

2014-15 CLOSURE OF ACCOUNTS IMPROVEMENT/ ACTION PLAN

To: **Audit and Accounts Committee**

Date: **20th January 2015**

From: **Head of Finance**

Electoral Division(s): **All**

Forward Plan Ref: **N/A**

Key decision: **No**

Purpose: Following the external audit of the 2013-14 Statement of Accounts, a number of internal control deficiencies were highlighted as part of the 'Report to those charged with governance (ISA (UK&I) 260)'. As requested by the Committee at the meeting on the 23rd September 2014, this report provides an update to the Committee on progress towards addressing those deficiencies, as well as other process improvements, ahead of the 2014-15 closure of accounts.

Key Issues: Progress against the closure of accounts improvement action plan.

Recommendations: The Audit and Accounts Committee is asked to note the report and comment on progress to date on the various work streams.

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1.0 BACKGROUND

- 1.1 The Council has an excellent record in terms of the production and audit assessment of its year-end Statement of Accounts. The 2013/14 process concluded in October 2014 after the authority had once again received an unqualified audit opinion on 26 September 2014.
- 1.2 In accordance with Auditing Standards, the Council's external auditors (PricewaterhouseCoopers LLP, (PwC)) are required to report the most significant issues arising from their audit work within a 'Report to Those Charged with Governance (ISA (UK&I) 260)'. This report was presented to the Audit and Accounts Committee on 23 September 2014 and highlighted a number of areas where improvements could be made. In particular, despite the positive conclusion of the audit, a number of points were raised in relation to the Council's development and implementation of systems of internal financial control and where deficiencies currently exist.
- 1.3 Following on from the receipt and review of the 'Report to Those Charged with Governance (ISA (UK&I) 260)', the Chairman of the Audit and Accounts Committee further expressed his concern at receiving the accounts as part of Democratic Services second despatch, which had not given him or the Committee sufficient time to review the accounts in advance of the meeting.
- 1.4 Officers agreed that some aspects of the outstanding issues highlighted in the report and the delayed submission of the accounts did require improvement. As a result, an action plan was implemented ahead of the 2014/15 closure of accounts process to eradicate the key internal control deficiencies that had been highlighted, and to ensure that steps are taken to produce the accounts in a more timely manner for the Committee to carry out its duties effectively.
- 1.5 The subsequent sections of this report (including Appendix 1) reflect on the progress against these areas to date. As part of this, a 'RAG' status approach has been adopted as follows to clarify the current status of each item:
 - red – no progress made to date
 - amber – action progressing but more work is necessary
 - green – action completed, or on track to be completed

2.0 2014-15 CLOSEDOWN IMPROVEMENT PLAN PROGRESS

- 2.1 The action plan was developed by finance following a debrief with External Audit colleagues in October. The Plan focussed on the key control deficiencies and issues raised in the 'Report to Those Charged with Governance (ISA (UK&I) 260)' and was shared with Heads of Service and responsible officers for the relevant areas. Feedback on progress has subsequently been collected at the end of October and the end of December, and a summary of developments is outlined below.

Main Accounts

Property, Plant and Equipment (PPE) accounts preparation (green)

- 2.2 PwC suggested that the Council reviews its processes and procedures for accounting for PPE and generating the year-end position, due to its significance and relevance to the critical path of the accounts production. This was to encompass consideration of systems and processes, as well as specifically considering accounting for Revenue Expenditure Funded by Capital Under Statute (REFCUS), recording and consideration of leases and processing of impairments. In addition, the Council should seek to ensure that its processes for entering into new lease agreements include a step whereby the finance team considers value for money and accounting implications.
- 2.3 Management initially responded by stating that the work undertaken to improve the Council's use of the Fixed Asset's system in 2013-14 would have a knock on benefit for the 2014/15 accounts. In addition, the Council is also looking to bring forward the timetable for completion of valuation and systems work, in order to provide more flexibility and time to prepare the accounts. The process for calculating Asset Under Construction (AUC) balances, including REFCUS transactions, had already been identified as an area to improve.
- 2.4 As a result of the action plan, the timetable for valuations has been agreed and will be completed two months earlier than for 2013/14. However, there is a change to the Code regarding valuation of Voluntary Controlled, Voluntary Assisted and Foundation schools which may impact on this. In addition, it has been confirmed that systems work will now start six weeks earlier than for 2013-14 and is to be completed two weeks earlier.
- 2.5 Further improvements to the process of calculating AUC balances will be started early in the New Year and will continue up until the 2014/15 closedown period starts. The process for calculating REFCUS balances within the AUC process has already been revised and does not need amending further.
- 2.6 Work is ongoing to reconcile the lease data to ensure all current leases are identified. Variances between systems are being investigated and the current valuation database is being updated. The final step is to reconcile the data to the General Ledger, then amend reports to ensure all relevant lease data is captured and can be exported for the Accounts. This work is still on target to be completed during January/ February. The new Asset Management System (AMS) will help to streamline the process for leases going forward, but the relevant lease data within it will not be in place in time for 2014/15 closedown work.
- 2.7 The Council is still working towards changing the valuation date for revalued assets, however due to the constraints of the current valuation system this cannot be put in place until the 2015/16 accounts at the earliest (as it requires functionality which the Council is hoping to include within the valuation module of the new AMS). This specific module of the system will now not be in place until late 2015 at the earliest.

