

# MUNICIPAL YEAR 2019/2020 REPORT NO. 240

**MEETING TITLE AND DATE:**

**Audit & Risk  
Management Committee  
5<sup>th</sup> March 2020**

**REPORT OF:**

Executive Director of  
Resources

<b>Agenda – Part:</b>	<b>Item: 5</b>
<b>Subject: Statement of Accounts Update</b>	
<b>Wards: All</b>	
<b>Cabinet Member consulted:</b>	

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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. It also includes an initial update on the Interim Audit.
- 1.3 Changes since the original plan include a decision to use CIPFA's industry standard Asset Register, improvements to bad debt provisions and internal systems aimed at achieving integrated Quarterly Accounting.

**2. RECOMMENDATIONS**

- 2.1 To note the update and planned further improvements.

### **3. BACKGROUND**

- 3.1 This paper is designed to update members of the Committee with an update on the Statement of Accounts improvement plan. As noted previously, the Council experienced a challenging audit of the 2018/19 Statement of Accounts. The Council's 2017/18 Accounts were signed off on 26th October in 2018 and the 2018/19 Accounts on December 19<sup>th</sup> 2019 by the Partner of BDO.
- 3.2 This is the third report to Audit & Risk Management Committee that covers the improvement plan. This report reflects early details of the Interim Audit with further updates at the meeting.
- 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. VALUATIONS**

- 4.1 All valuations have been commissioned. The London Borough of Enfield has different valuers to reflect the range of its estate. They comprise Investment Properties (Spencer Craig), Rural Estate (Knight Frank), HRA Dwellings (Strutt & Parker), HGL (Strutt & Parker), rest of General Fund (Avison Young). It received an update on the 4<sup>th</sup> and 5<sup>th</sup> February from all four of the valuers in order to assess progress.

#### **Rural Estate**

- 4.2 Knight Frank values the Council's rural estate (farms, golf courses and a few related houses and plots of land). The Council has received the valuations and the Property team has led on the valuation challenge. A draft valuation fit for the Interim Audit review as at 31st December 2019 has been received with acknowledgement that the second stage market assessment will be received for the final three months on 1st April 2020.

#### **Investment Properties**

- 4.3 The Council holds a significant investment property portfolio of shops in the Housing Revenue Account with a small number of investment properties in the the General Fund too. This valuation by Spencer Craig, who also manage the estate for the Council, was received and has been reviewed internally and is now ready for evaluation by External Audit.
- 4.4 External Audit's review of Investment Properties and the related review of the documentation (rental agreements, rental income, property records et al) takes place in the week ending 28<sup>th</sup> February 2020. Alongside the previous category, there will be a verbal update at the meeting regarding these two categories.

#### **Council Dwellings**

- 4.5 Both the establishment of archetypes (identification of separate categories of properties) and inspections of these properties has taken

place. The inspections of over 400 (as compared to last year's 24) were either on-site valuations or external inspections, backed up by other documentation such as gross internal areas, floor plans and pictures where possible.

- 4.6 The Council commissioned both 2018/19 and 2019/20 inspections under the more rigorous regime to ensure that any significant movements can be reviewed in respect of the prior year where required.
- 4.7 This valuation completed by Strutt & Parker has been delayed., The summarised 2019/20 data was seven days later than expected with the detail breakdown still outstanding as at Monday 24th February. All of the 2018/19 data, booth summary and detail are similarly outstanding. The team are in regular contact with Strutt & Parker to chase up the outstanding information. An update will be provided at the Audit & Risk Management Committee.

#### **Other General Fund**

- 4.8 Avison Young completed the commissioned valuations, however the quality is not up to the standard required. Similar to the Council Dwellings, this valuation process was redesigned because previously it was insufficiently robust. The old process examined a few properties chosen relatively at random out of each class so that over five years, every property was reviewed. To obtain greater certainty, the Council has chosen to review an entire class at the same time with a more detailed review. It will then conduct an annual desktop exercise, using a number within the class chosen for the purpose of indexation.

#### **Asset Register**

- 4.9 The Council is implementing a new Asset Register (CIPFA's industry standard version). This involves a two part process. First of all, the Council needs to conduct a cut-over process to match the asset register to the Accounts by putting all assets into the correct upload format and to validate past years' entries.
- 4.10 The second stage involves a review of all assets to validate their existence from third party data and correcting asset categorisation. Already, earlier concerns have been validated, not only was the previous asset register producing errant entries but the quality of data was poor. A significant number of entries were either "REFCUS", revenue expenditure funded by capital under statute and therefore by definition not an asset or simply labelled revaluation or impairment.
- 4.11 The cleansing has proven to take significantly longer then expected. Until these two steps are completed it is not possible to update the General Ledger. This has meant the Chief Accountant taking direct responsibility for working with CIPFA's expert to address these items. However, the Council had previously partially de-risked this situation by asking for additional support from CIPFA's technical expert.

