

Statement of Accounts – Action / Improvement Plan

To: **Audit and Accounts Committee**
Date: 28 January 2020
From: Head of Finance
Electoral Division(s): All

Purpose:

To review the lessons learnt from the production of the 2018/19 Statement of Accounts for the Council and provide an update on progress of planning for the 2019/20 Closure of Accounts and production of the Statement of Accounts.

Recommendation:

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

<i>Officer contact:</i>	
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1. BACKGROUND

- 1.1 For production of the 2017-18 Statement of Accounts, the Government introduced significantly shorter timescales requiring local authorities to produce their draft Statement of Accounts by 31st May each year and to have their accounts finalised by 31st July. This was a significant reduction in the timescales available for the process to be undertaken (with the previous dates respectively being 30th June and 30th September).
- 1.2 For 2017-18, the Council achieved a signed set of accounts by the 6th August, 6 days late. This was a significant achievement given the substantial reduction in time available, and considering that in the two previous year the accounts had been signed between October and December. For 2018-19, at the time of writing this report, the accounts have not yet been signed. However, the expectation is that this will happen imminently. The Council continues to expect an unqualified audit opinion, with no differences of view with the auditor on accounting treatments. The corrections identified by the external auditor are largely administrative or about classification. The recent delay has been the result of reconciliation differences in producing a final set of accounts from ERP Gold that takes into consideration all of the adjustments agreed over an elongated process; this has proved unduly time-consuming.
- 1.3 Nationally, 2019 saw a large increase in the number of Councils unable to meet the expected timescales. As at January 2020 a number of other Councils in the East of England are also yet to reach a concluded audit opinion, for various reasons. Public Sector Audit Appointments Ltd (the national contract holder for local government audit, which the Council has opted into) is no longer publishing authority-by-authority timescale compliance reports, and there is a wider recognition that the local authority financial accounting and auditing arrangements are in need of review.
- 1.4 Whilst the completion of any set of accounts can throw up unexpected challenges and delays during the process, there are two significant extraordinary contributing factors to the delay in completing the process for 2018-19:
- The change in Enterprise Resource System on 1st Apr 2018 (from Oracle to ERP Gold)
 - A change in external audit firm
- 1.5 Whilst the 2018-19 accounts have not yet been completed, time is pressing on for completion of the 2019-20 Statement of Accounts. This update therefore provides detail on the lessons learnt from the 2018-19 process and looks at improvements that can be made for the 2019-20 process in order to ensure a controlled, timely completion of the process and delivery of set of accounts.

- 1.6 Further updates on the progress of the 2019/20 accounts will be reported to the Committee at future meetings.

2. REVIEW OF PROCESS FOR 2018-19

2.1 ERP Gold Statement of Accounts Production

- 2.1.1 As mentioned in previous reports to the Committee, ERP Gold has been designed to adopt a 'push of a button' approach for producing the Statement of Accounts. Whilst this was mainly in place for the production of the 2018-19 accounts, the benefits gained from this were significantly overshadowed by other difficulties experienced as a result of implementing a new system.
- 2.1.2 These related to a combination of issues, ranging from problems with coding as a result of the chart of accounts mapping and data migration, changes in processes put in place as a result of having the new system which weren't fully embedded properly before the end of the financial year and users' ability to adapt to these changes. The 'push of a button' approach only works if the data behind it in the system is accurate.
- 2.1.3 In addition, the data migration of the Fixed Asset Register (FAR) took significantly longer than anticipated to complete, due to the complexity and historical nature of the information sitting behind the FAR numbers, combined with the inflexibility of the old Fixed Asset system to be able to provide helpful reports to aid the process. As a result, work on Property, Plant and Equipment, a significant area of the accounts, was unable to be completed until very late on in the process of compiling the draft accounts.
- 2.1.4 As a result of these difficulties, the set of draft accounts that were completed were not as well prepared and thoroughly reviewed as was needed. The impact of this was higher than usual levels of adjustments required for issues identified by both the Council and the external auditors following completion of the draft accounts and during the audit process.
- 2.1.5 Ernst and Young (EY's) approach to auditing the Council relies, ideally, on data analytics to target inquiries. As the ERP Gold system came to be utilised by external audit for the first time, there were concerns about the completeness of some reports, meaning that certain testing had to be repeated. Once identified, these issues were straightforward to resolve in terms of reporting specification on the system, and should not recur in future.

