

# **Slough Borough Council**

## **Post Audit - Review**

**Based on the Audit and the Audit Completion Report**

**November 2018**

# Document Control

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## ***Version Control***

Version 1

Initial Draft 26<sup>th</sup> November 2018

## ***Scope***

The information in this document aims to set out the issues that have been identified during the Audit and the subsequent Audit completion document.

The aim is to establish:-

- Background to the situation
- What the Auditors found
- What we have already started in order to move forward
- What we need to do
- Where we are up to
- Timescale and resourcing.
- Other considerations – New auditors

## ***Limitation***

The information in this document is based on various discussions with the External Auditors the Audit completion report, Group Accountants and other members of Staff and external bodies that also feed into the process.

## ***Prepared By***

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November 2018

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# 1. Background

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SBC has over the last 2 years gone through some significant changes that need to be considered when reviewing the Audit Findings. These have included:-

- In 16/17 the general ledger system was changed from Oracle to Agresso.
- The 16/17 Audit was only signed off in Feb 2018
- The interim 17/18 Audit commenced in Early March 2018
- The 17/18 Accounts have been produced using Cipfa's 'Big Red Button'.
- The 17/18 Yearend Audit is the last one being undertaken by BDO.
- The Audit of the 17/18 accounts was completed and signed off on 15th Nov 2018
- The final year undertaken by any firm of auditors – tend to be more challenging
- The 18/19 yearend Audit will be undertaken by Grant Thornton.
- The Interim Audit is scheduled to commence around the end of January

## **It needs to be noted**

The implementation year of Cipfa's BRB (Big red button) Statement (this is the evolution by CIPFA of their toolkit) has had a few hiccups (these will be discussed later). But predominantly it needs to be noted that although our Auditors from BDO 'had heard of Cipfa's BRB, none of them had any experience or understanding of what it really is or what it is aiming to do.

It was necessary for us to bring in the CIPFA consultant on more than one occasion to provide training for the Auditors in a group session and then to also bring the consultant in again to basically explain and extract information out of the BRB system for the auditors.

## ***What we have already done***

- An additional resource – with the necessary technical skills was brought in to help and assist with the 17/18 close down and production of accounts (Mathew started on the 12th of March part way through the interim audit)

## ***What we have already identified***

- The audit issues have identified 'Understanding and capability issues' within the finance team – these are going to be addressed within the re-structure.

## 2. Summary

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The 17/18 year end and associated audit did not go as smoothly as we had anticipated.

We have made some positive improvements during 17/18 that we are now building on.

However, we have also had some issues develop that have had a significant knock on effect and it is these that we are currently working towards rectifying, these are summarised below:-

- When the problems with the mapping of the GL to BRB were identified a significant amount of time had to be re-directed to ensure that we were able to publish the Statement of Accounts on 31<sup>st</sup> May 2018
  - This had a knock on effect that the planned review time in May had all been used
  - Time that had been built in to cross cast the Statement to working papers had been used
  - The working papers for Debtors, Creditors Cash and Bank had not been created and had not been cross cast to the numbers in the Statement
  - The Associated Notes for Debtors Creditors Bank and Cash – had the total figures in

### **So what went wrong with the BRB Implementation?**

Being able to look back and review what was done when and by who it appears that the individual originally tasked with undertaking the mapping either did not grasp the full complexities of the project, which was more than just a basic load it anywhere requirement (the upload balanced to zeros so it was all ok).

- What was needed was a more robust understanding that the mapping was the starting point
- Testing should have been undertaken to ensure that when the BRB statement was run the main statements reconciled
- Where codes were mapped to a 'non linked code' – needed to be documented why and what was going to happen with these
- Where GL codes were put to holding (loading codes) in BRB these should have had working papers to support and they needed to be either properly mapped direct to the notes or cleared out properly

And, we have had a number of repeat issues again identified by Audit – individuals have not moved forward and have not performed the tasks required - specific details of these are dealt with in later sections

### 3. Cipfa Big Red Button

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1. What is Big Red Button
2. How does Big Red Button work
3. It needs to be Noted
4. What we have already identified
5. What we have already done
6. What still needs to be done

#### 1. What is Big Red Button

Cipfa have developed a piece of software that replaces their 'Toolkit'.

In essence it is a reporting tool that takes raw data (an extract from the accounting system, the TB) and applies a the mapping as set up by SBC which in turn produces the Statement of accounts which, if you don't make any changes is CODE compliant.

