

REPORT TO	ON
Governance Committee	31 <sup>st</sup> January 2018

External Audit Annual



TITLE	REPORT OF
External Audit - Update Report/Closure of Annual Accounts 2017/18 - plans to achieve the new deadline	Deputy s 151 Officer

Is this report confidential?	No
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## 1. PURPOSE OF THE REPORT

To provide an update on the progress of preparation for the closure of accounts 2017/18 as per the request of the Governance Committee in November 2017 and present the external audit Progress Report and Sector Update from Grant Thornton along with their Certification Letter for the Housing Benefit Subsidy claim.

## 2. RECOMMENDATIONS

2.1 That members note the contents of this report, the Shared Financial Services Closure of Accounts Timetable at Appendix A, the contents of the external auditor's progress and update report at Appendix B, and the contents of the external auditor's Certification Letter at Appendix C.

## 3. CORPORATE PRIORITIES

The report relates to the following corporate priorities

Clean, green and safe		Strong and healthy communities	
Strong South Ribble in the heart of prosperous Lancashire		Efficient, effective and exceptional council	√

## 4. PREPARATION FOR THE 2017/18 STATEMENT OF ACCOUNTS PRODUCTION

4.1 As Committee are well aware, the Accounts and Audit Regulations 2015 set out new deadlines for the publication of the 2017/18 Statement of Accounts. The draft accounts must be completed and signed by 31<sup>st</sup> May 2018 with the final audited accounts approved by the Chief Finance Officer and Governance Committee by the 31<sup>st</sup> July 2018.

4.2 The 2016/17 accounts production process was used as a second practice run to test our project plan and our preparations for this advancing deadline by setting ourselves the target of producing the draft accounts by 31<sup>st</sup> May in 2017 even though the statutory publication deadline for the draft 2016/17 accounts was 30<sup>th</sup> June 2017. As previously reported, the Shared Financial Services Team was successful in achieving this challenging target, having

a draft set of financial statements ready by 19<sup>th</sup> May 2017. A number of improvements were undertaken to expedite the closure process and these are highlighted below:

- Prepared working papers and pro-forma Statement of Accounts earlier in Feb/March.
- Early review and approval of Accounting Policies
- Ensured asset valuations were received by 31st March, engaged with an external valuer.
- Implementation and trial of Asset Accounting module for financial system.
- Co-ordinated collection of year-end flexi, TOIL and leave balances and developed spreadsheet solution.
- Posted bank files daily instead of weekly so bank and cash reconciliations can be undertaken sooner.
- Undertook some tasks in a different order, including preparation of the Collection Fund and asset register production earlier in the process.
- Reallocated some tasks to areas better suited to deliver them, e.g. purchase order year end processing to Management Accountants.
- Shortened timescales for submitting carry forward requests and accruals of income and expenditure by departments.
- Used the coding structure in the financial system to even greater degree incorporating the new format of accounts for automatic production.
- Introduced a new automated statistical methodology for calculating Business Rates appeals provision.

4.3 Preparation for the 2017/18 closure of accounts process is well underway and has built on the lessons learnt from 2016/17. We have undertaken an internal review of the 2016/17 process to inform our planning for 2017/18 and we have already met with external audit on a number of occasions to plan for the 2017/18 audit.

4.4 The changes required as part of the updated CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 are relatively straightforward when compared to the large number of changes in 2016/17. This will further aid the early closure of the accounts. The changes are highlighted below:

<b>Amendments</b>	<b>Description</b>	<b>Action</b>
Section 2.2 Community Infrastructure Levy	Clarification of the treatment of revenue costs and any charges received before the commencement date	None required, already accounted for as stated.
Section 3.1 Narrative Reporting	Introduce key reporting principles for the Narrative Report	Most principles already included, additional sections to be added where necessary.
Section 3.4 Presentation of Financial Statements	Clarification of the reporting requirements for accounting policies and going concern reporting	Additional sections to be added with reference to financial resilience and sustainability.
Section 3.5 Housing Revenue Account	Directions 2016 disclosure requirements for English authorities	Not relevant.
Section 4.2 Lease and Lease Type Arrangements	Clarification of lease accounting relevant to Scottish authorities.	Not relevant.
Section 4.3 Service Concession Arrangements	Changes to disclosures in respect of PFI & similar schemes relevant to Scottish authorities.	Not relevant.
Section 7.4 Financial Instruments – Disclosure and Presentation Requirements	Amendments reflect Scottish regulations and provide clarification of disclosures.	No changes to financial reporting requirements.

