

REVIEW OF THE 2017/18 STATEMENT OF ACCOUNTS PROCESS

To: **Audit and Accounts Committee**
Date: 20 September 2018
From: Jon Lee (Head of Integrated Finance Services,
LGSS)
Electoral Division(s): All

Purpose:

To review the 2017/18 accounts closure process and identify lessons learned to improve the 2018/19 accounts closure.

Key Issues:

This report reflects on the accounts production and audit process in order to seek improvements in the 2018/19 process. The following areas are covered with improvements highlighted that Officers will implement:

- General closedown considerations
- Review processes for the draft statement of accounts
- Capital valuations
- Grant recognition
- Related parties

Recommendation:

The Audit and Accounts Committee are asked to note and comment on the contents of the report.

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1. BACKGROUND

- 1.1 At the 30 July 2018 Audit and Accounts Committee the Committee requested a report be presented to the September meeting reviewing how the accounts process for 2017/18. This report provides the requested review and highlights lessons learnt that Officers are taking forward into the 2018/19 closure of accounts.
- 1.2 Further updates on the progress of the 2018/19 accounts will be reported to the Committee at future meetings.

2. MAIN ISSUES

- 2.1 The accounts closure process for local government accounts is complex involving numerous processes, information and evidence requirements and input from many teams across the Council and LGSS. The following sections therefore discuss the main areas of the accounts and audit process where there were either issues or where changes can be made to effect positive changes to the 2018/19 closure process.

2.2 General Considerations

- 2.2.1 Reporting the progress against the prior year audit recommendations can be improved by more formally monitoring and reporting to the Committee an update on progress against the ISA 260 Action Plan. This will be done at each Committee meeting starting with the November 2018 meeting. The intention of this change is to demonstrate when and how improvements are being implemented.
- 2.2.2 As part of the processes being designed and implemented for the first year-end closedown using ERP Gold, a number of pieces of work traditionally carried out at year-end will be brought forward and given month 9 or 10 deadlines. For example the processing of the annual Minimum Revenue Provision (MRP) journal. A formal list of items that can be brought forward will be agreed in consultation with the external auditors in order to maximise the amount of year end work that can be done earlier and also the benefit that can be gained from the interim audit work.
- 2.2.3 The quality of working papers for audit is an area where continual improvement is sought. Review processes for working papers will factor in a check to ensure that the working paper meets the audit requirement and refers to the CIPFA Code to demonstrate compliance. More focus will also be provided on the CIPFA Disclosure Checklist to ensure that the Council's accounts are Code compliant.

- 2.2.4 During the audit responses to audit queries was mixed for 2017/18. Where audit queries required the Integrated Closedown team or the CCC Finance team's input, these were generally responded to promptly in order to resolve the queries. Where responses and information was required from other parts of the Council or LGSS then the response times were much more mixed with delays being experienced in some areas. This is an area where improvement is needed, since greater traction in responding to audit queries will enable the audit work to be completed sooner to achieve the earlier deadlines. The Head of Integrated Finance and the Head of CCC Finance will communicate the requirements across all relevant parties and review the approach to managing audit queries.

2.3 Review of the Draft Financial Statements

- 2.3.1 A review of the draft financial statements was undertaken for 2017/18 which did highlight and enable resolution of a number of issues prior to publication. However the reduced time available for production and review of the accounts in 2017/18 was a particular challenge, being the first year of the new timetable, and the amount of time available for review of the draft statements was relatively short. The external auditors did identify some errors in the draft statements, which highlights that this is an area where improvements can be made.
- 2.3.2 The implementation of ERP Gold and the resultant changes in process will have two key benefits that will enable improvements to this part of the process:
- (a) The 'push of a button' approach to producing the statement of accounts will have a smoothing effect on the closedown workload, requiring a move to in-year review work. This will provide additional time for review during the year and also reduce the amount of review work required at year end.
 - (b) The statement of accounts template is designed to enable Finance to produce interim accounts at the push of a button rather than the labour intensive annual process used previously. As a result analytical reviews can and will be carried out during the year, enabling issues to be raised, investigated and resolved before closedown processes begin.
- 2.3.3 In addition prior to the review by management, a review will be undertaken by another member of the LGSS Closedown Team who has had limited involvement in the production of the accounts enabling a peer review with a fresh pair of eyes.

