

	<h2>Audit Committee</h2> <h3>2 November 2017</h3>
Title	Accounts Closure Improvement Plan
Report of	Director of Resources
Wards	All
Status	Public
Enclosures	Appendix A – Accounts Closure Improvement Plan
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<h2>Summary</h2>
<p>The Committee considered the Audit Completion Report for 2016/17 at an extraordinary meeting on 19 September. The Statement of Accounts and Pension Fund Accounts were subsequently signed by the auditors and published on 29 September 2017.</p>
<p>The audit of the 2016/17 accounts was presented to Audit Committee ahead of the statutory deadline but after the intended deadline of the end of July 2017. Furthermore, the audit identified a number of misstatements in the accounts and weaknesses in the accounts preparation process. Following completion of the audit, a ‘lessons learnt’ exercise was undertaken and an improvement plan has been prepared to address the issues that arose in the preparation of pension fund accounts, main statement of accounts and audit process.</p>

<h2>Recommendations</h2>
<ol style="list-style-type: none"> 1. The Audit Committee are asked to consider and comment on the Accounts Closure Improvement Plan; 2. The Audit Committee are asked to note that progress against this plan will be presented to its meeting on 31 January 2018.

WHY THIS REPORT IS NEEDED

- 1.1 The Committee considered the Audit Completion Report for 2016/17 at its meeting on 19 September 2017. The audit of the 2016/17 accounts identified a number of misstatements in the accounts and weaknesses in accounts preparation process. Accordingly, the Committee requested an accounts closure improvement plan to be presented to its next meeting.
- 1.2 The report should have been considered at the July 2017 meeting, however due to a number of reasons, detailed later in the report, this was delayed. The accounts were signed off ahead of the statutory deadline.
- 1.3 In respect of this delay, CSG finance were deemed to fail KPI FIN 32: completion of external audit by the end of July; and a service credit of £55k agreed. This will be presented to Performance and Contract Monitoring Committee at their meeting in November 2017.

Terms of Reference

- 1.4 The review specifically assessed and considered:
 - Issues raised in the ISA260 (ISA260 is the International Auditing Standard relating to the auditor communicating with those charged with governance. In this instance ISA260 is the term given to the Auditors report to the Audit Committee);
 - Resourcing of the closing team;
 - Roles and responsibilities of the closing and wider finance team;
 - Closure of accounts timetable to identify if things were not done in a timely way or if deadlines were missed.
- 1.5 As part of the review a number of key people were interviewed or consulted. These were as follows:
 - Gillian Clelland, Assistant Director of Finance, CSG
 - Nickie Morris, Head of Finance, CSG
 - BDO (Leigh Lloyd Thomas, Partner; Scott Knight, Head of Audit & Assurance and Nick Bernstein, Audit Manager)
 - PSAA (Jon Hayes, Chief Officer; Andrew Chappell, Senior Compliance Officer)
 - CSG Senior Leadership (Richard Budd, Operations Director; Tom Vanoverschelde, Senior Operations Director; Brian McClurg, Operations Director)

Key Issues

- 1.6 The improvement plan, in Appendix A, details the key issues that were identified in the review and those specified by the auditors in their ISA260 and identifies actions to address those issues. The main issues identified were as follows:

Statement of Accounts

- 1.6.1 The CSG finance service was going through a major restructure which spanned the year end period. As a result, vacancies had to be held in the

team in the event of redeployment. An interim member of staff was brought in to cover a key role, however the lack of a permanent, experienced team meant there was a lack of resources in the core accounts closure team. This reduced the capacity of the Head of Finance to undertake sufficient review and quality control processes and meant that there were a significant number of errors and misstatements in the accounts that should have been picked up by quality control reviews.

- 1.6.2 The closing timetable concluded at the point of delivering a set of accounts to the auditors and didn't take into consideration, in a proactive and managed way, the closing team's role in driving the audit forward, taking ownership of queries and concluding them in a timely way.
- 1.6.3 Changes in the format of the Comprehensive Income and Expenditure Statement (CIES) changed in 2016/17 and a new note, the Expenditure Funding Analysis (EFA) was required. The structure of the ledger means that a number of manual adjustments were required to produce the CIES and overreliance was placed on auditors having reviewed the previous year's restatement.