#### 2. How does BRB work

- Initially you take an extract of your ledger system (the account codes), and then effectively map the codes into a format that the BRB system can understand.
- This mapping of your ledger is applied in a format BRB can read and load information into specific (already set up) codes within the BRB system – these codes tell BRB which section and which element to uses within each of the specific notes in the system, and ultimately the Statement of account.
- The Primary Statements are produced by pulling and consolidating the information from the individual notes.
- A GL ledger code may need to have multiple levels of mapping (mapped more than once) as the entry point into BRB may require different combinations for the reporting structure (i.e. CIES and Segmental reporting)
- The information that is loaded into BRB is initially allocated into a Primary column or a secondary column (if it's already been mapped to a primary entry point).
- There are then 2 columns that you can make a manual adjustment in – the first is for entries that you will make in the Ledger system and will be overwritten when you upload the next version of the TB. The second is manual adjustments between the mapped number (the uploaded ones) and what is eventually published in the statement.
- The idea and concept behind BRB is to be able to update amendments throughout the audit and then to be able to print a complete Statement – at any time (if everything is set up correctly)

#### 3. It needs to be noted

- BRB is a reporting system that is evolving as new functionality is created following feedback from users (including ourselves)

- Once set up correctly, and appropriate staff has had sufficient training, and all the additional functionality has been switched on – some of the audit issues will disappear.
  - Now has a automated rounding system to check for rounding's within notes and to feed the corrections through the necessary areas in the statement – this was not available at the start of the Audit

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#### **4. What we have already identified**

- Issues with the 16/17 Accounts have a compounding effect on the movement in 17/18
- The mapping exercise was not completed as accurately or fully as was needed (this caused an element of confusion and the use of lots of 'manual adjustments' in order to actually get a statement out on time.
- The amount of time to set up BRB was significantly underestimated (basically oversold)
- BDO have required changes to the wording within specific tables of the notes produced by BRB – this functionality is not available and has had to be dealt with Manually outside of the BRB system (not the way BRB is supposed to work)
- The change in organisation structure and essentially the reporting lines
- The timescales towards the end of May and the issues that started to develop (in relation to the mapping not being accurate or complete) has led to a significant number of manual entries made – with a lack of working papers or working papers that did not support the statements.
  - During the revised mapping exercise that we are now undertaken – we have established that a lot of codes (from the GL) have been mapped to 'Loading codes' in BRB
  - A loading code is only supposed to be used when further work to split or allocate a specific amount is necessary.
  - What we have found is in order to balance the upload file (GL load into BRB) holding codes were used to ensure the upload balanced.
  - It was not until towards the end of May this was found, by then there was no time to go back and correctly map the GL properly
  - This actually had a significant effect on the time needed to put in fixes to get the Balance sheet to actually Balance and for the system to be able to produce a set of accounts

#### **5. What we have already done**

- We have already started to unpick the manual adjustments and to look at properly completing the mapping exercise.
- Working papers are being set up that will support any manual adjustment that is needed to be undertaken in BRB –these papers are now creating basic template that can be followed next year.
  - The exercise is also identifying specific codes in the GL that would need to be manually split going forward. Once we have a complete list we can consider if it would appropriate to add new code combinations into the GL

## 6. What still needs to be done

- Once we have completed the Mapping exercise we will need to test the new mapping
  - We can create an alternative version in BRB and load the new mapping into this
  - We will then have to do a complete compare and contrast to the original file that produced the statement, and investigate any discrepancy
  - Once we are happy with BRB we can role forward into the 18/19 year and then switch on the new/additional functionality that is now available
- All Appropriate BRB functionality and standard templates (which are code compliant) need to be switched on and fully utilised
  - For 18/19 Statement we are aiming to use no manually created templates
  - Information needs to be provided in BRB format
  - Information must be provided on or before the deadline
    - We have no slippage time available as both Production and completion of the Audit depends on information being in BRB compliant format and available when needed

## 4. General Ledger

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### Audit related Issues Identified

1. Findings/Audit adjustments from previous years not fully put through the ledger
2. Year on year bridge analysis – not able to be fully undertaken due to changes in establishment structure
3. Auditors could not clearly see what ledger codes feed into which parts of BRB, this made some of reviews and checking of movements (especially cash flow ones) more challenging than it should have been.

### What we have already identified

- All relevant changes will be posted through the GL
- The GL mapping review is currently under way, to clearly identify all the GL codes that go into the specific notes to the accounts and into the Services.
- By having a fully (and correctly mapped GL(into BRB) we will be able to undertake the year on year bridge analysis better and more complete than we were able to for 16/17 to 17/18.
- Any changes in the organisation structure needs to be clearly communicated to finance and these changes need to be recorded appropriately (with all relevant changes made in the reporting structure in the GL. It is necessary for these changes to also be kept and documented to assist in the explanation of the year on year step changes.



