

ISA260 UPDATE REPORT

To: **Audit and Accounts Committee**

Date: **7th June 2016**

From: **Section 151 Officer**

Electoral division(s): **All**

Forward Plan ref: **N/a** *Key decision:* **No**

Purpose: **This report is to update the Committee on progress made in respect of the recommendations made by PwC in the ISA260 Report 2014-15.**

Recommendation: **The Audit and Accounts Committee are asked to note the position on the actions in respect of the recommendations in the ISA260 Report 2014-15.**

<i>Officer contact:</i>
Name: Chris Malyon
Post: Section 151 Officer
Email: CMalyon@northamptonshire.gov.uk
Tel: 01223 699796

1. BACKGROUND

- 1.1 As part of the Auditor's role in issuing an opinion on the 2014-15 Statement of Accounts they produced a report "to those charged with governance" on the Statement of Accounts. This report is referred to as the ISA260 report. This report was issued to the Accounts and Audit Committee by PriceWaterhouseCoopers (PwC) on 11th December 2015, upon completion of their audit of the 2014-15 Accounts.

2. ISA260 REPORT 2014-15

- 2.1 The ISA260 Report contained a number of audit recommendations which were made by PwC.
- 2.2 The audit recommendations from the ISA260 report are listed in Appendix A. The final column outlines the current position and lists the progress to date in implementing the recommendations.
- 2.3 2014-15 was the final year of the audit contract with PwC. The external audit function is now undertaken by BDO, and as part of their audit of the 2015-16 financial statements they will assess whether the recommendations made by PwC have been fully implemented. BDO will issue their ISA260 Report upon conclusion of the audit of the 2015-16 Statement of Accounts.

3. LIST OF APPENDICES

APPENDIX A – ISA260 LOG 2014-15

4. ALIGNMENT WITH CORPORATE PRIORITIES

4.1 Developing the local economy for the benefit of all

There are no significant implications for this priority.

4.2 Helping people live healthy and independent lives

There are no significant implications for this priority.

4.3 Supporting and protecting vulnerable people

There are no significant implications for this priority.

5. SIGNIFICANT IMPLICATIONS

5.1 Resource Implications

There are no significant implications within this category.

5.2 Statutory, Risk and Legal Implications

There are no significant implications within this category.

5.3 Equality and Diversity Implications

There are no significant implications within this category.

5.4 Engagement and Consultation Implications

There are no significant implications within this category.

5.5 Localism and Local Member Involvement

There are no significant implications within this category.

5.6 Public Health Implications

There are no significant implications within this category.

Source Documents	Location
ISA260 Report 2014-15 Code of Practice 2015-16 (based on IFRS)	Room 301 Shire Hall, Cambridge

ISA260 Log 2014-15

County / Pension Fund	Issue	PwC Recommendation	Latest Position May 2016
County	Assets under construction projects are not being transferred out of AUC on completion, or written off on a timely basis	We would recommend that management perform a regular review of the newly created AUC asset register to ensure that any projects which need to be written off or transferred on completion have been posted on a timely basis.	The authority now has an asset register for AUC so is able to ensure as part of this process that all balances contained within AUC relate to an ongoing project. As capital expenditure for 2015-16 has now been finalised, the asset register is in the process of being updated as part of the preparation for the 2015-16 accounts.
County	The year end review process to remove all non-capitalisable spend from AUC is not functioning effectively.	This control acts as a back-stop to the above control point, but we would recommend that management ensure that a thorough review is undertaken of the entire AUC listing to ensure that no non-capitalisable spend is held within AUC at year end.	The year-end review process was updated for the 2014-15 accounts and is continuing to be used going forward. In addition it has been further developed to take into account the creation of a new fixed asset register for AUC (see above) so that the whole AUC balance is reviewed as part of the year-end process.
County and Pension Fund	The Oracle accounting system does not prevent staff from posting and authorising their own journals	The Council should look to implement an independent review process for any journals posted over a certain value.	Authorisation of journals indirectly happens through monthly budgetary control procedures and balance sheet reconciliation. Any anomalies are identified through this process and acted upon. This process will be considered further as part of the implementation the new ERP system.
County	General Ledger to Payroll Reconciliation is not performed at year end	The Council should ensure that its general ledger and payroll systems are reconciled on at least a monthly basis – this reconciliation should include all payroll general ledger codes, not just those relating to Gross pay and national insurance.	The Council maintains a log of each payroll transfer, which it reconciles to the General Ledger. The Council does not perform a whole-year reconciliation of Payroll to GL. No further action being taken.