Lack of segregation of duties within the Accounts Payable cycle and the Accounts payroll module in Oracle (green)

- 2.8 PwC recommended that the Council should seek to minimise the number of people who have conflicting responsibilities within its accounts payable and payroll teams or should implement detective controls to identify any conflicting actions undertaken during the year. Examples of such conflicting responsibilities include the creation of new suppliers and processing of payments to suppliers and the ability to process payroll and make changes to standing data.
- 2.9 The Council's initial management response to these issues was that the subsequent restructure and centralisation of teams and functions for 'Accounts Payable' has provided the necessary segregation of duties and responsibilities, and minimised the users who have this access. In addition, Supplier Maintenance takes place in the Data Management Team based at Northamptonshire County Council (NCC) and Invoice Processing takes place in Processing Operations based at Cambridgeshire County Council (CCC). The staff within these teams only have the access to complete their jobs and responsibilities have been end-dated accordingly.
- 2.10 Subsequent progress in 'Accounts Payable' has seen a review of all the existing responsibilities assigned and a number of people having theirs changed. There are still a small number with access to the most powerful responsibility that would enable them to undertake all activities, however these staff hold managerial positions so the risk of any breach is small. In addition, reports can now be run monthly to see what activity has taken place for the individuals that have this responsibility, which will show any anomalies. The long term solution is to build new responsibilities within the module which is planned, but there is no delivery date as yet. For Payroll, responsibilities have recently been redesigned and these have been through the first round of testing. As a result, some responsibilities have needed changes to be made, which will be resolved imminently. Revised responsibilities have now been built and deployed into the system production environment. These are continuing to be monitored to ensure that these have adequately addressed the prior issues (testing has confirmed that they have).

General Ledger to Payroll reconciliation and delays in obtaining income and payroll data (amber)

- 2.11 In the report from audit it was highlighted that the Council should ensure that its general ledger and payroll systems are reconciled on at least a monthly basis and that improved engagement takes place between key teams in the closedown process, such as payroll, to generate a more efficient production of information.
- 2.12 Management responded by indicating that monthly reconciliations take place across the general ledger and payroll areas with suitable quality and sign off processes incorporated. In addition, for both the main accounts and in production of the LGSS accounts, improvements in engagement will focus on the quality of supporting info, timeliness of responses to queries and improved consistency.
- 2.13 Through the implementation of the action plan it has become apparent that the production of payroll information was a known issue 18 months ago and had been communicated to NCC (but not CCC) Finance. Payroll reiterated this to NCC Finance in

January. Moving forward, Payroll have agreed that the creation of bespoke pay reports to meet the requirements of the Statement of Accounts and the audit process are needed, and these are in the process of being specified and produced. Finance are due to submit a request to Business Systems to have a report built to extract the necessary data to fulfil the requirements. This report will be owned by Finance and will be run by Finance to fulfil audit requests as required.

Bad Debt Provision calculation (green)

- 2.14 PwC commented that the Council's bad debt provision process is based on UK GAAP and is non-compliant with International Financial Reporting Standards (IFRS). Despite this not giving rise to a material error, the issue was highlighted.
- 2.15 Through the action planning process, the Code of Practice (CoP) has been reviewed and the proper accounting treatment would be to review all debts and judge the probability of collection for each. However, most categories of local authority debtors are not subject to substantial fluctuation and past experience can be used within material limits to judge the percentages of each type of debt that will not eventually be recovered. The practice is therefore one that is not founded in accounting standards, but is acceptable for producing carrying values of assets that would be arrived at by full application of proper practices. As in previous years, working papers will be maintained setting out the reasoning utilised to arrive at the bad debt provision calculation, ensuring that the calculation is materially consistent with an individual debtor assessment approach. This approach has been agreed with PwC and therefore no further action is necessary.

