

MUNICIPAL YEAR 2019/2020 REPORT NO. **184**

MEETING TITLE AND DATE:

**Audit & Risk
Management Committee
January 16th 2020**

REPORT OF:

Executive Director of
Resources

Agenda – Part:

Item: 6

Subject: Statement of Accounts Update

Wards: All

Cabinet Member consulted:

Contact officer and telephone number:

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1. EXECUTIVE SUMMARY

- 1.1 This report details the improvements made to date in relation to delivering the 2019/20 Statement of Accounts on time.
- 1.2 The report monitors the plan (Appendix A) and also focuses on the key issues and changes since the plan was commenced. These changes include a decision to use CIPFA's industry standard Asset Register.

2. RECOMMENDATIONS

- 2.1 To note the update.
- 2.2 To note the decision to modernise the Asset register.

3. BACKGROUND

- 3.1 As noted previously, the Council experienced a challenging audit of the 2018-19 Statement of Accounts. A number of contributory factors were identified including turnover of key staff and needed to rely on interim personnel as it had no natural internal replacements. This increased the audit risk but also exposed hidden weaknesses that an outside opinion was able to identify far quicker than internal staff. Moreover, the light-touch audit era is over, as the media regularly report audit scandals and concerns about local government financial resilience only increase. The scale of the need for change was previously underestimated.
- 3.2 The Council's 2017/18 Accounts were signed off on 26th October in 2018 and the 2018/19 Accounts on December 19th 2019 by the Partner of BDO.
- 3.3 An improvement plan was required to ensure the timely signing off for 2019/20 Statement of Accounts. Updates on this plan are reported regularly to the Cabinet Member for Finance and the Executive Director of Resources and the Audit and Risk Committee.

4. UPDATE

- 4.1 HRA Valuations caused the largest delay in finalising the Audit in 2018/19. Therefore, this was the top priority area. The team delivered a workshop involving officers from Finance, Housing Property Services and Stratton Parker. The intent was to break down the Council's social housing estate into various property groupings (archetypes) that represent the Council's estate. These archetypes represent homes of a similar nature (construction type, postcode, dwelling type)
- 4.2 This workshop and much hard work between Housing Property Services and Stratton Parker led to the development of over 400 plus archetypes with the related beacon values.
- 4.3 Over December, the first 341 inspections have already taken place with another 65 taking place in January.
- 4.4 Every 5 years, the Council will need to undertake extensive work on archotyping and inspections so that it has a solid foundation of evidence on the estate upon which to value the estate. Then each year, it will use market data to update the estate valuation. However, as the Council develops and/or purchases direct from the market, it may create additional archetypes. These will then need a fresh inspection and valuation process similar to the 5-yearly approach, and then be rolled forward with market data provided by the expertise of the valuers.

- 4.5 General Fund valuations have also been commissioned and for the company assets. The Council is presently providing additional data to enable their valuation to be completed correctly. Gross Internal Area reconciliations needed to take place as last year it was raised as an Audit Issue and therefore the Council prioritised this as a matter of course.
- 4.6 The approach to valuing the General Fund also changed in 2019/20, as the Council now values the estate category by category in its entirety plus a small number of items are inspected from the other categories to enable a more accurate and robust approach. Previously it valued 20% of each category and extrapolated to the entire estate. This valuation is far more detailed, even if it is more costly. However, the more accurate information should generate greater confidence in the Accounts, which is particularly important given the more robust challenge from Audit firms, and especially our own Auditors, BDO.
- 4.7 The Head of Corporate Finance has delivered the first training session within Finance but more formal training needs to take place., The Chief Accountants have met informally with almost all finance officers to go over and review how processes work and how future improvements could be made. This is gradually involving training on a one-to-one basis.
- 4.8 However, some items (especially formal training) on the improvement plan have been delayed as the officers only started in November, rather than in October, so some lower priority areas are behind schedule by up to 6 weeks. Valuations as can be seen above were prioritised, as alongside reconciliations and the Trial Balance, were seen as pivotal to delivering the improved faster set of financial statements.
- 4.9 During December, it became clear that a new asset module to replace the SAP's flawed version would deliver far greater improvements than simply creating it through Excel, even though it added to the workload of the Corporate Finance team. However, as the cleansing took place, the need to have a robust asset register that could be easily interrogated became more evident. CIPFA's Asset Register is widely used in local government and is generally regarded as industry standard within the sector. Other options were considered but with the timescales so tight, this option was regarded as the quickest to implement with the lowest risk from an Audit standpoint.
- 4.10 The cleansing and reconciliation of the asset records will take place throughout the final quarter of 2019/20, increasing the robustness and reliability of Property, Plant & Equipment (£1.9bn), the largest balances on the Balance Sheet. This will not only strengthen the confidence in the Balance Sheet but also ensure that the Council is able to start off with cleansed up-to-date data upon which to implement the new Property system that the Council is going through the process of

