

London Borough of Enfield

General Purposes Committee

30 June 2021

Subject: Statement of Accounts ISA260 Response and Improvement Plan

Cabinet Member: Cllr Maguire, Cabinet Member for Finance

Executive Director: Fay Hammond, Executive Director Resources

Key Decision: No

Purpose of Report

1. The Council's statutory accounts have consistently been published in draft in line with Government deadlines but for the past three years the deadline for the external auditors to sign off the accounts has not been met. The report sets out how the quality of the draft accounts will be improved to support timely sign off of the accounts and how the team will be more responsive to queries during the course of the audit.

Proposal

2. General Purposes Committee is recommended to note the actions set out in the report to deliver improvements in the production and quality of the Council's statutory accounts.

Reason for Proposal

3. The Council's accounts have without fail been given an unqualified opinion on conclusion the external auditors work. However, since the statutory deadline for draft accounts was moved back to 31 May and for audited accounts to 31 July for the 2017/18 accounts, the external auditors have not met the audit deadline.
4. Despite the ultimate unqualified opinion this has had the potential to undermine the significant strides made by the Council in its financial management and resilience. The Council has eradicated historical unachievable income and saving targets from its revenue budget along with addressing service spending pressures and put in place a ten year Capital Programme and matching ten year Treasury Strategy to enable effective planning as well as ensuring transparency of its regeneration ambitions for the Borough.
5. As well as potential reputational impact the extended audit times have stretched the resources of Council teams, predominantly the Finance Team and that of the BDO. This has diverted the attention of the Finance Team from other priority areas of work and also led to additional audit fees from BDO. In respect of the latter this is also an area already under pressure through the last round of PSAA appointments which pushed down resource in

an environment of greater audit scrutiny along with compressed timescales for preparation of draft and sign off of final audited accounts.

Relevance to the Council Plan

6. Sound financial management and reporting support all of the Council's Corporate Plan objectives:
 - i. Good homes in well connected neighbourhoods
 - ii. Safe, healthy and confident communities
 - iii. An economy that works for everyone

Background

7. The Council has made major improvement to the processes to produce the Statement of Accounts, but the Audit is still not complete for 2019/20. The Council met the Draft Account deadlines in 2019/20 but a combination of the scale of prior period restatements, and errors in the Accounts and lack of resources led to significant delays in 2019/20 audit. It is worth noting that this is a common experience in local Government, due to the tougher audit climate and the need to make great improvements in the Accounts. However, this does not mean Enfield will tolerate the current position. This paper sets out the actions to address the ISA 260 concerns and also trails items that will form part of the Council's wider updated Statement of Accounts Improvement Plan.

Main Considerations for the Council

8. In order to give some consistency in reporting and presentation the actions required to drive the improvement in financial reporting are set out in direct response to the issues raised in BDO's draft ISA260, Completion of Audit report presented to General Purposes Committee on 22 April. A number of the actions were already underway at this time. The first half of the report addresses the ISA260 issues and the second half the wider improvements being delivered and to be delivered by the Finance Team and other key services across the Council.

ISA 260 Response

9. The ISA260 sets out the actions to address significant deficiencies, other deficiencies and follow up of prior year deficiencies. The Council's response to these are set out in turn in paragraphs 10 to 47 below.

10. Significant Deficiencies

11. **(i) The Council should, as part of a wider root cause analysis process:**
 - **Reflect on the experiences of the 2019/20 closedown experience**
 - **Revisit finance department structures, and skill set and experience needs, updating as necessary**
 - **Secure necessary additional resources**
 - **Ensure the closedown plan for 2021/22 enables the support for "hard close" (both for trial run but also as a key interim audit step)**
 - **Ensure the closedown and preparation of draft Statement of Accounts allows for a thorough and robust quality control and review process**

- **Ensure that there is a clear plan for what will be undertaken during the quality control and review and who will undertake the various steps, with clear guidance on documentation and evidence of these processes**
 - **The General Purposes Committee should receive and review these plans**
12. A series of workshops were held with the entire Finance Team across January and February to review the fundamental shortcomings of the preparation and audit of the 2019/20 accounts.
 13. A wider ranging assessment of the Finance Department commissioned by the Executive Director Resources has been undertaken by CIPFA across March/April 2021. In part this has been driven by the need to consider overall capacity of the Team in light of the Council's regeneration ambitions but it has naturally also considered business partnering and deliver of the statutory accounts. A new top team has been agreed by Staff Appeals, Appointment and Remuneration Committee on 29 April and the restructuring and recruitment processes are now underway.
 14. There had been a partial restructuring of the Corporate Finance Team in summer 2020 with a Chief Accountant and three qualified accountants covering assets, systems, and a deputy position reporting up to the Head of Finance. It was, however, only possibly to appoint to the Systems and Assets roles at the time.
 15. Securing the appropriate resource has been a continual challenge. An experienced interim Chief Accountant joined the team in December which has had a positive impact. This has been supplemented by an interim Deputy also in December along with the permanent Deputy in February 2021. The interim Deputy will be with the team for the duration of the 2020/21 accounts to provide extra capacity to drive through the necessary improvements. However, the most recent recruitment campaign to secure a permanent Chief Accountant has again proven unsuccessful and a further round of targeted recruitment through a third party recruitment firm is now underway.
 16. The 2021/22 Closedown Plan will include a "hard close" for a trial run as a key interim audit step. The value of this is recognised and this plan will be put in place over the forthcoming months.
 17. The key discussion points at the review workshops were quality control and review. There are a range of measures in place to address these historical shortcomings. Firstly, a realistic Closedown timetable is in place factoring in time for review throughout the programme and importantly significant time at the end to review the entire set of accounts.
 18. On the individual elements there are revised templates in place for Balance Sheet Justification Forms and Earmarked Reserves, there have been training sessions in place for areas of historical weakness such as grants and most importantly there is an Accruals Panel in place along with named reviewers for grants, balance sheet justifications and other key notes and working papers.
 19. This is the first report on the Council's Improvement Plan and there will be progress reports throughout the remainder of the year.