Material errors derived from extrapolation methodology (green)

- 2.16 As part of PwC's 2013/14 audit findings, one item of schools expenditure was identified as being incorrectly included in the 2013/14 financial year that related to 2014/15. The error was only £61 but as a result of PwC's testing strategy, this extrapolates to £353,616 over the whole schools population.
- 2.17 The error highlighted in 2013/14 was a cut-off issue that can happen in any aspect of the Council's business and these types of errors are not expected to be adjusted for. It is questionable therefore if this is really needed to be reported by external audit as the material error is hypothetical only. This is also the type of issue which could be minimised by a higher 'clearly trivial' reporting limit being adopted by PwC. No further action is necessary on the specific issue, but there is a further paper on the agenda, where Committee is asked to consider whether the Council's "clearly trivial" limit should be adjusted.

Pension Fund Accounts

Late Contributions Income (green)

- 2.18 PwC recommended that the Pension Fund should consider introducing a PEN18 requirement for Cambridgeshire County Council to monitor the late payment of contributions. As part of this, the Council should ensure that it is paying over its contributions to the pension fund on a timely basis.

- 2.19 Management responded by stating that engagement with Payroll is ongoing to improve Cambridgeshire County Council's specific provision of contribution information and transfer of monies to the Pension Fund Bank Account.
- 2.20 Since March 2014, Payroll have produced a reconciliation demonstrating that the deduction from the "source" payroll matches the payments into the pensions Bank Account, recording the date of payment and additionally showing the ledger entry.

Preparation of Pension Fund Accounts (green)

- 2.21 Within the ISA 260 report, it was recommended that the Pension Fund team review its closedown practices to ensure that they are fit for purpose to produce high quality accounting statements and supporting working papers first time.
- 2.22 Management acknowledged the recommendation and commented that steps such as further housekeeping, a greater focus on reconciliations during the year and improved communication on the timetable and the Annual Report were already in progress.
- 2.23 Since September, using the deliverables list from 2013/14 as a template, a closedown list has been created for 2014/15. In addition, the team has been shown and agreed the required format for working papers. Closedown tasks are being undertaken as they become available (i.e. some tasks such as ill health is an annual charge received in July which can be actioned immediately) and working papers produced in accordance with the closedown deliverables schedule.

Pension Fund Bank Account (amber)

- 2.24 PwC reported that the Pension Fund (PF) should ensure that all transactions are processed through its own bank account in line with regulations.
- 2.25 Management commented that a review of existing processes regarding Pension Fund bank transactions is being undertaken to ensure the integrity of payments and receipts.
- 2.26 Following on from this, Pension Services are working with Financial Systems to review the processes for bank reconciliations with an aim of aligning the different practices currently in place for CCC and NCC. The Pensions team are intending to produce a performance table showing when each monthly reconciliation is complete, highlighting any outstanding matters as they arise.

Use of suspense accounts and posting between PF and CC General Ledgers (amber)

- 2.27 PwC recommended that the possibility of restricting journal postings to each 'company' within the Oracle general ledger system should be investigated to avoid cross postings between the Council and the Pension Fund.
- 2.28 Management acknowledged the recommendation and stated that they will ensure cross-posting is restricted wherever possible. It was noted that historic cross postings

(involving balancing segment 03) have now been cleared, and the use of the P0 (Pensions) segment should maintain clarity in the segregation of the two ledgers.

- 2.29 To improve the process for 2014/15, procedures within the Income Support Team are being reviewed, with improved monitoring and compliance processes being implemented. In addition, Corporate Finance is working with business systems to ascertain the nature and volume of intercompany transactions and to restrict transactions to key automated processes by reviewing system responsibilities.

Reconciliation of investment manager confirmations to custodian reports (green)

- 2.30 The recommendation highlighted in the report stated that the Pension Fund should be reconciling its investment manager confirmations to its custodian reports on a regular basis and investigating differences as a matter of course.
- 2.31 The Pensions Team commented that the team operates a reconciliation process working to agreed tolerances with the Custodian and Fund Managers and that this process will be reviewed in the light of audit findings.
- 2.32 For 2014/15, the legacy Custodian, State Street, has been replaced with Northern Trust, with the transition being complete in October 2014. Northern Trust produces performance tables demonstrating the tolerances against which Fund Managers sign off their monthly accounting returns to the custodian. This is actioned against a high standard and is reported to the Pensions Committee in July by an independent adviser on all Custodian performance requirements of which this is one. In addition, Pension Service officers check the Fund Manager accounting reports against the values applied by the Custodian as a final check.

Cambridge and Counties Bank valuation (amber)

- 2.33 PwC recommended that as the value of the Cambridge and Counties Bank is currently at cost, a more appropriate independent valuation for the Cambridge and Counties Bank for the 2014/15 financial statements should be sought. In addition, the Pension Fund had also purchased preference shares during 2013/14. The valuation of preference shares is different to that of the equity shares initially purchased by the Pension Fund and this should be factored into any future valuation. The Pension Fund should engage with a specialist valuer in order to do this due to the materiality of the transaction, the profile of the Bank and the judgemental element of the valuation.
- 2.34 Management responded that the Pensions Service are due to liaise with the partnering owner of the bank and the bank itself to discuss and arrange independent valuation during 2014/15, To date no further progress has been made on this.