2.2 External Audit

- 2.2.1 As well as completing the accounts using a new financial system, the Council also had a change in external auditor to Ernst and Young (EY). A change in auditor also requires additional work from both parties as the auditors become familiar with their clients and vice versa, but more importantly the new auditors need to be able to gain additional assurance in the first year of auditing a new client.
- 2.2.2 A significant amount of work was completed as part of the interim audit, however the timing of the bulk of this work during April and May ultimately impacted on the ability of the Finance Team to be able to complete the draft accounts quickly.
- 2.2.3 EY have also experienced significant resourcing problems across their local authority audits which have impacted on their ability to complete the audit work in a timely manner, irrespective of the quality of the draft accounts provided and the amount of work required to get to an agreed final set of accounts. There are a variety of contributory factors impacting audits firms' ability to appropriately resource audits, both in local government and more widely.

2.3 Specific Audit Issues

- 2.3.1 The following is a list of areas identified as issues in the auditor's ISA260 report for 2018-19:
- Property, Plant and Equipment (posting of revelation movements, treatment of completed capital works and related demolition, material misstatement review, Prior Period Adjustment as a result of data migration work)
 - Grant income (incorrect working papers, incorrect treatment of grants)
 - Private Finance Initiatives (PFIs) (disclosure issues and incorrect historic calculations of finance lease liabilities)
 - Minimum Revenue Provision (reconciliation and potential under provision)
 - Coding issues requiring reclassification
- 2.3.2 Several of these issues require complex accountancy, and have taken some time to orientate and familiarise the new external auditor, and their national technical team. Additionally, where a new auditor identifies potential issues which have been signed off by a predecessor, this has also generated additional enquiries in order to rely on previous year's accounts and comparatives.

3. RESOURCING PROCESS FOR 2019-20

- 3.1 On 31st October 2019, the LGSS Joint Committee agreed to proceed with a Lead Authority model for LGSS, and return a number of “professional services” to shareholders. As a result, the Integrated Finance Service (which includes the Closedown Team) for all three Councils was repatriated on 23rd December 2019 to the individuals’ respective Councils.
- 3.2 In response, the Cambridgeshire County Council (CCC) Finance team has taken the opportunity to review the level of resources available and put measures in place to support an improved closedown function moving forward. This includes:
- Recruiting an additional Accountant (successful candidate, with local government experience, has accepted the post and is due to start in mid-March)
 - Pulling in additional temporary resource from the wider Finance Team
 - Reshuffling of roles to ensure the appropriate spread of duties and ability for independent management review

See Appendix A for an overview of the different roles.

- 3.3 The integrated model brought by the LGSS approach had advantages for the Council in terms of a broader resource pool, offering some resilience, and we are grateful to individual colleagues employed at other LGSS partners who have worked hard to complete accounts on CCC’s behalf. However genuine “integration” beyond shared management remained limited and it was a downside to the model that a single team faced high risk and time consuming audit and accounts processes at two other clients, often simultaneously. The new setup clarifies accountabilities and organisation into a single accountancy service solely serving CCC, which should bring improvements. The public finance workforce is challenging to recruit and retain, particularly in the most technical areas such as financial accounting and auditing, however it is hoped that local structures will now reduce single points of workload concentration and enable proactive supervision and support.

4. PREPARATION FOR 2019-20

- 4.1 To date, the Council has been mainly focused on completing the process for the 2018-19 accounts. However, as we enter the last quarter of the 2019-20 financial year, the focus on closedown for 2019-20 is inevitably needing to increase.
- 4.2 On the Council’s side, a lot of the issues experienced in 2018-19 were one-off due to the first year of using ERP Gold to prepare the accounts; that said, there are still several areas where developments can be made in order to improve the process, ensure the underlying data is

more accurate and enable the process for preparing both the draft and final accounts to be clear and efficient.