procuring. A short-term resource will be brought into complete this reconciliation work, as noted previously.

- 4.11 All the delays means that it will be challenging to complete the first draft of the single entity Accounts by April 30th as intended. However, the Council was deliberately overly ambitious in its targets, to give itself extra time and continues to work to reach this deadline. However, assurance can be taken from the fact that the biggest single concern, valuations, are still on target (subject to delays from the Valuers' side for review during Interim Audit). This should allow much of the quality assurance to take place two to three months earlier than was planned for in 2018/19, to the extent it did take place at all prior to Audit. This singular change should significantly reduce the risk of Audit delays.

5. ALTERNATIVE OPTIONS CONSIDERED

- 5.1 No other option was considered appropriate as an update is what was requested by the Audit & Risk Management Committee
- 5.2 Furthermore, the need for a radical change was made clear by the lateness of the Audit as there was a significant risk of reputational damage.

6. REASONS FOR RECOMMENDATIONS

- 6.1 This report is to be noted only.

7. COMMENTS FROM OTHER DEPARTMENTS

Financial Implications

- 7.1 The impact of the improvement plan will be to increase the level of valuations carried out on an ongoing basis and increase the finance team on a fixed term basis to ensure that these changes are implemented. The Medium-Term Financial Plan proposed growth of £150k for the cost of the additional valuations and as noted previously, the one-off staffing resources are to be met by reserves.

Legal Implications

- 7.2 The responsibilities for the framework within which local authority audits are conducted is the Local Audit and Accountability Act 2014. The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the 2014 Act. Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

8. KEY RISKS

- 8.1 The two key risks are the impact increasing standards of probity as the external auditors are subject to greater scrutiny and the availability of internal resource to deliver the required changes.
- 8.2 In respect of increased probity, the early deadlines will enable greater review of the Accounts prior to submission and ensure they are of a higher standard.
- 8.3 The Council needs to be competitive in attracting the appropriate level of resource into the finance team and this will be supported by extensive training and upskilling across the existing team.

9. IMPACT ON COUNCIL PRIORITIES – CREATING A LIFETIME OF OPPORTUNITIES IN ENFIELD

9.1 Good homes in well-connected neighbourhoods

9.2 Sustain strong and healthy communities

9.3 Build our local economy to create a thriving place

This plan supports all council priorities, as having an unqualified set of Accounts maintains the Council's reputation both with local residents and with our partners, who support the main projects and services the Council delivers.