### **What we have already done**

- A review of the Audit changes has been undertaken, to establish what needs to be actually posted through the ledger system and what is a 'technical change on paper only'
- The mapping review has been started and is currently on going, we expect this to be completed in January

### **What still needs to be done**

- The 17/18 yearend Audit amendments need posting through the GL – anticipate this will be completed before November is closed
- We need to complete the mapping exercise
- We then need to test the new mapping in a 'test version' of BRB to check that the numbers produced from the revised (and complete) mapping are what we expect them to show.
- Once this is done we then will need to role forward BRB (close 17/18) and open the new year and undertake a partial year close, this will be in BRB only and is to test the links and the mapping to see if any new GL codes have been added that need to be included or if any have been re-pointed
- The 18/19 position will also have to take into account any changes in the report structure – these need to be clearly ascertained and an excel re-apportionment exercise will need to be undertaken to clearly document the changes (any restructure of cost centres). This will allow for an appropriate Bridge analysis to be undertaken
- The Bridge analysis will need to be in place and complete before the yearend Audit commences for 18/19. The movements will also need to be considered and any large variances will need to be investigated – this will be added to the yearend 'Task list' in preparation for the Audit.

## **5. Working Papers**

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### **Issues Identified**

1. Numbers in the Statement were not supported by an appropriate working paper
2. The working paper that were supplied – did not agree to the numbers in the statement
3. No working papers were supplied – in some instances
4. Failure by members of finance to understand what a 'proper working paper is' – not just a ledger print.
5. Working papers did not start with the audited numbers from the 16/17 accounts
6. The internal deadline for the production of working papers (in some instances) where missed – so they were not available for internal review and quality control before the Auditors turned up – it is effectively these that have caused the most issues
7. BRB require working paper and information to be provided in a suitable format –

## 8. Still scope

### **What we have already identified**

- The deadlines we set for delivery of working papers was missed by some of the Group Accountants and their teams
- The mapping issues had a knock on effect on the Debtors, Creditors and Cash and Bank working papers
- Some individuals don't quite understand what the auditors require from a working paper
- Working papers need to be in a format that is in BRB Compatible not just what has been produced before – specifically all the financial instrument and Pension related disclosure notes

### **What we have already done**

- We have already undertaken an internal review of the working papers supplied to Audit this year
- Areas that require improvement have been identified and steps are being taken to create new working papers (for BRB loading codes and subsequent manual adjustments)

### **What still needs to be done**

- A clear timetable will be presented for the 18/19 closedown process
  - Individuals will be made more responsible for delivering on time and in a suitable format
  - Time will be made available in the timetable for a 'Critical' review of all working papers before being supplied to Audit
- Advice and additional training/guidance will be given (where appropriate)
- The working papers also need to be code compliant

## **6. Adults and Communities – Home Care Accrual**

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### **Issues Identified**

1. Costs under accrued by 216k

### **What we have already identified**

- The process used in 17/18 to assess the amount of costs (the accrual) that needed to be taken into account was different to the one used in 16/17
- The Auditors had not liked the way the 16/17 accrual and working papers had been produced, so listening to Audit feedback the 17/18 was produced in a different way.
- The 17/18 Accrual was based on the value of the invoices received after 31<sup>st</sup> March up until the production of the 'statement of position'

### **What we have already done**

- We have already reviewed the way the accrual was produced
- A reconciliation with supporting working papers has been produced to quantify and validate the 216k the auditors had requested be incorporated into the 17/18 accounts.
- Considered what else and how we can get the end of year accrual more accurate

### **What still needs to be done**

- We have already reviewed the way the accrual was produced and plan on 'tweaking the process' so that we start with the late invoices then take an 'additional judgement' of the ones we believe we are still expecting – but have not arrived in time.
- It is envisaged that the inclusion of this additional step (which involves the creation of appropriate working papers to track what we are expecting, what has been received and where the gaps are'
- For the production of the 18/19 accrual – we also intend to undertake a materiality comparison between what the total accrual should have been for 17/18 and what we believe the 18/19 one should be

### **It needs to be noted**

- With the creation of any Accrual there will always be an element of subjective judgement.