#### **BAD DEBT PROVISIONS & COLLECTION PERFORMANCE**

- 4.12 The Council has reviewed its approach bad debt provisions so that in the future they are based on actual collection rates. All of the 13 Bad Debt Provisions will have a new calculation methodology – these cover collection fund, sundry debt, housing benefit overpayments, numerous rents and court costs,
- 4.13 Specifically, support from the Data team has helped with the production of new reports in relation to Housing Rents. Once the Council has finalised these reports, it intends to bring them into regular practice.
- 4.14 The Council has chosen to turn a potential risk area into an opportunity for improvement. The next stage is to determine how these reports can be used to monitor performance on an ongoing basis. A meeting has been set up to review this in late March to bring key officers to determine how this can be integrated into the new housing system to drive service responses. The aim is to integrate third party tools such as “Rents Sense”, which categorises renters by payment profiles.

#### **QUARTERLY ACCOUNTING & SYSTEM IMPROVEMENTS**

- 4.15 The Council is gradually moving to quarterly integrated management and financial accounting, which will support not only earlier reporting but greater confidence in the Accounts, as issues are flagged up and resolved throughout the year. This means quarterly accruals, review of provisions, Bad Debt Provision adjustments, reconciliations and reporting process improvements.
- 4.16 Historically, the Council has explored how it can automate production of the accounts including use of CIPFA’s Red Button (automated local government accounting). However, this was not considered possible because a key system report, the detailed trial balance, was not available. A draft trial balance is now in operation which makes adoption of the Red Button approach more realistic proposition.
- 4.17 All of the changes will also support the move to a new accounting system longer term; cleansing the ledger and a modern financial control system are pivotal to this change.
- 4.18 As reported previously, it will be challenging to complete the first draft of the single entity Accounts by 30<sup>th</sup> April as intended. However, the Council has deliberately built some contingency in its timetable, to give itself extra time and continues to work to meet this deadline. Whilst there are some delays to the completion of the valuation work the earlier scheduling of this critical activity means that it is less likely to be an issue during the actual year and main audit.

#### **5. INTERIM AUDIT**

- 5.1 For 2019/20 there is a comprehensive four week interim audit underway which incorporates some of the initiatives considered above. The scope and content of this interim audit has changed since it was first proposed in the late summer/early autumn. A full 9 month hard close would have only been possible with a fully operational trial balance and fully functional asset register, which are both components

of the Improvement Plan only scheduled to commence across January and February respectively.

5.2 Already underway are:

- Income and expenditure sampling,
- Sampling and testing of the collection fund,
- Evidencing long term debtors and creditors,
- Payroll sampling,
- Provision of Housing Benefit data for sampling, and
- Bad debt provisions and other provisions as above.

5.3 Over the next few weeks the team will focus on capital expenditure, valuations and grants and also some of the notes to the accounts.

## **6. ALTERNATIVE OPTIONS CONSIDERED**

6.1 No other option was considered appropriate as an update is what was requested by the Audit & Risk Management Committee

6.2 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.

## **7. REASONS FOR RECOMMENDATIONS**

7.1 This report is to be noted only.

## **8. COMMENTS FROM OTHER DEPARTMENTS**

### **Financial Implications**

8.1 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**

8.2 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.

## **9. KEY RISKS**

- 9.1 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.
- 9.2 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.
- 9.3 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.

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

**10.1 Good homes in well-connected neighbourhoods**

**10.2 Sustain strong and healthy communities**

**10.3 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	Complete
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	Complete
Oct 2019	Redundancies	Arrange quarterly meetings with HR and Payroll over Redundancy Positions.	Chief Accountant/Head of HR	Complete
Oct 2019	IAS 19	Agree new timetable for receiving documents from Actuaries	Head of Corporate Finance	Yes – 11th march and 15 <sup>th</sup> July 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 were due and are starting to be reviewed over February and early March
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

<b>Date</b>	<b>Theme</b>	<b>Activity</b>	<b>OWNER</b>	<b>COMPLETE/UPDATE</b>
Oct 2019	Capital	Capital Accounting Expert Hired	Head of Corporate Finance	Hired and officer left. Resources re-shuffled as lack of market availability with Head of Corporate Finance involved in direct delivery
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. However, Audit asking additional questions in Interim Audit 2
Nov 2019	Interim Audit 1	MTFP Papers	Head of Corporate Finance	Complete. Available to Auditors but no review yet.
Nov 2019	Communications	Set up External Audit SharePoint Site	Head of Corporate Finance/Head of ICT (ICT Project Manager)	Produced as of 17 <sup>th</sup> February 2020 but structure needs to be created.
Nov 2019	Communications	Agree Protocols with BDO over Management of Queries	Head of Corporate Finance/Audit	Audit Manager and Head of Corporate Finance met in January to discuss next steps. Query Filed
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. Month 10 version complete as at 21/02/2020 but not yet internally reviewed.
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.
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 3 <sup>rd</sup> February 2020
Nov 2019	Training	Second Training Session within Finance linked to a Workshop on reviewing current Closedown processes	Chief Accountant	Delayed until late February