Pension Fund Accounts

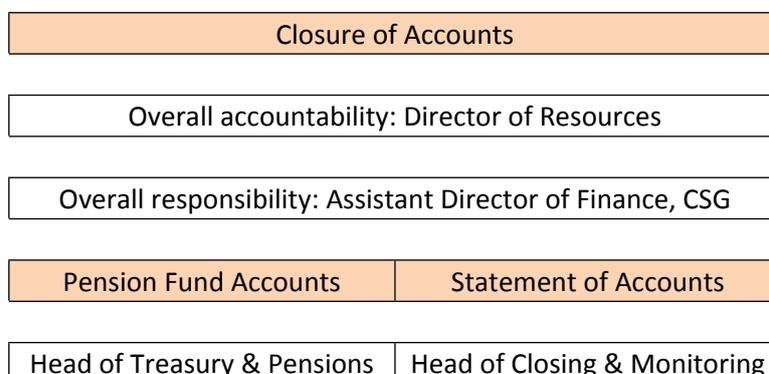
- 1.6.4 There was a lack of expertise in the preparation of pension fund accounts which led to delays and inaccuracies in the set of draft accounts sent to the auditors.
- 1.6.5 The triennial actuarial valuation had already identified issues with the quality of membership data held and this impacted on the audit of accounts which relies heavily on this information to validate contributions received. Pensions administration and data quality, in particular, are subject to a separate improvement plan.
- 1.6.6 The progress of the audit was frustrated by delays in receiving responses to audit queries from the pensions administration team.

Audit Process

- 1.6.7 The audit process did not conclude in line with pre-agreed deadlines.

Roles and Responsibilities

- 1.7 The roles and responsibilities of key personnel in relation to the Closing of Accounts are as follows:



- 1.8 To provide additional context, a broad summary of the wider responsibilities of both retained LBB staff and those of Capita under the CSG contract is as follows:

Retained Finance (LBB Staff)	CSG Finance Team (Capita Staff)
Overall accountability for the Statement of Accounts	Production of final accounts (outturn of services and drafting Statement of Accounts)
Responsibility for the Pension Fund	Pension Fund Accounting, managing pension fund investments and servicing the Pension Committee and Local Pension Board
Finalisation of the budget document and MTFS	Monitoring the budget and the delivery of savings
Owners of the Treasury Management Strategy	Advising on, preparing and delivering the Treasury Management Strategy (borrowing and investments)
Final liaison with external auditors	Manage the operational relationship with the external auditor
Statutory Finance Officers	Finance Business Partnering
Authorisation, as appropriate, of all grant claims and returns, statutory, statistical and other returns as required	Preparation and submission of all grant claims and returns, statutory, statistical and other returns as required
Finalisation of policy documents	Update and management of the Capital Programme
Contract Management of CSG Finance including calculation of payment mechanism	Manage all transactional finance processes

2. REASONS FOR RECOMMENDATIONS

- 2.1 To ensure that the Audit Committee has appropriate oversight and assurance of the actions being taken to improve the timeliness and quality of the Statement of Accounts and Pension Fund Accounts.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

- 3.1 None.

4. POST DECISION IMPLEMENTATION

- 4.1 The Director of Resources (S151 officer) and Head of Finance (Deputy S151 officer) will monitor delivery of the improvement plan by CSG Finance.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

- 5.1.1 The Audit Committee provides the Council with independent assurance and effective challenge and, therefore, the Committee is central to the provision of effective governance that supports delivery of all corporate priorities.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 The improvement plan will be delivered by CSG finance with support from elsewhere in Capita Local Government Services.

5.3 Legal and Constitutional References

5.3.1 The Constitution details the functions of the Audit Committee including “To review and approve the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council”.

5.4 Risk Management

5.4.1 Close monitoring and delivery of the improvement plan will help to mitigate the risk of similar issues reoccurring in 2017/18 and future years.

5.5 Equalities and Diversity

5.5.1 None in the context of this report.

5.6 Consultation and Engagement

5.6.1 N/A.