timetable

<b>Risk No</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Action Required to Manage Risk</b>
<b>4</b>	Inadequate training	<b>L M</b>	Research available training, ensure all relevant staff attend, training budget to be adequate
<b>5</b>	Failure to identify all leases	<b>L M</b>	Ensure staff understand exactly what is involved – a planning meeting has been held with Property Services to outline the requirements
<b>6</b>	Key staff leaving	<b>L M</b>	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 14<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 – deadlines / key milestones will be closely monitored.

### **Report Author**

Please contact Lynne Pugh, Chief Accountant extension 272.

<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 (2012) 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 2011/12 financial year with draft accounts being prepared by 30<sup>th</sup> June 2012 and audited accounts approved by the Audit and Governance Committee, at its meeting on 27<sup>th</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.

Following the completion of the 2011/12 audit the only amendments to the 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 2011/12 has been reviewed to identify any lessons to be learned for future years.

The main issues affecting the closure of accounts for 2011/12 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 28<sup>th</sup> 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 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 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 2011/12 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 2012/13.

### 2011/12 - Significant Issues

Item	Issue	Proposed Solution / Action Already taken	Action
Manual Accruals	A significant 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 28/3/13, 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 1/4/13  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
Asset Register / Valuations / Disclosures	Delay in finalisation of valuations and provision of signed documentation before the audit commences	Meetings held with Grant Thornton 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.	Director of 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 30/4/13 at the latest.	Solicitor
Complexity of Working Papers / ease of use for Auditor	External Audit highlighted that some of the working papers are particularly complex and can include previous years' data.	Ways to simplify / clarify working papers for the 2012/13 closedown process, including cross checks to the accounts / financial system, have been discussed with the auditor	

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.

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 Grant Thornton during the planning meeting held on 23<sup>rd</sup> January 2013 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 2012/13		
1	Temporary Reserve / Retained Fund information	ALL	11/03/2013
2	Review all outstanding orders and delete where necessary	ALL	11/03/2013
3	Postal Franker Reading / Costs	Head of Property Services	Close of Business 28/03/13
4	All "goods receipts" should be on e-financials by 28/03/13, with evidence held by the Service Departments, in order to ensure 'auto-accruals' are generated. (It is recommended as many as possible done by 15/03/13)	ALL	28/03/2013
	Deadline for approved manual accruals. (i.e. goods need to be received by 28/03/13.) Refer to year end guidance	ALL	12/04/2013
5	Staff Holiday and Flexi Leave entitlement as at 31/03/13 (Tensor)	Head of Organisational Development	12/04/2013
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	
7	Notify all stock holders of the need for stocktakes to be carried out at 31/03/13 and information returned to accountancy	ALL	05/04/2013
8	Petty Cash imprest reconciliation. A reminder of the need to complete returns at 31/3/13 will be issued	ALL	05/04/2013
9	IT stock purchases and disposals (hardware and software) information	Director, Technology & Corporate Programmes	05/04/2013
10	Bad debt information: e-financials Sundry Debtors and overpayments	Head of Revenues Director of Finance Director, Housing & Health	12/04/2013
	Homelessness and Housing Rents		
11	Completion of asset acquisitions / disposals / revaluations / impairment and production of the asset register certified by qualified valuer	Director Assets & Environmental Services	Draft by:
			12/04/2013
			Final Certified by:
26/04/2013			
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	12/04/2013
13	HAA SOCH Mortgage principal repayment information	Head of Revenues	12/04/2013

Ref	CORPORATE REQUIREMENTS	LEAD OFFICER	DEADLINE
	FINAL ACCOUNTS 2012/13		
14	Related Party Transaction information. Requirement to be sent by 22/03/13 - Approach at Committee if delayed	Executive Director Corporate Services	12/04/2013
		Solicitor to the Council	
15	Housing Capital salaries detailed by capital project	Head of Property Services	12/04/2013
16	Managers confirmation of continued existence and responsibility for assets	ALL	12/04/2013
17	Information for completion of DWP and Subsidy estimated claims from benefits	Head of Benefits	12/04/2013
18	Sale of council house enhancement information (Reg 14)(final quarter)	Head of Property Services	12/04/2013
19	Improvement grant reconciliation	Head of Property Services	12/04/2013
20	Collection fund information (NNDR3)	Head of Revenues	26/04/2013
21	FRS17 Pension information from SCC Pension Fund	SCC	26/04/2013
22	Review Code of Corporate Governance and prepare Annual Governance Statement	Head of Internal Audit	03/05/2013
23	Review grant estimates (Benefits) / comparison to actual submissions	Head of Benefits	30/04/2013
24	Review potential post balance sheet events / impact on accounts	ALL	Up to 30/09/13



## Audit Planning Timetable 2012/13

<b>Date / Deadline</b>	<b>Completion of:</b>	
23/01/2013	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	
21/01/13	Interim Visit – walkthrough testing	
Feb/ Mar 2013	Cipfa / GT Workshops	
25/03/13	Interim Visit – payroll testing	
28/03/13	Final Accounts Action Plan to Audit & Governance Cttee	
w/c	Audit Planning Meeting / requirements	
15/04/13	Audit Planning Meeting / requirements	
w/c	Audit Planning Meeting / requirements	
09/05/13		
14/06/2013	Draft Statement preparation	
2 weeks	Quality assurance	
<b>27/06/2013</b>	<b>Submission of Accounts (to GT / Members)</b>	
27/06/2013	High Level Audit Plan for 2012/13 Audit confirmed (for planning / management purposes)	
Early July	Engagement Lead / Engagement Manager review	
08/07/2013	On Site Audit Commences (prepare working papers / reconciliations / quality assurance process)	
12/07/2013	Weekly Meeting with Audit Manager (including emerging Governance report issues) - issues to date documented in <b>one logical list i.e. no repeated issues</b>	Accountants / Key Officers to be available for Auditor questions by appointment
19/07/2013	Weekly Meeting with Audit Manager	
26/07/2013	On Site Audit Concludes (the statement will be changed, as necessary, as the audit proceeds) - Weekly Meeting with Audit Manager	
26/07/2013	Appointed Day	
<b>02/08/2013</b>	<b>Draft list of audit amendments / issues received (subject to Engagement Lead review)</b>	
<b>09/08/2013</b>	<b>Final list of audit amendments / issues received (after Engagement Lead review)</b>	
30/08/2013	Amended Statement of Accounts prepared	
16/09/2013	Annual Governance Report received	
26/09/2013	ISA260 - Report to those charged with governance (Audit & Governance Committee 26/09/13)	
26/09/2013	Audit & Governance Committee	
26/09/2013	Sign Off	
30/09/2013	Publish at latest	

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