



Report To: Audit and Governance

30th July 2019

Lead Cabinet Member(s): Councillor John Williams,
Lead Cabinet Member for Finance

Lead Officer: Peter Maddock, Head of Finance

SUBJECT: FINAL ACCOUNTS UPDATE

PURPOSE

1. To consider the current situation regarding the Final Accounts and the proposed timetable for the completion of the external audit of both the 2017/2018 and 2018/2019 financial statements.

RECOMMENDATIONS

2. **To note the current situation regarding the Final Accounts and that the 2017/2018 external audit of financial statements will recommence on 5 August 2019 as planned.**

REASON FOR RECOMMENDATION

3. The Committee have asked to be kept apprised of the situation regarding the accounts given the significant difficulties that have been experienced over the last couple of years or so.

BACKGROUND INFORMATION

Introduction

4. There is a requirement under the Accountancy and Audit Regulations for Council's to present their accounts for the preceding financial year for audit by 31st of May each year and for those accounts to be audited and published by 31st July each year.
5. The Council has experienced significant difficulties in recent years meeting these timescales.
6. In 2015/2016 the accounts were submitted on time but were prepared by one person, who then left the Council immediately after completing the accounts. The external audit then commenced but the staff remaining in the organisation had no real expertise when fielding audit queries. There were a number of errors identified which then had to be rectified.
7. In 2016/2017 the accounts were prepared by two contractors and some parts of the accounts were not undertaken to an acceptable standard, particularly the Collection Fund and the asset accounts. These are both specialist areas and again these contractors had left the authority by the time it came to the external audit and the Authority found itself in the same situation as the previous year.

2017/2018 Accounts

8. In 2017/2018 the accounts were prepared in a hurry by contractors to meet the required deadline. It was also known that there were issues still with the 2016/2017 accounts and, by completing the 2017/2018 accounts without fully resolving the 2016/2017 issues, only served to make the situation worse. Those temporary contractors left during June so yet again the Council found itself in a difficult situation.
9. The accounts presented for external audit had no proper working papers and the external auditors were unable to verify most of the transactions in the accounts and consequently were unable to progress the audit further.
10. In February 2018 the Council had appointed a Principal Accountant who initially worked on other matters but, out of necessity, was allocated the work on the 2017/2018 accounts and, after a number of conversations with the auditors, it was concluded that the accounts for 2017/2018 should be drawn up again using proper working papers; in effect starting again. This work was ongoing, but of a sporadic nature due to resourcing issues from both the audit and council side from around the autumn of 2018 until April 2019 when the auditors announced that they could no longer carry on the 2017/2018 audit due to a lack of resources. Consequently, the external audit would need to be paused until August 2019.
11. With regard to the issues relating to the Collection Fund, a contractor who has specialist knowledge in the operation of the fund was taken on during February 2019 and, since that time, has been recreating the collection from a starting point with the known correct position which was in fact the 2014/2015 financial year. This work has now been completed but has taken several months to conclude and reconcile. It is now imperative that proper monitoring and recording procedures are put into place to avoid this happening again, which the contractor has been tasked with doing going forward. However, the Council will need to have expertise in this area going forward and this will need to be addressed in the coming months.
12. With regard to the asset accounting issues, the Council made the decision to put in an asset register system during the 2017/2018 financial year with a view to using this for the 2017/2018 accounts closure. This was, however, created using unreliable data due to the issues from 2016/2017 being unresolved and was not ready in time for the 2017/2018 accounts closure. The asset accounts were, therefore, closed using the old spreadsheet register; which it is generally accepted now was not fit for purpose and indeed most authorities have a dedicated asset register system. A change to capital accounting requirements, from the financial year 2007/2008, introduced additional provisions and further complicated the endeavours to complete the task using traditional spreadsheet registers that are no longer suitable. This contributed to the asset accounts being prepared in a less than satisfactory manner.
13. Once the asset register was populated it came to light, unsurprisingly, that this did not agree to the Council's accounts. Attempts to reconcile the differences became impossible and, as such, the data was removed completely and re-populated. This was started around the same time as the Collection Fund was re-worked and finally balanced to the current position on the 2017/2018 accounts during week commencing 8 July 2019.
14. The audit of the 2017/2018 accounts uncovered a number of errors and, although a set of accounts has been prepared with these corrections, it is not inconceivable that

there will be further changes when the external audit re-commences and is finally concluded.

15. The Council has now received confirmation, in writing, of the intention for the audit to recommence from Monday 5 August 2019 and it is expected that this will last for between three to four weeks when hopefully the accounts can be presented to this committee for approval.

