Joint Audit and Governance Committee

Report of Head of Finance/Strategic Finance Manager/Finance Business Partner

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To: Joint Audit and Governance Committee

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2017/18 Year End Audit: Lessons Learned and Corrective Actions

Recommendation

To note the report.

Purpose of Report

1. To provide a summary of the factors which resulted in the external auditors Ernst and Young (EY) not completing their planned audits in June 2018 and consequently not signing the financial statements for either council in accordance with the new reporting deadline of 31 July.

2. To highlight the corrective actions being taken to ensure the 2018/19 and future year statements are audited and signed in accordance with the statutory reporting deadline.

Background

3. The draft financial statements were required to be prepared and published one month earlier than previously on 31 May, in accordance with the new statutory deadline. The new deadline for signature of the financial statements by the auditors is 31 July. In practice however the deadline was reduced by a further month in 2018 because the external audit was timetabled for the four-week period 4 to 29 June.

4. When EY completed their four-week audit on 29 June 2018, they had not received sufficient evidence and backing documentation. Due to other client commitments EY were unable to extend their audit into July and could not return until September. Consequently, the financial statements of both councils were not signed in accordance with the new reporting deadline (31 July) and were signed after the audit was finally completed at the end of September 2018.

5. The financial statements were prepared by Capita Accountancy (CA) at that time based in Milton Park. The audit was also managed by Capita Accountancy. The financial accounting function has since moved to Mendip.

6. In December 2018 the finance business partnering team which included the chief accountant (Richard Spraggett) mentioned below was transferred back into the councils as part of the strategic finance team.

Problems encountered during the 2018 audit

7. The new deadline dates were always going to be challenging for all, especially so for South and Vale because their audit was timetabled to finish at the end of June effectively shortening the deadline by another month. Areas which caused significant audit delays are highlighted below.

8. **Finance reorganisation and staffing.** Capita Accountancy announced a restructure of the finance function on 21 March. The onsite financial accounts team had a head count of nine staff, one principal accountant had already left (in February) and another was working her notice and due to leave on 9 April. Of the remaining seven staff, six were made redundant on 31 May, four days before the audit started, leaving the chief accountant as the only permanent staff member during the audit. Three of the experienced redundant staff agreed to return on a consultancy basis the following week to assist with audit queries and two others returned intermittently to assist. An experienced local government finance contractor was appointed in late April.

9. In its ‘Audit results report’ EY said ‘reduction in staff capacity at both the Councils and Capita has had a detrimental effect on the timeliness and quality of the evidence provided for audit’.

10. **WGA (Whole of Government Accounts) return.** This statutory return was due at the end of the first week of the audit. Staff recruited to assist with the audit had to focus fully on preparing these returns rather than responding to audit queries.

11. **Debtors and creditors reconciliation**. Although a summary reconciliation was prepared by the Capita accounts receivable team, a detailed line item report suitable for audit was not supplied until later in April and this report balanced to a mid- April total not the year end one. The chief accountant had to rework and

remove April transactions from the later report before it balanced back to the year end figure and could be used for audit sampling.

12. **Accounting for the 5 Councils' contract**. An error by the councils in accruing for the '5 Councils' Contract' in South affected the grossing up of income. Although this had zero effect on South's net results, the grossing up significantly changed costs and income and necessitated additional and new audit testing of debtor and creditor balances.

13. **Property and valuations - timing.** The councils contracted with a third-party Sanderson Weatherall (SA) to receive property valuations. CA completed all depreciation calculations in February and these were available for audit review pre-31 March potentially as an interim audit item. Valuations were received from SA in early March and the full fixed asset statements were completed (by CA) and available for audit in mid-March. The audit of these statements however did not start until well into the final audit in June.

14. **Property and valuations – accuracy**. EY put significant emphasis on the property valuations, the SW reports were analysed by a specialist EY department who asked a number of searching questions. This in itself was a time-consuming process because questions went from the EY property team to the EY audit team to the CA chief accountant to the councils' contracted property specialist. Many of the assumptions were challenged as were the valuations themselves.

15. EY found errors with the valuations, some property plans did not agree with the records held at the land registry. Property valuations were finally agreed on Tuesday 25 September 2018 resulting in the chief accountant having to rework a number of statements two days before the JAGC on Thursday 27 September 2018.

16. **Communication from EY**. Although CA were aware the audit was progressing slowly they were not aware until the last week of how behind the auditors were with their timetable. In particular CA had a list of outstanding audit requests which was also circulated to the strategic finance manager, but they were not aware of audit testing that had not been started or reviewed. Had this been communicated by EY urgent action would have been taken before the end of the audit to increase resources.

17. **Audit planning and resourcing.** Certain audit tests were carried out at year end which could have been carried out during the interim audit. Such as; testing of lease documentation and analysis of contracts. Answering these queries was time consuming because this data is often held offsite and has to be retrieved from storage. Given the very limited time available at year end and the constraint on EY resources in June and July, consideration should be given to carrying out this testing as part of an interim audit.

Corrective action

18. The councils' strategic finance team have discussed with the Capita senior financial accountant (who was not in post last year) what went wrong and agreed improvements itemised in appendix 1.

Financial Implications

19. As advised to JAGC in September, EY incurred additional costs which they have invoiced to the council. There are no statutory penalties for the late signature of accounts and no implications for the cost of future audits.

Legal Implications

20. Approval of the statement of accounts by the committee in accordance with statutory dates fulfils the requirements of the Accounts and Audit (England) Regulations 2015.

Risks

21. Not achieving the new accelerated timetable was reputationally detrimental to both councils, however a number of councils (in the region of 15 per cent) did not achieve the new timetable and like South and Vale, filed in September, consequently this risk is considered to be minimal.

Other Implications

22. None

Conclusion

23. The councils' finance staff have worked in partnership with Capita to reflect on the issues raised which resulted in the late signing of the accounts and the agreed corrective action that should help prevent issues arising in future.