## **7. Children, Learning and Skills**

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### **Issues Identified – by Audit**

1. £7.993m of understated Income and Expenditure
2. Schools CFR differences – Totalling £582k
3. Format of the Disclosure note

### **Issues Identified – Others**

1. Imprest balances
2. Obtaining information from the Schools in a timely manner
3. Validating the CFR returns
4. Obtaining finalisation statements for school that has converted to an Academy in year, and the likely effect on the 18/19 position and accounts.
5. Cutover issues brought forward from Oracle including the historical treatment of previous audit adjustments

### **What we have already identified**

- There is a need to add a couple of additional GL codes in so that the Income and Costs that had been 'netted off' together (the £7.993m) can be shown separately.
- Even though the members of the team had been asked to check their accounts for issues like this – these particular ones had not been flagged before
- As closedown is 31<sup>st</sup> March and schools have a break for Easter around that time, school staff are not always available to supply CFR and Imprest claim information in a timely manner.
  - Similar with queries in relation to the information contained in the forms supplied at the end of year
- Audit have integrated the information contained in the School CFR returns and have requested a significant amount of supporting backup.
  - This caused a lot of issues with some of the schools

### **What we have already done**

- Reviewed the Audit findings
- Considered what additional codes need to be added to the Structure
- Undertaken a review of the Imprest Balances (in house)
- Started to communicate with the schools our plans to do an interim CFR return as at the end of Month 9 (December)
- Identified 2 significant balances that need to be fully worked through and validated before the accounts are closed for 18/19

### **What still needs to be done**

- Continue with the investigation of the Imprest balances
  - We will need to communicate and work with each school to try and clearly understand why there is a reconciliation difference on the impress claims and then to agree or propose a solution that is fair and pragmatic, and suitable for audit
- To undertake a review of the relevant ledger codes to ensure that similar issues to the (£7.993m) are not in the 18/19 position
  - It is envisaged that a full trawl of the ledger by the relevant accountants will be undertaken after month 9 (but before the interim audit commences) and then again after month 12 but before the statement of accounts is finalised
  - To ensure that this is done properly – we are proposing to have confirmation (by the finance person) then for a separate review to be undertaken by the group accountant for the section to confirm compliance.

### **Why we need to do – Have the Schools prepare an interim CFR at Month 9 (end of December)**

In 17/18 we attempted to undertake a soft close of the CFR return at the end of Month 11

- Following the Audit and the review of the month 11 CFR close- we have found
  - Month 11 is the wrong month for this to happen
  - Some schools still struggled to get any CFR information to us on time

- There was not enough time from received the returns at Month 11 to properly reconcile and investigate discrepancies
- The Schools with the greatest issues where the one's that we did not receive CFR returns in a timely manner
- The end of year difference between council records and what the schools thought was the position amounted to £582k
- Based on the errors and issues with the CFR returns it has now been proposed that the interim CFR take place based on month 9 close (December ).
  - This will allow time to review and properly investigate any discrepancies, so that when we get to month 12 close it should be easier and more straightforward.
  - Having the information available, checked and reconciled to our systems before the Interim Audit will also be a positive step forward.
    - Audit will be able to commence some of the validation and year end audit Months earlier than they could in 17/18
    - Errors can be investigated and the correct position can be ascertained before closing the statement of accounts
    - We will eliminate the 'last minute full panic to supply documentation for audit – like we had during 17/18
  - Should big discrepancies be found we can have sufficient time to fully investigate before closure of the accounts
  - We will also be able to more accurately forecast the end of year position, including any additional deficits that we currently do not know about.

### **Significant Issues that could have Audit or Year end implications**

Arbour Vale conversion to Academy on 1<sup>st</sup> Nov 2018 (during 18/19)

This is currently one of the most significant risks we have

- As of today (27<sup>th</sup> November), we have not received the information from Arbour Vale that would allow us to correctly close the accounting position down
- A lot of the discrepancy in the £582k from the Audit findings was in relation to Arbour Vale's 17/18 CFR return
  - The initial CFR showed a significant surplus on the return however following internal review, meeting on site and obtaining a full TB (from the School) and the subsequent visits to go through the details we clearly established that costs had been left out of the CFR return sent to SBC.
  - Further internal working and investigation (including a triple way reconciliation), including a cash payment movement review ensured that the number used in the Statement where accurate and reflected the true position of Arbour Vales' deficit, not the surplus they reported
  - The assets of Arbour vale (cash and Bank balances) did not support a surplus position
- It is essential that Arbour Vale supply the necessary paperwork and all relevant support in order for us to finalise the position, ideally we would like to be able to

present a final position to the Auditors at or before the beginning of the Interim Audit.