Section 6.5 Accounting and Reporting by Pension Funds	Additional disclosures of pension fund investment management transaction costs.	Not relevant.
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4.5 The Shared Financial Services Team's operational closure timetable has been updated for 2017/18 with tasks allocated to relevant finance team members. A number of items have been identified as candidates for earlier completion and consultation is underway with stakeholders regarding the revised deadlines before the timetable is finalised. Some of the additional changes that will aid the faster closure in 2017/18 are:

- Flexi, TOIL and leave recorded on the corporate system
- Further use of Asset Accounting module
- New timetable for Budget Outturn Report approval to ensure a timely feed-in for inclusion in the accounts
- Shorter timetable for non-financial performance reporting to feed into the Narrative Report in the Statement of Accounts
- Preparing a number of working papers and notes early, e.g. Related Party Transactions, Finance Lease, Members Allowances, Officers Remuneration, External Audit Costs

4.6 As outlined above, the Shared Financial Services Team prepare a detailed operational timetable for the closure of accounts process, with resources identified and tasks allocated to individual officers. This operational plan is further broken down and supplemented in many areas of work, such as the financial systems year end and the accruals of income and expenditure, with additional detailed guidance and individual task timetables. These timetables and guidance notes are distributed to relevant services and published on the Council's intranet and have been backed up with training sessions.

4.7 As requested by Governance Committee in November, the detailed operational Closure of Accounts Timetable is included at Appendix A. It must be stressed that this is an internal document and therefore contains terms and abbreviations that will mean very little to Members but is provided to demonstrate the extent to which this critical activity is planned and managed. It also must be noted that, currently, the timetable is only at the draft stage so still subject to the agreement, or notification, of a number of key dates. Furthermore, it is also a live document that constantly changes throughout the closure of accounts process. For example, actual completion dates are recorded for monitoring purposes. The timetable contains over two hundred individual tasks and the version provided at Appendix A is presented in the task-based view where tasks are grouped together in themes or areas of work. The timetable is also used in a date view, ordering all tasks in date order which allows progress monitoring throughout the closure process. A further resource view is also utilised, where all tasks are grouped by the officer responsible to allow individual workload and resource clashes to be identified. An extract is included below showing many of the tasks associated with producing the Collection Fund and completing the NNDR3 and Council Tax returns for submission to external bodies. The extract clearly shows detailed individual tasks, target dates, assigned responsibilities and relevant notes for consideration.

No	KEY TASKS	Notes	KEY DATES		RESPONSIBILITY	NOTES
		SRBC	Day	Target Date	SRBC	
<b>T</b>	<b>COLLECTION FUND</b>					
	DCLG supply NNDR3 return		TBC	TBC	RBM	Date TBC by DCLG
	Obtain list of o/s NNDR appeals from VOA		Tuesday	03/04/18	RBM	
	Calculate provision for appeals		Friday	06/04/18	PFA	
	Complete NNDR3 for review and signing		Friday	13/04/18	PFA	
	NNDR3 reconcile to accounts		Friday	13/04/18	PFA	
	S151 - Signing the CTAX outturn pro forma to LCC		Tuesday	17/04/18	RFO/PFA	
	Return Council Tax pro forma to LCC		Friday	20/04/18	PFA	Date TBC by LCC
	Submit Unaudited NNDR3 return		Friday	27/04/18	PFA	Date TBC by DCLG
	Submit Certified NNDR3 return		Friday	27/07/18	PFA	Date TBC by DCLG

4.8 Further to our own preparations for the 2017/18 closure of accounts process, the Shared Financial Services Team have also met with the external auditors, Grant Thornton, to agree some measures to assist in expediting the audit process. These include agreeing mutually suitable dates for the interim audit, committing to the completion of early testing of some transactions and balances, provision of a detailed working paper requirements list and specified working paper formats, agreement of data formats in advance of the audit, and a commitment to address any technical issues early and agree a response timeframe for request for information.