Date	Theme	Activity	OWNER	COMPLETE/UPDATE
Dec 2019	Capital	Asset Register is Produced in Excel. All lines reviewed in Detail	Chief Accountant	Going straight to CIPFA Asset Register (as that can accomplish restatements within its functionality. Due Date 28 <sup>th</sup> February 2020 for Cutover Testing. Final version to be reviewed in 1 <sup>st</sup> week of April with BDO
Dec 2019	Capital	New Forms on Leases and Training Takes Place on IFRS 16	Chief Accountant	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	Completed but additional leasing guidance to go out on Monday after half-term (24 <sup>th</sup> February 2020)
Dec 2019	Communications	Communications with wider organisation on timetable and relevant training	Chief Accountant	New Protocol that all communications are agreed by Section 151 Officer each Monday
Dec 2019	Accounting	All Grants correctly identified in the ledger	Head of Corporate Finance	Complete as at 21 <sup>st</sup> February 2020
Dec 2019	Accounting	Approaches to all Bad Debt Provisions (Impairment to Debt) and Provisions reviewed	Head of Corporate Finance	All Complete bar Sundry Debt
Dec 2019	Training	Training Session within Finance	Head of Corporate Finance	Delayed until late February
Jan 2019	Capital	All Capital Expenditure is Reviewed for 9 months, with allocation to asset class.	Head of Capital & Projects	All capital expenditure being reviewed by 27th January. Provided 3 <sup>rd</sup> March 2020
Jan 2019	Capital	All provisional asset transfers reviewed	Chief Accountant	Delayed until Asset Register entries have been input. New Deadline 18th March 2020.
Jan 2019	Assets	Quarterly meeting to review Assets to ensure all records are up-to-date with correct information.	Chief Accountant/Chief	1 <sup>st</sup> Complete. Series of smaller meetings on an ad hoc basis to tackle main issues. A Council-wide meeting
Jan 2019	Financial Control	Quarter 3 Hard Close	Head of Corporate Finance	Now soft close.
Jan 2019	Financial Control	Quarter 3 Reconciliations reviewed	Chief Accountant	Reconciliations are due to be complete by 27 <sup>th</sup> January.
Jan 2019	Capital	New Asset Register Implemented	Chief Accountant	Time Agreed with CIPFA, Purchase Order raised. Data review and reconciliation underway
Jan 2019	Financial Control	All budget virements, internal recharges (including Group ones) and 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.

Date	Theme	Activity	OWNER	COMPLETE/UPDATE
Jan 2019	Redundancies	All redundancy details reviewed, ready for review by BDO	Chief Accountant	1 <sup>st</sup> Meeting took place with a further meeting with BDO 6 <sup>th</sup> March and a final meeting in early April with HR once year has closed
Jan 2019	Valuations	Challenge work with Valuers	Chief Accountant	All Inspections finished
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.
Feb 2019	Valuations	Meeting between BDO, the Council and the Valuers	Head of Corporate Finance	11th March 2020
Feb 2019	Interim Audit	New Methodology/Models for all Bad Debt Provisions reviewed	Head of Corporate Finance	All Bad Debt Provisions bar Sundry Debt reviewed and complete
Feb 2019	Interim Audit	All Valuations reviewed	Head of Corporate Finance	2 out of 5 reviewed and (rest due by Committee date)
Feb 2019	Interim Audit	All academy transfers and proposed journals given to Auditors	Head of Corporate Finance	Due 28 <sup>th</sup> February 2020
Feb 2019	Interim Audit	Council and BDO agree provisional Materiality figures for the Group and Single Entity	Head of Corporate Finance	Auditors have yet to provide
Feb 2019	Reporting	Revised Templates for Accruals, Provisions, Reconciliations reviewed and implemented	Head of Corporate Finance	Complete and On Internal Website
Mar 2019	Closedown	Provisional Accruals are Prepared	Head of Corporate Finance	Future Event
15 April 2019	Closedown	Ledger closes to all service accountants (including Schools). Only technical adjustments to take place.	Head of Corporate Finance	Future Event
30 April 2019	Closedown	All reconciliations produced for the Accounts	Head of Corporate Finance	Future Event
30 April 2019	Closedown	First Draft of Statement of Accounts	Head of Corporate Finance	Future Event
15 May 2019	Closedown	First set of Group Accounts	Head of Corporate Finance	Future Event
22 May 2019	Closedown	All Files are placed on External SharePoint Site for Audit Review	Head of Corporate Finance	Future Event
31 May 2019	Closedown	Review Period Ends and Accounts are Placed on-line.	Head of Corporate Finance	Future Event