20. **(ii) Linked to the preceding accounts review quality control point and recommendations above, the Council should, as part of a wider root cause analysis process:**
- **Ensure the closedown step relating to valuations of no current assets allows for a thorough and robust quality control and review process**
 - **Ensure that there is a clear plan for what will be undertaken during the quality control and review and who will undertake the various steps, with clear guidance on documentation and evidence of these processes**

The General Purposes Committee should receive and review these plans.

21. Enfield has put in place new quality review processes for the following areas:
- i. An Accrual Panel that reviews and assesses each individual accrual before posting, reviewing the calculation, treatment of each item (coding) and the evidence. It involves sign off by managers and the Accrual Panel.
 - ii. Working Paper Review Process. There is a template for all main working papers to ensure that they have been checked by managers for quality of evidence, coding, statutory requirements and clarity of presentation. Working papers require sign off by the manager and a Quality Assurance Review Panel. Time allowing, there will be a third review.
 - iii. Final Quality Review Process: Both the Narrative Statement and the main Accounts will be reviewed during a two week period in July. It will also be externally reviewed.
22. The Council is building on the work undertaken in 2019/20 whereby the CIPFA Asset Register was implemented and there was an overhaul of the approach to valuing HRA properties with over 400 beacons valued compared to the 24 properties valued in 2018/19 to be the basis of the overall valuation of the estate.
23. The Council needs to produce an updated improvement plan. This is intended to be presented to a future General Purposes Committee meeting. A previous plan was produced for October 2019, driving the improvements which have taken place to date, such as consistent statements from a system generated Trial Balance and a new Asset Register. However, it still needs to deliver quarterly accounting and the basic accounting building blocks (as noted in Further Statement of Account Improvements section – paragraph 48) need to become standard good practice.
24. Other Deficiencies
25. **(iii) Manual journals should be parked/submitted for approval and then posted by different people to ensure appropriate segregation of responsibilities. Approval of journals should be by a senior member of the finance team.**
26. The Council's financial system, SAP, allows journals to be parked and posted by the same individual. The Council is working with its supplier to produce a new journal template and to put in place a system fix to prevent this from happening. However, this is not an immediate solution.

27. In the meanwhile, a centralised journal log was created so that even if the system was not set up to support segregation of duties, managers would still be expected to review each journal that is posted. Part of the strategy for 2021/22 is to review this monthly to enforce this cultural change.
28. **(iv) Casual worker contracts, we would recommend that a letter of engagement is issued which outlines the terms and conditions of the employment and the salary/pay scale for each casual worker hired.**
29. The Council's casual worker policy clearly states that the engaging manager must issue a letter of engagement including details of the role and pay rate. This letter must be sent as part of a starter pack to the HR Recruitment Team along with other required documents. HR will not create the casual worker record on SAP until the full starter pack is received that includes the signed letter of engagement.
30. The requirement to check for the signed letter of engagement is clear in the casual worker policy that includes clear templates. This requirement will be immediately reinforced with the recruitment team to ensure they have a copy of the signed letter of engagement before a new record on SAP. The team will collect and file and missing documents where it has been identified that they are missing by October 2021.
31. **(v) A regular review of users of all IT Systems should be implemented.**
32. The Council reviews SAP access regularly. This needs to be extended to non-SAP systems and will form part of the Improvement Plan.
33. **(vi) Accumulated absence accrual. As the balance is immaterial it is unlikely that there would be a material error, however the Council should ensure that it complies with its own policy.**
34. The Council will be producing the Accumulated Absence Accrual for 2021/22 and going forward will update it yearly.
35. Follow Up of Prior Year Deficiencies
36. There were also three outstanding issued raised in previous years.
37. **(vii) Management should ensure that they undertake their own detailed review of the draft financial statement, including an analytical review, of both the single entity and group financial statements before they are submitted for audit on 31 May.**
38. As noted in paragraph 21, this has been addressed as part of the timetable, with multiple levels of review including a final stage in July.
39. **The group financial statements were submitted for audit on 20 July in line with the revised timetable, however as noted previously these contained a significant number of errors, and a significant deficiency in relation to the accounts production process has now been raised**
40. This issue primarily relates to the errors in the Single Statements and the decision to reverse the Prior Period Adjustments and then put the adjustments through in different years according to materiality, rather than treating it as one collective error. In prior years, there was not a robust process, timetable or intercompany reconciliation for the companies. All of these items have been put in place for 2020/21 and the intercompany reconciliations have been passed through to Corporate Finance for review.