## **8. Cash and Bank - Suspense Accounts**

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The issues identified by the Auditors in relation to Cash, bank, Suspense accounts Debtors and Creditors are essentially all interconnected

### **Issues Identified – by Audit**

1. Amounts in Suspense have not been fully reconciled or clear out, this has and will have a knock on effect on Cash, Debtors and Creditor Balances

### **What we have already identified**

- Balances that are moved into the suspense account basically stay there until somebody tries to claim an amount
- The reconciliation of the Suspense account is out of date

### **What we have already done**

- A project to bring up to date the Suspense account reconciliations has been started, this has involved, we are targeting items in the General Suspense first and once these are cleared the other suspense accounts will be looked at
  - Reallocation of work in the team to clear time to put Mary working on this until it has been brought up to date and then can be managed as part of the
  - The reconciliation of what is outstanding ( in the suspense account and available for allocation) has been completed
  - The second stage of the project is to start the clearance of all un allocated items – this is already underway – progress has been made and this is currently ongoing
  - Where items have can be identified in relation to specific areas lists have been distributed and members of the specific accounting teams have been asked to investigate and provide details for Mary to clear.

### **What still needs to be done**

- This project is currently ongoing we are getting closer to the stage that we will be able to produce a list of all the items in the suspense account – with the view of sending this out to all of finance team and others for all teams to investigate and claim specific items
- A Summary reconciliation will be produced showing the position at the end of Dec 2018
- The clearance of the suspense accounts will have a positive impact on Debtors and Creditors as some of the suspense payment's are more than likely to relate to old outstanding invoices
- We are aiming for all these to be at or near an appropriate standard by the start of the interim Audit

## 9. Cash and Bank - Other

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### Issues Identified – by Audit

1. Cash and cash equivalents disclosed as financial assets in the note did not agree to the balance
2. The bank and cash working papers provided for audit did not adequately analyse the balance in the Balance Sheet or support the reconciling differences between the ledger and bank statement figures.
  - a. £4.144 million misstatement between creditors and the bank balance in respect of an account payment made at year end and reversed after year end (payment only cleared through the bank statement after year end).
  - a. General ledger entries should not have been reversed at year-end and should have been treated as a reconciling item.
  - b. Bank and creditors are therefore overstated by this amount year-end.
  - c. Understatement of cash balance by £1.229 million and income by £459,000, and overstatement of debtors by £770,000, due to unallocated receipts in the miscellaneous bank general ledger accounts
  - d. Understatement of cash and overstatement of debtors by £4.395 million due to unallocated receipts in the bank transfer general ledger account
  - e. £234,000 receipts credited to a debtor balance instead of fees and charges, thereby understating debtors and fees and charges at year end.
3. Understatement of cash and overstatement of debtors by £4.395 million due to unallocated receipts in the bank transfer general ledger account
4. £234,000 receipts credited to a debtor balance instead of fees and charges, thereby understating debtors and fees and charges at year end.

### What we have already identified

- The content and quality of the working papers need to be significantly improved

### What we have already done

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### What still needs to be done

- Undertake a proper review of what goes in to the associated working papers
  - How the bank accounts operate and how they link together to form the note
- Year end cut offs need to be correctly allocated to the working papers
- A month 9 draft position should be undertaken so that
  - The proposed draft working paper can be review for completeness
  - Audit can be given a draft working paper
  - This should then be updated monthly until the end of the year –
    - So that its already in place and only needs updating
- Once produced the working paper needs to be compared to the numbers in the statement – all categories need to be cross cast to ensure perfect correlation

## 10. Debtors & Creditors

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### Issues Identified – by Audit

1. Statement did not agree to working paper- example below
  - a. NHS was disclosed as Nil instead of £2.458m
  - b. Local Authorities disclosed as Nil instead of £3.574m
  - c. Central government was disclosed as a credit balance of £6.888m instead of a debit of £10.774m
  - d. Other entities was disclosed as £40.073m instead of £16.379m
2. £3.063m receivable from DWP was incorrectly included as a debit balance in Creditors – resulting in an understatement of both creditors and Debtors
3. Berkshire Fires share of the Council tax £359k was incorrectly shown as a central government creditor instead of a local authority creditor
4. Creditor Balances were incorrectly disclosed
  - a. NHS was disclosed as Nil instead of £1.008m
  - b. Local Authorities disclosed as Nil instead of £137k
  - c. Central government was disclosed as Nil instead of £9.146m
  - d. Other entities was disclosed as £33.503m instead of £23.213m
5. Income related to 18/19 financial year had been included in the 17/18 position total £851k
6. A schools debtor balance of £1.424m was included as a debit balance in creditors
7. No age analysis of financial assets (Debtors and creditors) past due but not impaired neither was an analysis of past due put have been impaired was produced at all.
8. There were others but all similar to the above

### It needs to be noted

- The issues with the mapping of the GL into BRB HAD a significant impact on the time and resource available in the final days before the statement was published
- A decision had to be made to either miss the publication deadline and risk the Auditors postponing the start of the Audit, and spend the necessary time going through and checking the details like these or to adhere to the 31<sup>st</sup> May publication timeframe and work on the missing items/splits after that Date
  - The Statement was published on time
- By the time the auditors were on site and ready to look at these areas the splits had been identified, working papers had been produced (however the auditors still had issues with the quality and content of these)

### What we have already identified

- The timing, quality and content of All working paper including Debtors and Creditors needs to significantly improve
- Working papers must be produced on time and subject to internal review (peer or management review) before these are shared with Audit
- And they absolutely must agree to the numbers in the statement (at the start of the audit) even if these are later found to need amending



- A review of the creditor and debtor codes must be undertaken to ensure that Debtor's and Creditors are correctly classified.