Background Papers

None

Appendix A

DATE	THEME	ACTIVITY	OWNER	COMPLETE/UPDATE
9 Sep 2019	Valuations	Review Approach to Valuations	Head of Corporate Finance	Yes
24 Sep 2019	Valuations	Produce and Send out Draft Commissioning Documents	Head of Corporate Finance	Yes
Oct 2019	Valuations	Create and Start-up Internal Group with Requirements for Creating Archetypes	Head of Corporate Finance	Yes
2 Oct 2019	Schools	Meet School Heads and Promote Faster Closedown and Review Leaver Dates	Finance Manager (Schools)	Yes
Oct 2019	Reporting	Obtain Trial Balance	Chief Accountant	Provisional Version Produced but more work needs to be completed by supplier (Absoft)
Oct 2019	Valuations	Meet with Valuer on a Workshop to Create Archetypes	Head of Corporate Finance	Complete
Oct 2019	Assets	Set up Group to review Assets to ensure all records are up-to-date with correct information.	Head of Corporate Finance	Partially, needs additional individuals
Oct 2019	Redundancies	Arrange quarterly meetings with HR and Payroll over Redundancy Positions.	Chief Accountant/Head of HR	The first meeting still has not taken place
Oct 2019	IAS 19	Agree new timetable for receiving documents from Actuaries	Head of Corporate Finance	Yes – March 15 th and July 15 th once Audit figures are agreed. Additional IWE document to be added
Oct 2019	Financial Control	6 month Review of Reconciliations (Quarter 2 Soft Close)	Chief Accountant	No, list of reconciliations in the process of being created. First 9 months of reconciliations are due January 27 th
Oct 2019	Financial Control	All budget virements, internal recharges (incl. Group ones) and proposed capitalisations reviewed	Chief Accountant/Head of Capital and Projects	Budget Virements reviewed, proposed capitalisations being reviewed over next few weeks, internal recharges and capitalisations behind schedule
Oct 2019	Interim Audit	Finalise Details over Interim Audit 1 with BDO & Arrange Availability of Officers	Head of Corporate Finance	Complete
Oct 2019	Training	First Training Session within Finance linked to a Workshop on reviewing current Closedown processes. Assess future requirements	Head of Corporate Finance	Complete

Date	Theme	Activity	OWNER	COMPLETE/UPDATE
Oct 2019	Capital	Capital Accounting Expert Hired	Head of Corporate Finance	Hired but only arrived in mid-November
31 Oct 2019	Valuations	All Archetypes Agreed.	Head of Corporate Finance	Complete.
Nov 2019	Interim Audit 1	ICT Walk Throughs & ICT Controls	Head of Corporate Finance/Head of ICT/Head of Exchequer Services	Complete but the odd follow up question remaining
Nov 2019	Interim Audit 1	MTFP Papers	Head of Corporate Finance	Not yet provided. Audit will receive in week ending 17 th January 2020, as Audit need to be ready to receive and request all documents.
Nov 2019	Communications	Set up External Audit SharePoint Site	Head of Corporate Finance/Head of ICT (ICT Project Manager)	Awaiting ICT support
Nov 2019	Communications	Agree Protocols with BDO over Management of Queries	Head of Corporate Finance/Audit	Audit Manager and Head of Corporate Finance to meet 16 th January 2020 to discuss next steps
Nov 2019	Accounting	Grant Register set up to Account for all Grants	Head of Corporate Finance	Delayed as Audit resource arrived in mid-November not October.
Nov 2019	Schools	Meet School Business Managers and Promote Faster Closedown and Review Leaver Dates	Finance Manager (Schools)	Complete
Nov 2019	Schools	Do workshop with Schools Finance Team over Closing Processes and Working Papers	Head of Finance, Finance Manager (Schools)	Complete but another session to take place in mid to late January
Nov 2019	Reporting	New Cost Centre Structure for Below Net Cost of Service Items put in Place	Chief Accountant	Delayed as Audit resource arrived in mid-November not October.
Nov 2019	Reporting	Redo Statement of Accounts Based on Trial Balance	Chief Accountant	Delayed as Trial Balance in process of creation Target Date February 14 th
Nov 2019	Training	Second Training Session within Finance linked to a Workshop on reviewing current Closedown processes	Chief Accountant	Delayed till mid-January
Dec 2019	Capital	Asset Register is Produced in Excel. All lines reviewed in Detail	Chief Accountant (Capital)/Finance Manager (Capital)	Not yet complete. A lot of cleansing needs to be completed and the Council wants to implement the CIPFA Asset Register. February 14 th