41. **(viii) Meridian Water, we recommend that management prepare a working paper (making reference to the CIFPA Code) to justify their classification for these assets on an annual basis, prior to the instruction of valuations as the classification will determine the basis for valuation.**
42. **Management had proposed that a meeting to agree this would take place during the interim audit in early February 2020. this did not take place as planned and the justification for the valuation basis of Meridian Water was only provided to audit in September 2020 after the Council had engaged a third party consultant to assist with this.**
43. The Council will ensure that a paper from an external provider is produced annually. Therefore, the paper from Ichabod Industries will be updated for 2020/21 and provided to BDO on 1 August 2021 alongside the rest of the Accounts' documentation.
44. **(ix) The Council should perform monthly checks on user access levels and perform regular reconciliations of leavers to the access listings.**
45. **The Council has not introduced these checks in full yet. Currently are done after users have not logged in for 60 or 90 days. There remains a risk that existing users may have access to information that is not required for their job role.**
46. The Digital Service already carry out leaver checks within 5 days of the employee or agency member leaving to ensure equipment and access is removed. The Service will introduce the monthly checking, replacing the 60 to 90 day check across Council systems.
47. The service will also amend processes and standards in light of the reporting and build into the Role Based Access (RBAC process) that is being updated this year and commence this on SAP access in July.

Further Statement of Accounts Improvements:

48. Accounts are based on basic building blocks that are the foundation of good financial habits and ensure that the Council is a going concern:
 - i. Balance Sheet Codes should reconcile to listings of debtors and creditors. The Council is focussing heavily on the medium sized balances in 2020/21 and has put in place an in-year monitoring regime.
 - ii. Correct recording of transactions in Revenue. Miscoding of transactions in the Accounts led to difficulties reconciling Grant income back to the ledger during the Audit. The Grant Register is being reconciled in detail in 2020/21 however, the coding of transactions generally remains an area of concern and it is important to embed good habits.
 - iii. Expenditure and Income is recorded in the correct year. Generally, the quality of accruals is fairly solid, although the quality of working papers and evidence has room for improvement.
 - iv. Valuations of liabilities and non-current assets.
 - The liabilities work is primarily a combination of Pension Fund actuarial assessments and investment balances. The Council needs to assure itself that the liabilities are an accurate reflection of

the Council's position – The Deputy Section 151 Officer is reviewing the Pension Fund in 2020/21 and the Head of Corporate Finance reviewed the Actuarial Insurance Liability in April and May with the Insurance Manager.

- Valuations of non-current assets require housing and property support. The Council has overly relied on Corporate Finance to step in but Finance are not experts on the estate or valuers/surveyors. The Council has recently gone out to recruit a permanent valuer.
- v. Accounting Treatments – items need to be correctly treated in the Accounts. There were historical issues, many of them dealt within 2019/20 but the Council has complicated financing arrangements and more work needs to be done.
49. There are three drivers of performance – people, processes and systems. These will all feature in the Improvement Plan too. Key on the people side will be appropriate training programmes for finance staff to add to the on the job training already undertaken this year.
50. There are of course, items that require a new Financial System and while this item is firmly on the agenda of the Section 151 Officer, this is not an immediate solution. Therefore, workarounds, both in terms of processes and system fixes to the version of SAP that the Council has will be taking place over the next year to 18 months.

Safeguarding Implications

51. There are no safeguarding implications arising from this report

Public Health Implications

52. There are no public health implications arising from this report

Equalities Impact of the Proposal

53. None

Environmental and Climate Change Considerations

54. None

Risks that may arise if the proposed decision and related work is not taken

55. The report is for noting. However, in the event the actions set out in the report were not seen through there is the risk of further protracted audit of the Council's financial statements and the potential additional cost and impact on reputation that this would have.

Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks

56. The risks in section 54. above are significantly reduced.

Financial Implications

57. No financial actions arising directly from this report.

Legal Implications

58. 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. A Code of Audit Practice came into force on 1 April 2020, after being approved by Parliament. The new Code applies to audits of local bodies' 2020/21 financial statements onwards: The detailed statutory Auditor Guidance Notes (AGNs) that will support the new Code are being drafted.

Workforce Implications

59. No workforce implications arising directly from this report.

Property Implications

60. No property implications arising directly from this report.

Other Implications

61. None

Options Considered

62. No other options were considered.

Conclusions

63. The Council is making a full response to BDO's 2019/20 Draft Closure of Audit report and is putting a more comprehensive improvement plan in place to drive up the standard of its external financial reporting.

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Appendices

Background Papers

BDO Completion Report 2019/20 – GPC April 2021