#### **What we have already done**

- A schools debtor balance of £1.424m was included as a debit balance in creditors – The schools finance team have started to investigate this and one other transaction identified during the Audit
- The clearance of the suspense accounts will have a knock on effect on Debtors and creditors – it is envisaged that this clearance will remove some of the older items

#### **What still needs to be done**

- The timetable for 18/19 closedown will include sufficient time for working papers to be reviewed
- Undertake a complete debtor and creditor review
- We need to look review if we can or cannot produce the Aged Debt analysis and the associated impairment or assets that the code requires

## **11. Group Accounts and Companies**

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#### **Issues Identified – by Audit**

1. Management did not provide any working papers to evidence its assessment of its interests in these entities.
2. The draft financial statements submitted for audit included Group Accounts for the Council's interest in SUR LLP.
3. The Group CIES was not fully populated, with a number of current year and prior year amounts omitted
4. The Group Balance Sheet incorrectly had a £nil balance in respect of investments in associates
5. The Group Cash Flow Statement was incomplete
6. There were no disclosure notes.
7. SUR was initially included then subsequently removed.

#### **Issues Identified – Others**

1. There have been issues with the loading template into BRB – now fixed (by Cipfa consultant)
2. Linking the group accounts is a multi step process – were further training is required

#### **It needs to be noted**

- We had planned on putting both the SUR and James Elliman Homes into the group section of the accounts.
  - It was the auditors who suggested removing the SUR – to make there life easier (as individually it was below materiality threshold)

#### **What we have already identified**

- Additional training is needed on the process and steps needed to load the group account information (specific template) and on the process of linking and updating the information in and out of the group function
- A detailed working paper is also going to be needed to prove materiality for each company – separately
- The associated accountants for these companies will need training and guidance on filling in/producing the information in the group loader template
  - they should produce the extract to use

#### **What we have already done**

- A review process of the 17/18 accounts has been undertaken
- The issues have been identified that caused the issues with loading and updating the information
- Discussions with CIPFA consultant have taken place and lessons learned are being actioned

#### **What still needs to be done**

- Additional training/support and assistance will be arranged for Jan and Feb

## **12. Senior Officer Pay and Exit Package Notes**

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#### **Issues Identified – by Audit**

1. An extra payment per the termination agreement for a staff member was not included in the total cost of the exit package; this issue was identified during our interim audit and corrected in the financial statements
2. The comparative total exit package cost and number of exit packages did not agree to the prior year signed accounts; this issue was identified during our interim audit and corrected in the financial statements
3. Election and emergency call out payments to the Director of regeneration, Assistant director for adult social care, Director of adults and communities and Assistant director of finance were not included in the salary, fees, and allowances payments in the Officer's remuneration note
4. The Council's share of the Director of Public health cost was incorrectly calculated as it did not take payments of £15,000 into account
5. Exit package figures erroneously excluded payments in lieu of notice (PILON), annual leave compensation payments and legal fees (taxable/pensionable) totalling £102,784
6. The severance payment of £86,653 to the interim Chief Executive was included twice
7. The PILONs for two employees, totalling £17,000, were not included in the exit packages note
8. The number of compulsory redundancy and other redundancies disclosed in the exit package note was incorrectly stated as nine and two respectively, instead of four compulsory redundancies and eight other redundancies
9. The pension cost for the previous interim Chief Executive was overstated

10. The note omitted to disclose the interim Chief Executive's remuneration for February and March 2018
11. A number of salaries disclosed in the incorrect salary bandings for remuneration over £50,000.