4.3 In order to support this work, the Corporate Finance team have compiled an Improvements Schedule, listing all of the areas of work where measures can be put in place to support a more efficient year-end process. Due to the continuing work required on completion of the 2018-19 accounts, it is acknowledged that not all of these improvements will be possible to put in place for the 2019-20 accounts, therefore this Improvement Plan should be viewed as a two-year process. In addition to specific issues identified in the ISA260 report, the main areas to be reviewed relate to:

- Planning (timetable/communication, working paper schedule and review, further development of the 'push the button' approach)
- System (coding corrections and maintenance, transaction information enhancements, further system control)
- Process (valuations, grant recognition, recharging, imprest accounts, control accounts, accounting for schools, open-purchase orders, accruals, consolidation of group accounts, various early/quarterly reconciliations, controlled draft to final accounts reconciliation)

4.4 A further product of the focus on the final stages of the 2018-19 accounts is that no date has been set for an interim audit for 2019-20 by EY. Interim audit has been extremely helpful in the past in making significant progress through fieldwork relating to the first 9-10 months of the year. The external auditor has also made it clear that across all clients they prioritise reaching an appropriate audit opinion with professional standards paramount in determining the evidence and auditing required before an opinion can be issued (and that the local government timescales will not curtail this work). Whilst the Council must publish draft accounts by the end of May, subject to the Chief Finance Officer being able to certify their release (and this will be a priority for the new team at CCC), it may be that we will need to comply with the regulations by publishing an update on the audit as at the end of July 2020, rather than the full results. Whilst this will be our second year with EY, bringing benefits in terms of familiarity, it is also anticipated that the auditor will increase aspects of the Council's risk weighting due to the issues that have been experienced with reconciliation and administrative errors during 2018-19 and that this may in turn require further audit work in 2019-20. The Council is currently awaiting further details on the timing of audit during 2019-20; the auditor is anticipating that they will complete "walk-through" testing and report the audit plan to this Committee, prior to the end of March 2020.

- 4.5.1 **Asset valuation:** For 2019-20, the Council has appointed a new firm, Bruton Knowles LLP, to undertake the Council's asset valuations. As a result of this appointment and also the delay in signing the 2018-19 accounts, the process to complete the valuation programme has not started as early as would be ideal; however site inspections for the full valuations have now started with all valuations expected to be completed, returned and checked by mid-March.
- 4.5.2 The number of valuations requested has increased as a result of the Council requesting all Depreciated Replacement Cost valued assets to be valued on a desktop basis (except if already being valued on a full basis as part of the rolling programme of valuations). This will require additional work as part of the valuation and validation process, but should remove the need for a material misstatement adjustment during the preparation of the accounts and therefore provides an overall benefit to the process of producing the accounts.
- 4.5.3 In addition to a greater number of valuations, the process for undertaking the valuations of school assets is also changing so that these assets are now valued on a Modern Equivalent Asset basis. This is to bring the Council's valuations more closely in line with the guidance issued by The Chartered Institute of Public Finance and Accountancy (CIPFA) and Royal Institute of Chartered Surveyors (RICS). In the long run, this will likely reduce the amount of time required to undertake valuations of school assets, however it may require additional work for the 2019-20 accounts as the Council adjusts to the new process.

5. LOOKING BEYOND 2019-20

- 5.1 There is a general understanding that the current system of externally auditing local authorities is under strain. In July 2019 the Government launched the Redmond Review into the effectiveness of the local authority reporting and audit regime. The final report is expected to be published in March 2020. This has followed reviews impacting external audit more broadly beyond local government: the Kingman review, which looked at the Financial Reporting Council, and the Brydon review, into the quality and effectiveness of audit.
- 5.2 As part of this Review, a consultation was launched in September 2019, seeking views on the quality of local authority reporting and external audit. Officers submitted a response to this request for feedback in December 2019, endorsing the Society of County Treasurers response whilst adding individual feedback from this Council regarding the specific issues we face. This response is located in Appendix B.