2.4 Capital Valuations

- 2.4.1 The valuation of assets is a significant area of the accounts and closure process both in terms of complexity and value of the accounting entries and asset values. This is therefore considered a key area to consider changes in the way we deliver the requirements for the accounts.
- 2.4.2 From the 2017/18 closure process one issue that the external auditors raised was whether an indexation review was required on those assets that had not been subject to indexation or revaluation at the balance sheet date. This issue came out quite late in the audit process.
- 2.4.3 The rolling valuation programme has traditionally been carried out to provide valuations as at 1 April each year. This has the impact of increasing the likelihood of asset carrying values being materially incorrect at the balance sheet date of the 31 March in the following (i.e. virtually a year later). In order to manage this issue an approach of valuing high value properties at 31 March in order to provide a more current assessment on a large proportion of the asset had been adopted. However due to the large percentage movements of values in-year this approach proved insufficient and required discussions with the auditors and a material audit adjustment to the 2017/18 asset values.
- 2.4.4 For 2018/19 Officers are planning to change the valuation date for the rolling programme from 1 April to later in the financial year, for example December. The intention being that the risk of a material misstatement occurring within the last quarter of the year is lower than over a twelve month period.
- 2.4.5 Also as part of the closedown approach to asset valuations an analysis of potential indexation movements will be undertaken. Market movements as advised in the valuer's market review will be used to assess whether assets not revalued at the balance sheet date are not materially misstated. If the process indicates that a material change is required then indexation will be applied to the appropriate asset categories and included in asset values at the 31 March and supporting working papers with audit evidence.
- 2.4.6 In respect of other aspects of asset valuations:
- (a) For non-capitalisation of vehicles, plant and equipment an annual review will be introduced to demonstrate compliance with the CIPFA Code. This will form part of the audit evidence in preparation for the final audit;
 - (b) For the capitalisation of Highways expenditure the approval processes currently undertaken regarding Insight will be

reviewed and improved to ensure more timely approvals in the system and additional work will be carried out as part of the year-end accruals processes to capture any outstanding approvals that may be required; and

- (c) The fixed asset register is to be migrated to ERP Gold during 2018/19, requiring a review of all relevant processes. As part of this, the process for timely removal of assets disposed of from the asset register will be made more robust.

2.5 Grant recognition

- 2.5.1 As part of the process amendments resulting from the implementation of ERP Gold, the process for posting grants to the ledger will be changed through general ledger coding changes to improve the visibility of grants in the in-year monitoring reports to aid earlier reconciliation and resolution of issues.
- 2.5.2 As stated earlier, the implementation of ERP Gold will increase the in-year review work carried out by the Closedown Team so that reconciliations between grant registers and the statement of accounts will take place regularly throughout the year. Such an approach will also enable the external auditors to undertake part of the grant income review during the interim audit, reducing the pressure on the final audit.

2.6 Related party transactions

- 2.6.1 A review of declarations will be added to the year-end processes to identify potentially material transactions that may need to be disclosed. A second review prior to publication will also be carried out annually by management.

2.7 Data Analytics

- 2.7.1 All audit firms that we have worked with have been moving their audit approach to consider whole sets of data and transactions through data analytics. In recent years some difficulties have been experienced in terms of providing the right data first time for the auditors. One of the issues being that the previous auditors wanted to liaise directly with Fujitsu (the Oracle financial system provider) in order to do this instead of through the relevant team in LGSS.
- 2.7.2 Data analytics is an approach that Ernst and Young, (EY) the new external Auditors will utilise for their audit work and there is therefore some scope for improving this aspect of the process. Officers will work with EY to agree the data specification required in order to enable this work to run more smoothly than it has in previous years, with the potential of making greater use of data analytics during the interim

audit for periods 1 to 9. This will involve the LGSS Business Systems team and EY in order to agree the report parameters and produce this early in the year to enable year end to run smoothly.

Source Documents	Location
N/a	