Date	Theme	Activity	OWNER	COMPLETE/UPDATE
Dec 2019	Capital	New Forms on Leases and Training Takes Place on IFRS 16	Chief Accountant (Capital)	Primary focus is on the Asset register. Only once uploaded will next stage take place
Dec 2019	Schools	Send out Closedown Guidance to Schools	Chief Accountant	First draft written, final will be sent out by January 17 th .
Dec 2019	Communications	Communications with wider organisation on timetable and relevant training	Chief Accountant	In process of being updated and agreed with Heads of Finance. New Deadline: January 17 th
Dec 2019	Accounting	All Grants correctly identified in the ledger	Chief Accountant	New Deadline of February 14 th
Dec 2019	Accounting	Approaches to all Bad Debt Provisions (Impairment to Debt) and Provisions reviewed	Chief Accountant/Head of Corporate Finance	Approach agreed but work cannot be started till February. Need to complete by February 28 th .
Dec 2019	Training	Training Session within Finance	Head of Corporate Finance	Delayed until midJanuary
Jan 2019	Capital	All Capital Expenditure is Reviewed for 9 months, alongside provisional allocation to asset class.	Head of Capital & Projects	All Capex being reviewed by January 27 th .
Jan 2019	Capital	All provisional asset transfers reviewed	Chief Accountant (Capital)	Delayed until Asset Register inputted. February 22 nd deadline.
Jan 2019	Assets	Quarterly meeting to review Assets to ensure all records are up-to-date with correct information.	Chief Accountant/Chief Accountant (Capital)	Meeting in process of being set up.
Jan 2019	Financial Control	Quarter 3 Hard Close	Head of Corporate Finance	Becoming soft close. Reconciliations are due to be complete by January 27 th .
Jan 2019	Financial Control	Quarter 3 Reconciliations reviewed	Chief Accountant	Reconciliations are due to be complete by 27 th January.
Jan 2019	Capital	New Asset Register Implemented	Chief Accountant (Capital)	Time Agreed with CIPFA, Purchase Order raised. Data review and reconciliation underway
Jan 2019	Financial Control	All budget virements, internal recharges (incl. Group ones) & additional capitalisations reviewed	Heads of Finance	Behind schedule. Services, particularly ICT, being asked to complete the paperwork. All should be complete by end of February.
Jan 2019	Schools	Training with Schools Arranged	Head of Corporate Finance/ Chief Accountant	In process of being reviewed
Jan 2019	Redundancies	All redundancy details reviewed, ready for review by BDO	Chief Accountant	Meeting yet to take place
Jan 2019	Valuations	Challenge work with Valuers	Chief Accountant (Capital)	Final inspections taking place

Date	Theme	Activity	OWNER	COMPLETE/UPDATE
Jan 2019	Related Parties	All council declarations submitted to Audit Committee alongside Related Party Details	Head of Corporate Finance	Change to complete update provided to update for following committee. Provisional form to be tabled on night of Committee
Feb 2019	Valuations	Meeting between BDO, the Council and the Valuers	Future Event	Future Event
Feb 2019	Interim Audit	New Methodology/Models for all BDPs reviewed	Future Event	Future Event
Feb 2019	Interim Audit	All Valuations reviewed	Future Event	Future Event
Feb 2019	Interim Audit	All academy transfers and proposed journals given to Auditors	Future Event	Future Event
Feb 2019	Interim Audit	Council and BDO agree provisional Materiality figures for the Group and Single Entity	Future Event	Future Event
Feb 2019	Reporting	Revised Templates for Accruals, Provisions, Reconciliations reviewed and implemented	Future Event	Future Event
Mar 2019	Closedown	Provisional Accruals are Prepared	Future Event	Future Event
15 April 2019	Closedown	Ledger closes to all service accountants (including Schools). Only technical adjustments to take place.	Future Event	Future Event
30 April 2019	Closedown	All reconciliations produced for the Accounts	Future Event	Future Event
30 April 2019	Closedown	First Draft of Statement of Accounts	Future Event	Future Event
15 May 2019	Closedown	First set of Group Accounts	Future Event	Future Event
22 May 2019	Closedown	All Files are placed on External SharePoint Site for Audit Review	Future Event	Future Event
31 May 2019	Closedown	Review Period Ends and Accounts are Placed on-line.	Future Event	Future Event