6.0 PREVIOUS OBJECTIONS AND VALUE FOR MONEY OPINIONS

- 6.1 One objection to the accounts in 2016-17, one objection to the accounts in 2017-18, and the value for money opinion on the accounts in 2017-18 have currently not been concluded. On the 28 November 2019, the Chairman wrote to BDO (our predecessor auditor) for an update with progress (see Appendix C). BDO acknowledged receipt of this letter on 19 December 2019, stating that they would provide a formal response. EY state that consideration of the 2018-19 objection and Value for Money opinion will follow the conclusion of BDO's work.

Source Documents	Location
Kingman review (Financial Reporting Council)	https://www.gov.uk/government/news/independent-review-of-the-financial-reporting-council-frc-launches-report
Brydon review (quality and effectiveness of audit)	https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review
Redmond review (LA financial reporting & audit)	https://www.gov.uk/government/consultations/review-of-local-authority-financial-reporting-and-external-audit-call-for-views

APPENDIX A - Resourcing

	Resource	Activity
Management review	<i>Head of Finance (Deputy Section 151 Officer)</i>	Responsible for both Finance Business Partners (management accounts) and from 2019-20, production of the Statement of Accounts (financial accounts).
	<i>Strategic Finance Manager</i>	Responsible for the Corporate Finance team which includes financial planning, monitoring, finance system support, commercial activity and from 2019-20, financial accounting. Extensive experience of capital accounting.
Core Reporting	<i>Group Accountant</i>	Lead practitioner working on the financial accounts. Previous experience with CCC and elsewhere in local government.
	<i>Accountant (Reporting)</i>	Lead on specific aspects of disclosure notes and responsible for managing the audit requests. New post, due to start in March 2020, joining from another local authority.
	<i>Trainee Accountant</i>	For 2019-20, this post will be in place for 4 months longer and will provide more dedicated closedown support than previously.
Wider support	<i>Accountant (Monitoring)</i>	Support for disclosures, previous experience of preparing the CCC Financial Accounts.
	<i>Accountant (Analysis)</i>	Support in making improvements in the underlying data held within ERP Gold and the processes for reviewing that data.
	<i>Finance Technician</i>	Support in retrieving evidence and financial data from ERP Gold, liaising with colleagues across the Council and chasing outstanding audit requests.

APPENDIX B – Redmond Review

My ref: Accounts/Redmond Review/call for views
Your ref:

Date: 20 December 2019

Contact: Eleanor Tod
Direct dial: 01223 699139
E Mail: Eleanor.tod@cambridgeshire.gov.uk



Finance
Cambridgeshire County Council

Redmond Review Secretariat
2nd Floor, Fry Building
2 Marsham Street
London
SW1P 4DF

Box OCT1114
Shire Hall
Castle Hill
Cambridge
CB3 0AP

Tel: 01223 703599

Dear Colleague,

Review of local authority financial reporting and external audit: call for views

Cambridgeshire County Council has had the benefit of reviewing the response to this call for views submitted by the Society of County Treasurers dated 3 December 2019. The County Council endorses the SCT response and adds a number of supplementary comments by way of this letter.

Auditor resourcing/cost effectiveness (16, 18, 12)

This Council's recent experience is that, for various reasons, audited accounts have not been achieved, in compliance with the statutory timescales.

The Council is cognisant that the cost of external audit has fallen considerably in recent years, leading to a reduction in auditor capacity and margin. The downsides of this can include (in our experience of two firms):

- Rigid/problematic timing of audit fieldwork: short notice changes, or fieldwork beginning before accounts are ready.
- Thereafter drifting timescales where management and auditor availability does not align, leading to processes becoming drawn out
- Knock-on impact of delays between audit years
- Turnover of frontline auditor staff and some gaps in technical understanding

Objections/certificates (40)

The Council has had three objections to the accounts from local electors raised for each of the financial years 2016-17 to 2018-19. The Council's previous auditors are yet to conclude the work on the 2016-17 and 2017-18 objections, despite more than fifteen months elapsing since the conclusion of their most recent financial statements audit. Consideration of the latest objection by the newer auditor will not begin until the previous objections are concluded.

It will soon be two and half years since the first objection to the 2016/17 accounts was received, there has been very limited recent reporting on this matter to the auditor to the Audit Committee. As a result of the objections, there have been delays to subsequent value for money opinions and audit certificates.