County / Pension Fund	Issue	PwC Recommendation	Latest Position May 2016
County	<p>There is no fixed asset register detailing individual fixed assets held for Infrastructure assets, which ties to the accounts. These categories represented a net book value totalling £687m in the Councils account for 2014/15.</p>	<p>The Council should collate and maintain a listing of all assets to record all asset movements from this point forward. We also recommend that an exercise is undertaken to trace back all older assets which are currently included within the historic PPE balance to ensure that they are correctly categorised, and recognised at the appropriate value, and that they still exist.</p> <p>Relating to infrastructure, the Council are already planning to undertake an exercise such as this due to the CIPFA Code of Practice changes taking effect from 2016-17.</p>	<p>This is on track to be fully implemented for the 2016-17 accounts. The Asset Planning team are in the process of locating the last few footways that are unrecorded, gathering the final attributes for structures and determining the land ownership for the network.</p> <p>Highways Asset Information have scanned and digitised 6,000 parcels of land purchased for highways schemes on MapInfo, and the team have just commenced an 18-month project to register all 6,000 parcels of land with the Land Registry, as historic titles to land have not always been registered.</p>
County and Pension Fund	<p>A list of related parties is not held and maintained by the Council.</p> <p>Returns from members and councillors are not filled out with a sufficient level of detail and omit information about interests held.</p>	<p>The Council and the Pension Fund should maintain a related parties listing at all times so that the risk of engaging with a related party is mitigated.</p>	<p>The Council has reviewed the Related Party guidance that is issued to members and senior officers. This guidance has been rewritten to make it clearer what information is required to be disclosed. The template that is issued to members and senior officers has been rewritten and examples have been included to assist officers and members when making their declarations. The revised template and guidance was issued to members and senior officers in February, with assistance from Democratic Services, along with clear instructions that returns were expected from all.</p> <p>To date, returns have been received from all members and the majority of senior officers. The final returns are being chased up and a full set of responses is anticipated.</p>

County / Pension Fund	Issue	PwC Recommendation	Latest Position May 2016
County	Lack of segregation of duties within the accounts payable module in Oracle	The Council should seek to minimise the number of people who have conflicting responsibilities within its accounts payable or should implement detective controls to identify promptly any conflicting actions undertaken during the year. Examples of such conflicting responsibilities include the creation of new suppliers and processing of payments to suppliers.	A quarterly review has been completed to confirm that each user's responsibilities are appropriate to their role(s). No further action being taken.
County	Bad debt provision is not compliant with the Code	The Council should not make general provisions, but rather specific provisions against specific debts when determining their year end bad debt provision.	<p>The Council adjusts the carrying value of the debtors held on its balance sheet, making allowance for doubtful debts.</p> <p>At each Balance Sheet date the Council makes a two-stage assessment as to whether impairment losses need to be recognised:</p> <ul style="list-style-type: none"> • Firstly, whether there is evidence of impairment for individual debtors that are significant, and • Secondly, whether there is evidence of impairment for groups of similar debtors. <p>The assessment is made based on the risk of debtors' ability to pay future cash flows due under the contractual terms. This risk is estimated where possible based on historical loss experience and other impacting factors.</p> <p>Allowances for doubtful debts are offset against the debtor amount shown as an asset, with the movement in the provision charged against the relevant service line in the Comprehensive Income and Expenditure Statement.</p>