#### **It needs to be noted**

- The issues with the mapping of the GL into BRB HAD a significant impact on the time and resource available in the final days before the statement was published
- These particular disclosure notes have a level of materiality of zero – so any error or discrepancy is reported

#### **What we have already identified**

- Both the interim draft note and the final draft published notes contained errors
- Information that had been supplied had not been included in the figures
- HR found it hard/time-consuming to produce the 'cross referenced' information (3<sup>rd</sup> party confirmation for Audit)
  - When it was produced,, differences were identified
  - Tracing information and confirming
- This information should be collected at regular intervals throughout the year and then a full and complete review should be undertaken before being given to Audit
  - By regularly obtaining the information, errors should be eliminated

#### **What we have already done**

- During the year end audit a number of conversations and meetings with HR were undertaken, in order to obtain information to confirm what finance had in relation to redundancies and exit packages

#### **What still needs to be done**

- We plan on starting the collection and verification earlier for 18/19
- Early meeting's with HR will be scheduled in January where we will attempt to verify the 1<sup>st</sup> 9 months position
  - This will require finance to check ledgers first
  - Then HR to confirm what they believe has happened In the 1<sup>st</sup> 9 months
  - A draft table with 9months data will be compiled and this should then be updated monthly until the end of the year
  - This will then be reviewed and verified
  - If we put this in place and can maintain things until the end of year both finance and HR will have the information more readily available and we will be able to prove and supply audit with all the necessary backup (that cross casts to each other) in a timely and accurate manner
- A detailed tick list will be produced
- The current restructure and the timing of known events will need to be carefully and correctly disclosed in the 18/19 statement

## **13. Collection Fund**

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### **Issues Identified – by Audit**

1. £53.516m Understatement of income and expenditure as a result of housing benefit subsidy netted off against housing benefit expenditure

### **It needs to be noted**

- It needs to be clear that this is a presentational issue – the nett position of the council was correct

### **What we have already identified**

- The information comes in in a set format the account is used for more than 1 specific item
- The ledger structure needs to be considered

### **What still needs to be done**

- This will be a separate item on the year end check list

## **14. Cash Flow and Associated Notes**

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### **Issues Identified – by Audit**

1. The Council had not prepared separate cash flow working papers as it had relied on the automatic workings from CIPFA's red button approach.
2. The cash flow impact of debtors and creditors, including capital balances and council tax balances was not included in the Cash Flow Statement, affecting net cash flows from financing and investing activities and cash flows from operating activities.
3. Identified a few other presentational issues.

### **Issues Identified – Others**

1. The Auditors did not understand BRB
2. Extracting all the individual working papers out of BRB is slow and time consuming
3. A training session was given on BRB to the Auditors – by Cipfa Consultant and further sessions had to be put in place to help the auditors understand how cash flow worked within BRB

### **It needs to be noted**

- There is no further requirements on the council to produce a separate cash flow working for the Auditors, they are actually all in BRB and extractable
- BRB is fully audited and compliant for disclosure
- Audit was given access to BRB and training was supplied to allow them to obtain details of where numbers used in the cash flow come from

### **What we have already identified**

- BDO struggled with understanding the cash flow,

- Obtaining all the supporting(working extracts) out of BRB for cash flow is time consuming
- We need to incorporate a separate working paper that shows (at the nth level) how the cash flow works
  - This will ultimately save time – and questions from Audit
- 17/18 movements also take into account the 16/17 starting positions (which might have not been correct)

#### **What we have already done**

- The mapping exercise – which is also underway is coding the GL (in excel)
  - It should be possible to add functionality to be able to filter quicker and more easily on – that could work with the BRB functions

#### **What still needs to be done**

- A lot of the issues and amendments Audit wanted have been made on the face of the Statement of Accounts only.
  - This happened at the suggestion of Cipfa consultant, this was to speed up the process, the plan was and still is to fix the cash flow and get it working correctly after the account's have been finished and before we roll BRB forward to 18/19

## **15. Related parties**

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#### **Issues Identified – by Audit**

1. Related Parties note
  - a.

#### **Issues Identified – Others**

- 2.

## **16. Financial Instruments**

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#### **Issues Identified – by Audit**

1. The working papers were not supplied at the start of the Audit
2. The financial liabilities fair value disclosure note did not cast
3. The financial and other risks arising from financial instruments, including credit risk, were not disclosed
4. A credit ratings table showing the Council's investment and cash equivalent portfolio and whether outstanding deposits at year end meet the Council's credit rating criteria was not disclosed
5. Maturity structure of borrowings was not disclosed