## **5. KEY RISKS TO THE CLOSURE OF ACCOUNTS PROCESS 2017/18**

5.1 It goes without saying that adequately resourcing the closure of accounts process is key to its successful delivery. Resources have been assigned in line with the allocations for our successful practice run, but any changes to those resource levels could put the successful delivery of the 2017/18 Statement of Accounts at risk and will need to be monitored closely.

5.2 Due to the significantly reduced timescales, particularly for the audit of the accounts, it will be important to review and minimise any bureaucratic processes and consult with stakeholders to manage their expectations around existing practices. For example, if normal committee report clearance and publication deadlines are to be met for the approval of the accounts by 31<sup>st</sup> July, the external auditors would need to have completed the audit by 13<sup>th</sup> July to ensure the finalised Statement of Accounts can be published with committee agendas, allowing just six weeks for the audit. Any additional approval processes would shorten the audit timeframe further. Report approvals may not be able to go through every existing channel and it may be appropriate to consider special arrangements in some circumstances to ensure appropriate review and sign-off is still gained but within the constrained timeframe. Shared Financial Services will engage with the relevant stakeholders to ensure key stages, such as giving Members adequate time to consider papers, are not jeopardised.

5.3 A further key risk is the delivery of asset valuations and the Valuer's Report to the Chief Finance Officer. This process is critical to the accounts, and a key risk identified by the external auditors because of the material values associated with our land and buildings assets. Quotations are being sought from a number of external valuers with a view to engaging with one of these to deliver the 2017/18 land and buildings valuations by 31<sup>st</sup> March. The external auditors have indicated that a key line of audit enquiry this year will be the consideration of any material changes to asset values for those assets that have not been valued in the year as part of the five year rolling programme. This consideration is a key part of the Valuer's Report to the Chief Finance Officer and the authority must ensure resources are in place to deliver this.

## **6. INTRODUCTION OF THE GRANT THORNTON UPDATE AND PROGRESS REPORT AND ANNUAL CERTIFICATION LETTER**

6.1 The progress and update report submitted by Grant Thornton and attached at Appendix B includes information in relation to the following:

- Progress on the 2017/18 external audit
- Audit deliverables
- Meeting the deadlines
- Sector updates

6.2 Attached at Appendix C is Grant Thornton's letter to the Council in relation to their certification work. Grant Thornton are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. The results of the certification work are reported to you in the certification letter. This letter

reports any matters arising from the certification work carried out under the Public Sector Audit Appointments (PSAA) contract.

6.3 The key messages from the letter are; that only minor issues have been identified and these generally related to following up findings from previous years, as a result of the issues identified Grant Thornton reported the findings to the Department for Work and Pensions (DWP) who may require the Council to undertake further work or provide assurances on the issues reported, and finally that there is no change to the indicative fee of £6,968 for this work although any additional work required by DWP may incur additional fees.

## **7. WIDER IMPLICATIONS AND BACKGROUND DOCUMENTATION**

### **7.1 Comments of the Statutory Finance Officer**

The report and attached appendices are provided at the request of Governance Committee to demonstrate our preparedness for the 2017/18 closure of accounts process. They are for information only and therefore there are no direct financial implications.

### **7.2 Comments of the Monitoring Officer**

The primary purpose of the report is to provide reassurance to members that the council is fully prepared to meet the new deadline for the closure of accounts. There are no direct legal implications arising.

<b>Other implications:</b>  ▶ <b>Risk</b>  ▶ <b>Equality &amp; Diversity</b>  ▶ <b>HR &amp; Organisational Development</b>  ▶ <b>Property &amp; Asset Management</b>  ▶ <b>ICT / Technology</b>	<p>Risk implications apply in relation to the Accounts and Audit Regulations 2015 to prepare financial statements in accordance with the statutory timetable. The accounts must be compliant with the relevant standards and must be prepared on a true and fair view basis. Failure to comply could result in a failure to meet the statutory duty.</p> <p>This is a progress report and update to the Governance committee and therefore there are no other direct implications</p>
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## **BACKGROUND DOCUMENTS**

- Accounts and Audit (England) Regulations 2015
- CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18

## **APPENDICES**

Appendix A: Shared Financial Services DRAFT Closure of Accounts Timetable 2017/18  
Appendix B: Audit Progress Report and Sector Update (Grant Thornton)

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