3.0 CLOSEDOWN TIMETABLE AMENDMENTS

- 3.1 The first draft of the closedown timetable has been produced and shared with finance colleagues for comment. This will go through a number of iterations before being finalised and shared with PwC.

- 3.2 The key changes in the timetable have focussed on bringing forward the dates relating to Property, Plant and Equipment information, and providing additional time for review by both officers and members. These changes are as follows:

Item	Date for 13-14 Closedown	Date for 14-15 Closedown
Complete and record all property valuations and transactions (excluding Feb-Mar transactions)	4 th April	31 st January
Record all remaining property transactions	4 th April	31 st March
All April property data uploaded to FA module (excluding disposals)	16 th April	31 st March
Submission of disposal costs (this will require manual creditors to have been uploaded)	17 th April	10 th April
All property data uploaded to system	16 th May	30 th April
First Member review of draft SoA (wording)	N/A	29 th June – 1 st July
Draft SoA for A&A Committee submitted	4 th July	3 rd July
Completion of the final SoA	5 th September	31 st August
Finance review of the Final SoA	8 th – 11 th September	1 st – 4 th September
Second Member review of final SoA	N/A	7 th September – 9 th September
Draft SoA for A&A Committee submitted	15 th September	11 th September

4.0 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.

5.0 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.

<u>Source Documents</u>	<u>Location</u>
<ul style="list-style-type: none">• 2013-14 Report to Those Charged with Governance (ISA (UK&I) 260)• Closedown Acton Plan	

Appendix 1 – Action Plan progress summary

Deficiency	Recommendation	Action Resolved/ Completed?
Lack of segregation of duties within the accounts payable cycle. Lack of segregation of duties within the accounts payroll module in Oracle.	The Council should seek to minimise the number of people who have conflicting responsibilities within its accounts payable and payroll teams or should implement detective controls to identify any conflicting actions undertaken during the year. Examples of such conflicting responsibilities include the creation of new suppliers and processing of payments to suppliers and the ability to process payroll and make changes to standing data.	Yes
General Ledger to Payroll Reconciliation	The Council should ensure that its general ledger and payroll systems are reconciled on at least a monthly basis.	Partially
LGSS accounts production process - some significant delays in obtaining income and payroll data.	The Closedown team should reflect on the experience of producing LGSS accounts for the first time and consider how the accounts production and audit can be supported most effectively. This should consider in particular how NCC and CCC Officers can work together contribute to the accounting and audit evidence for LGSS as a joint vehicle.	Partially
Late Contributions Income	The pension fund should consider introducing a PEN18 requirement for Cambridgeshire County Council to monitor the late payment of contributions. As part of this, the Council should ensure that it is paying over its contributions to the pension fund on a timely basis.	Yes
Preparation of Pension Fund Accounts	The pension fund team should review its closedown practices to ensure that they are fit for purpose to produce high quality accounting statements and supporting working papers first time.	Yes
Pension Fund Bank Account	The pension fund should ensure that all transactions are processed through its own bank account in line with regulations.	Partially
Use of suspense accounts and posting between PF and CC general ledgers	Management should investigate the possibility of restricting journal postings to each 'company' within the Oracle general ledger system to avoid cross postings between the county council and the pension fund.	Partially
Reconciliation of investment manager confirmations to custodian reports	The pension fund should be reconciling its investment manager confirmations to its custodian reports on a regular basis and investigating differences as a matter of course.	Yes
PPE Accounts Preparation	We recommend that the Council reviews its processes and procedures for accounting for PPE and generating the year end position. This should encompass consideration of systems and processes as well as specifically considering accounting for REFCUS, recording and consideration of leases and processing of impairments.	Yes
Leases as recorded by the property valuations team that had not been communicated to the corporate finance team	The Council should seek to ensure that its processes for entering into new lease agreements includes a step whereby the finance team considers value for money and accounting implications	Yes
Council's bad debt provision process is based on UK GAAP and is non-compliant with International Financial Reporting Standards (IFRS). No material error in this process (not a significant issue)	No recommendation.	Yes
Material errors derived from extrapolation methodology	No recommendation.	Yes
Cambridge and Counties Bank	We recommend that such a valuation is obtained for the 2014/15 financial statements. In addition, the pension fund has also purchased preference shares during 2013/14. The valuation of preference shares is different to that of the equity shares initially purchased by the pension fund. This should be factored into any future valuation. The pension fund should engage with specialist valuers in order to do this due to the materiality of the transaction, the profile of the Bank and the judgemental element of the valuation.	Partially