6. Change in borrowings as a result of a change in interest rate was not disclosed
7. The percentage of debt portfolio held in fixed rate instruments and variable rates or Lender's Option Borrower's Option (LOBO) instruments was not disclosed
8. Short and long term debtors and creditors had nil values
9. Unrated short term pooled funds was stated at £2.695 million instead of £2.,743 million
10. Interest income and expense disclosed in the financial instrument note did not agree to amounts in the Comprehensive Income and Expenditure Statement
11. Fair value of assets and liabilities disclosed did not agree to supporting evidence
12. Cash and cash equivalents disclosed as financial assets in the note did not agree to the balance in the Balance Sheet
13. A number of other presentational issues were also identified
14. In addition, we noted the following issues in the note for Nature and extent of risks arising from financial instruments which have not been adjusted in the financial statements and are recorded as unadjusted disclosure misstatements in Appendix I:
15. The financial liabilities maturity analysis **does not meet the Code's requirements** for financial instrument disclosures as it has been prepared on the basis of amortised cost rather than undiscounted contractual cash flows
16. The Code requires that authorities disclose an analysis of the age of financial assets that are past due as at the reporting date but not impaired, and an analysis of financial assets that are individually determined to be impaired as at the reporting date, including the factors the authority considered in determining that they are impaired

#### **Issues Identified – Others**

1. The internal timetable for the working papers was not achieved – no explanation has been given or reason why this was missed
2. The information was not in the BRB format – and BRB functionality had to be switched off so that a manual upload could be created for this information to be included in the statement
  - a. The original intention was for information to be supplied in a BRB compatible format – this did not happen

#### **What we have already done**

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#### **What still needs to be done**

- The timetable for 18/19 closedown will include sufficient time for working papers to be reviewed
- The information needs to be produced in the BRB format
  - The finance officer will be trained so that they are familiar with what BRB standard format is and then take all necessary steps to ensure that the comparator and the 18/19 information is produced in the correct format. We need to ensure that the correct resource is used in this area.

- What we actually disclose needs to be compared to the CODE requirements and a detailed plan of fully supported explanation of why we cannot comply needs to be produced.
- There are so many issues with this part of the Statement that a separate action plan will need to be created and any changes to process will need to be fully documented
- Neil/Barry to review and consider what else could or should be done

## **17. Fixed Asset Register, Valuation, Commitments and Issues**

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The Fixed Asset Register is an area where we encountered numerous problems and issues, especially in relation to the information provided to Valuers, the Valuation reports and other disclosure notes.

17a. Fixed Asset Register

17b. Capital Commitments monitoring

17c. Valuation, Process and Information

### **To summarise**

#### **Issues Identified – by Audit and others**

- The Fixed Asset Register contains very basic mistakes, errors, omissions and inaccuracies and could be summarised as currently not being fit for purpose.
- Errors previously identified by Audit have not been corrected or removed.
- A proper or documented Asset valuation program does not exist.
- No internal validation work has been undertaken
- The valuers have not been given proper or up to date information, this includes size increases of schools, correct disposal information similar with acquisitions, and hence they have been instructed to value assets that have actually been disposed of.
- A significant capability issue has been established

#### **It needs to be noted**

- The full extent of the errors and inaccuracies are still being established.

#### **What we have already identified**

- The person who was supposed to be maintaining the Fixed Asset Register to an appropriate standard (which includes being accurate, up to date and appropriate), has not been
  - This is being addressed.
- Around the 19<sup>th</sup> of May an extract from the Fixed Asset Register was taken
  - This was then uploaded into the BRB system and forms the basis of the accounts.
  - At that point the Fixed Asset Register should have been frozen – no further changes until discussed and agreed with Audit

- This did not happen
- Changes continued to be made – none of which had even been discussed internally nor with the Auditors
- These changes have caused issues and basically means the current Asset Register is neither what the Auditors were given nor what the Post Audit Adjustments would have made it
  - These changes are quantified in the associated Cipfa review paper

### **What we have already done**

- We have undertaken a significant amount of work in order to establish what is correct and what is not, this has also included engaging CIPFA Fixed Asset Specialist/Trainer to undertake a further review to identify what and how we need to fix things
- We have now completed the exercise in relation to the majority of Assets
  - We have now established numerous assets currently in the Fixed Asset Register that should not be
    - The value of these assets (not including council dwellings) has now been quantified and is at least £11.3m
    - This is over the materiality limits of ££6.8m and will mean that a restatement will be required in 18/19.
- Held detailed review meeting with Asset Management and the Valuers
  - To discuss the 17/18 Audit
  - The requirements and process for 18/19
  - The development of a new rolling program to ensure all assets are valued in an appropriate time period
  - To discuss the actual valuation date for 18/19 and the process for the 18/19 year end

### **What still needs to be done**

- Complete the investigation into the Council Dwellings
- Fix all the existing errors in the fixed Asset Register, before closing the 17/18 Fixed Asset Register and rolling it forward into the new year
- Talk to the external auditor about what this means for the accounts moving forward and ensure that all the items, Assets and information is corrected

## **18. 18/19 Checklist and Closedown Timetable**

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These will be made available January 2019