It is suggested that:

- Further clarity is needed on the form and scope of objections, [REDACTED]
[REDACTED]
- The role of a centralised body in promoting conclusion on objections by auditors, and holding to account for delivery of results in a timely fashion.

Value for money opinion (7)

[REDACTED] auditors and audit leads. For some authorities this has been a thorough and broad process, sometimes taking a pessimistic view of multi-year financial trajectories as the basis for challenge. In other places, it appears that the process is kept as simple as whether a Council is likely to need to issue a section 114 notice within 12 months of the accounts being signed.

Timescales

Finally, the Council would call for further consideration of the statutory timescales. At present these feel unduly compressed, and are for example much quicker than statutory reporting requirements for many large and complex entities for filing at Companies House, or for charitable organisations. When there are such limited resources (no capacity to "bulge") generally in local authorities, shrinking funds in local audit contracts, and given the specialist nature of some of the work, concentrated in a small number of firms, it does not feel realistic to ensure widespread compliance with the timescales.

This should be urgently reviewed, with our preference being an extension of the deadline for the completion of audit, ahead of extending the deadline for publishing draft accounts.

Yours faithfully



Tom Kelly
Head of Finance
Cambridgeshire County Council

APPENDIX C - Letter to BDO

Your ref:

Date: 28 November 2019

Contact: Cllr M Shellens / Tom Kelly

E mail: Corporate.Finance@cambridgeshire.gov.uk



Resources Directorate

Lisa Clampin, *Head of Public Sector Assurance*
BDO LLP, Newton House, Cambridge Business Park
Cambridge, CB4 0WZ

LGSS Finance / Section 151 Officer
OCT 1114, Shire Hall
Cambridge, CB3 0AP

via email

Dear Lisa

Progress with objections received pursuant to the Local Audit & Accountability Act 2014, dated 10 August 2017, 11 July 2018 and Value for Money opinion 2017/18.

More than fifteen months have now elapsed since the conclusion of BDO's most recent financial statements audit at Cambridgeshire County Council, and it will soon be two and half years since BDO received the first objection to the 2016/17 accounts from a local elector. I think it has also now been more than a year since the Audit & Accounts Committee has heard from you in public on your progress with the outstanding objections and opinion. The Committee has now mandated me to write formally to request an update, and express our angst at the continuing delay.

The County Council is respectful of objectors' statutory entitlement to raise matters with the external auditor during the public inspection period, and recognises that you must diligently complete such work as to enable you to conclude on these matters.

As part of that process, the Committee has previously understood that BDO considered it necessary to go beyond the specific items raised in the objections to consider broader, potentially connected, matters across a wider timeframe and scope and to withhold your final value for money opinion as a result. At one stage, the specific Audit Committees concerned with the outcome of the internal audit community transport investigation (which took place on 31 July 2018 and 31 October 2018) were a key milestone, but those date have now long passed without a sense that we are nearing an outcome from BDO. There have been, in retrospect, examples of a series of indicative dates for either concluding the objection or opinion which have not been fulfilled across this time.

The Committee is aware that there have been periods of updating the Council through the CCC Director of Business Improvement. However, this too has not yet yielded a formal timescale for the committee, let alone an outcome and there continues to be a sense that quite specific items of evidence, which may or may not be consequential to progressing sufficiently to reaching a finding, are held up as the reason for delay when the Council asks for an update. We would prefer a more proactive approach from BDO given the time that has now elapsed. Most recently, an audit manager from BDO has been back in touch with the CCC Finance team, but it is of concern that queries the Council responded to in May (or earlier) are continuing to be worked through.

The Committee takes seriously the County Council's stewardship of public funds and its transparency responsibilities. With that in mind, we are keen that the matters that are open to BDO are concluded in a timely fashion and reported on.

Please could you update me with progress and set out a timescale for the remaining work?

I am copying this letter to David Eagles (Contact Partner, Local Authority Contracts) and Scott Knight (Head of Audit & Assurance) at BDO, as well as PSAA Ltd, and would welcome an internal review at the firm to give further assurance that these matters are in hand and under active consideration.

Yours sincerely

A handwritten signature in blue ink that reads "M F Shellens".

Cllr M Shellens, *Chairman of the Audit & Accounts Committee*