County / Pension Fund	Issue	PwC Recommendation	Latest Position May 2016
County	Backing documents are not always retained for an appropriate length of time. We noted this during our testing over assets under construction where the Council was not able to provide us with some documents which were dated within the year being audited.	We would recommend that the Council review their document retention process to ensure that documentation is available to support all balances relevant to the financial year being audited.	The Scheme of Financial Management has been updated to include/clarify this information and was approved by GPC on 15 th March. Budget Holders will shortly be sent the revised Budget Holder Information Pack and will be asked to complete the annual return that declares their review and adherence to it. Any revisions to the Pack, including this one, will be highlighted to them. The review of the Capital Guidance Notes has not yet been completed due to the introduction of the Capital Programme Board and the need to reflect the tighter governance arrangements that this is putting in place. Once this review has concluded, the guidance will be reissued to officers.
County	Bank accounts are held in the Council's name which they are not aware of. Bank accounts are not held - according to the bank - where the Council believes that they exist. Bank reconciliations are not performed for all bank accounts held by the Council.	The Council's finance team should take responsibility for the controls surrounding cash and cash management. This will ensure that a comprehensive and up to date listing of accounts held can be maintained, and reconciliations can be performed for all accounts on a monthly basis.	An updated list of bank accounts has been produced. Work is currently underway to map this list of bank accounts to GL account codes. This mapping has been completed for the Council's main bank accounts, treasury/investment accounts, schools bank accounts, and the majority of imprest accounts. Ten imprest (petty cash) accounts remain to be mapped to the GL and these are being investigated. The balance on these remaining accounts is not material.

County / Pension Fund	Issue	PwC Recommendation	Latest Position May 2016
Pension Fund	Valuation of the Cambridge and Counties bank was not commissioned to the required standard	We would recommend that the Fund ensure that the valuation which is commissioned for the next financial year includes details from our findings this year to ensure that the work undertaken considers all of the relevant assumptions and includes the correct details regarding the Fund's ownership. We also recommend that sensitivities are performed on assumptions used.	<p>The Pension Fund has engaged an independent professional firm to value the Fund's investment in the Bank.</p> <p>The scope has been confirmed with the valuer and the draft valuation report will be shared with the auditors before it is finalised.</p>
Pension Fund	Late contributions are not monitored and therefore not received on a timely basis	We would recommend that the Fund begin monitoring the timing of contributions to ensure that they can manage their cash position more effectively	The late contributions process has been fully implemented. Late payments reports are run on a monthly basis. Late payers are reported and chased twice before being escalated, firstly to the Employers team, then to the Governance team.
Pension Fund	A detailed reconciliation by segregated investments is not performed by the Pension Fund	We recommend that the Fund regularly reconcile custodian and fund manager returns to ensure any discrepancies are cleared up in advance of year end.	The Fund performs quarterly reconciliations of custodian and fund manager statements and challenges the relevant parties to explain variances in excess of agreed tolerances.
Pension Fund	Supporting evidence for manual journals is not maintained as such that is readily available.	We recommend that the Fund implements and documents a clear process for posting manual journals.	Officers will review adherence to existing protocols to ensure full compliance of working papers.

County / Pension Fund	Issue	PwC Recommendation	Latest Position May 2016
Pension Fund	Pension data per ALTAIR is not reconciled to the payroll system.	We recommend that the Fund perform a reconciliation between the datasets on a monthly basis.	<p>Pensions Services are undertaking a comprehensive reconciliation of all member pension information. This will:-</p> <ul style="list-style-type: none"> • Accommodate the audit recommendation for a comprehensive payroll reconciliation, • Support an ongoing project to transition the pensioners payroll to the existing administration system, • Deliver the HMRC requirements, in respect of the ending of contracted out. <p>The move to a new payroll system in the Autumn of 2016, linked to the existing administration system, will remove the need for reconciliations of pensioner payroll between two interfaces.</p>
Pension Fund	The performance fee is not accrued for as at 31 March 2015.	We recommend that the fund recognises the performance fee on an accruals basis.	All Fund Manager agreements have been reviewed to identify where a performance fee arrangement exists. It has been confirmed that no performance fees are payable at 31 March 2016.
Pension Fund	General Ledger Codes are not always mapped to the correct Financial Statement line item.	We recommend that management perform a review of all general ledger codes at year end to ensure that the accounts correctly reflect the position on the general ledger.	General ledger code mapping is being reviewed as part of the closedown process.