2018/2019 Accounts

16. Turning to the 2018/19 accounts. Given the recent history surrounding accounts preparation, the Team was faced with two choices - either (i) preparing the accounts to the timetable knowing that, in reality, they would be rushed, would still be based on information that was not reliable and indeed on an unaudited starting point or, (ii) preparing and presenting a set of accounts late with a much better chance of them being able to stand up to audit. The latter course of action is was, in the circumstances and in my professional view, the most appropriate and thus preferred approach and that is, therefore, the approach being taken.
17. Although an agreed opening position with the external auditors is essential to presenting an accurate set of accounts, the Finance Team have been able to do some of the work and, although the intention was to have this complete by the end of July 2019, this will not now be possible mainly due to the issues related to the Asset Register. Now that the register and accounts are in alignment and, subject to any further adjustments being carried out in both sets of records, it is possible to proceed with the final transactions required to complete the 2018/2019 accounts.
18. The intention was for the external auditors to go straight on to the 2018/2019 accounts audit after completion of the 2017/2018 accounts audit and, although there will need to be a short pause for audit planning purposes, it is possible there may need to be a further delay before an accurate set of accounts can be presented for external audit. The Accountancy Team will need to liaise with the external auditors closely to make this process as smooth as possible. Internal Audit have agreed to review the working papers for the 2018/2019 accounts in advance of the final accounts audit which will be an extremely helpful exercise.

Summary Position

19. It has been necessary to seriously consider the financial management challenges being faced by the Council and the recently appointed Interim Director of Finance (from 20 May 2019) and Head of Service (from 15 April 2019) have reviewed, in liaison with the Lead Member for Finance, the priority actions necessary to ensure that improvements are achieved in a timely manner.
20. The day to day challenges facing the Accountancy Team are summarised as:
 - (a) The Finance Team, whilst very committed, has a number of long term vacancies with delayed recruitment, suffers from a shortfall of knowledge and relevant experience and has lacked motivation. The recently appointed Head of Finance, as Section 151 Officer, is now restoring a sense of pride and commitment;

- (b) There are some underlying pressures that are now, belatedly, receiving attention – there has been a considerable delay in closing the financial statements for 2017/2018 and 2018/2019 and they have not been subject to external audit by the statutory deadline;
 - (c) There have been outstanding issues in relation to Capital Accounting and Collection Fund Accounting that have now received attention and are fully reconciled;
 - (d) External audit has also had resource issues but confirmation has now been received that the external audit process will recommence on 5 August 2019;
 - (e) The implementation of the new financial management system at the same time has been challenging and the implementation of key modules remains outstanding. It is targeted that the implementation of the budgeting model and forecasting modules will be fully implemented by 31 March 2020.
21. Target dates have been established for the completion of key tasks to recover the situation and to achieve the necessary improvement to financial management arrangements and to ensure effective revenue budget planning for 2020/2021 and the medium term.
22. It is now intended that, given the progress made and planned recommencement of the external audit process from 5 August 2019, the reports on (i) the General Fund Budget Outturn 2018/2019, Capital Budget Outturn 2018/2019 and Housing Revenue Account (HRA) Outturn 2018/2019 will be submitted to Scrutiny and Overview on 10 September 2019 and Cabinet on 2 October 2019.

OPTIONS

23. The options around the accounts are that (i) a set of accounts could be presented for external audit but there would be limited confidence that the statements were prepared to the required standard; such an approach would essentially leave it to the auditors to find any errors and correct them when they arise but this is, however, bad practice and potentially could lead to additional costs for the Council as more work would be required by the auditors than otherwise. The alternative option is to delay the audit for a short time thus giving more time to complete the accounts; it is acknowledged that the delay must be minimised to avoid compromising the 2020/2021 budget setting process.

IMPLICATIONS

24. In the writing of this report, taking into account the financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, the following implications have been considered:

Policy

25. Timely and robust consideration of the Council's budgets is vital to ensure that corporate procedures and priorities are met and the financial position of the Council is effectively managed and monitored.

Legal

26. There is a requirement under the Accountancy and Audit Regulations for Council's to present their accounts for the preceding financial year for audit by 31st of May each year and for those accounts to be audited and published by 31st July each year.

Financial

27. Timely and robust consideration of the Council's budgets is vital to ensure that financial statements are correctly stated, financial procedures are followed and that the financial position of the Council is effectively managed and monitored.

Risk

28. There is a risk that the financial statements are incorrectly stated with consequential impacts.

Environmental

29. There are no environmental implications arising directly from the report.

Equality Analysis

30. In preparing this report, due consideration has been given to the District Council's statutory Equality Duty to eliminate unlawful discrimination, advance equality of opportunity and foster good relations, as set out in Section 149(1) of the Equality Act 2010. It is considered that the report has no relevance to South Cambridgeshire District Council's statutory equality duty to eliminate unlawful discrimination, advance equality of opportunity and foster good relation. An equality analysis is not needed.

BACKGROUND PAPERS

Where the Local Authorities (Executive Arrangements) (Meetings and Access to Information)

England) Regulations 2012 require documents to be open to inspection by members of the

Public, they must be available for inspection:

- (a) at all reasonable hours at the offices of South Cambridgeshire District Council;
- (b) on the Council's website; and
- (c) In the case of documents to be available for inspection pursuant to regulation 15, on payment of a reasonable fee required by the Council by the person seeking to inspect the documents at the offices of South Cambridgeshire District Council.

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