

HUNTINGDONSHIRE DISTRICT COUNCIL

Title: External Auditors: ISA 260 Report - 2012/13:
Implementation of Recommendations

Meeting/Date: Corporate Governance Panel
29 January 2014

Executive Portfolio: Resources: Councillor J A Gray

Report by: Assistant Director (Finance and Resources)

Ward(s) affected: All Wards

Executive Summary:

Following the external audit of the 2012/13 Annual Financial Report, the Council's external auditor, PricewaterhouseCoopers, issued their ISA 260 Report. Within this report, the auditors made 35 recommendations:

- 1 was not accepted by management.
- 1 required no further action
- 27 had an implementation date of prior to the date of this meeting, and
- 6 had an implementation date of after this meeting (although 3 have already been implemented).

Management continues to progress with implementing all the accepted recommendations by the latest date of 30th June 2014.

Recommendation(s):

The Panel is requested to note this report

1. PURPOSE

- 1.1 At the conclusion of the audit of 2012/13 Annual Financial Report, the Council's external auditor, PricewaterhouseCoopers issued their ISA 260 Report. Within this report the auditors made a number of recommendations to the Council that would improve both the accounts closure process and the governance framework.

2. BACKGROUND

- 2.1 The Panel is designated as "those charged with governance". Members will recall that at the meeting of the 26th September 2013 they received a draft ISA 260 report. On the 27th September 2013 the Assistant Director (Finance and Resources) circulated to all members the final ISA 260 report. Within this report the auditors had made 35 recommendations; of these two recommendations were not to be actioned, one:

- in respect of Zero Base Budgeting was not accepted by management.
- proposed an action that was not applicable to the current HR LGSS contract, so no further action is necessary.

- 2.2 Of the remaining 33 recommendations:

- 6 were in respect of the Accounts.
- 27 were in respect of Governance.

3. Implementation of Recommendations

- 3.1 Of the 35 recommendations to be implemented, 27 had an implementation date prior to this meeting and 6 had a date after this meeting. The table below gives a summary of the current implementation position (a detailed analysis is shown in the attached Appendix).

| IAS 260 (2012/13) - Recommendations Implemented | | Accounts | Governance |
|--|-------------------|----------|------------|
| Implementation date before January 2014 Corporate Governance Panel | - Not implemented | 0 | 0 |
| | - Implemented | 4 | 23 |
| Implementation date after January 2014 Corporate Governance Panel | - Not Implemented | 2 | 1 |
| | - Implemented | 0 | 3 |
| Total | | 6 | 27 |

- 3.2 Of the three recommendations not currently implemented, the:

- two recommendations in respect of the Accounts cannot be implemented until 2013/14 accounts closure has commenced.
- one recommendation in respect of Governance is in relation to the budgeting and allocation of overheads. This will be reviewed and actioned during the latter stages of the budget consolidation process.

These three recommendations present a low risk to the Council as they are technical adjustments.

- 3.3 It is expected that the external auditors will undertake their independent review of the implementation of these recommendations either at the Interim Audit (February/March 2014) or during the audit of the 2013/14 accounts (summer of 2014). They will then report back to the Panel in September 2014 as part of their 2013/14 ISA 260 report with their conclusions.

4. LEGAL IMPLICATIONS

- 4.1 As the Auditors recommendations are considered and addressed by this report, there are no specific legal implications arising.

5. RESOURCE IMPLICATIONS

- 5.1 No additional resources are required to ensure that these recommendations are implemented.

LIST OF APPENDICES INCLUDED

Appendix – Implementation of ISA 260 (2012/13) Recommendations

BACKGROUND PAPERS

Working papers in Financial Services.

CONTACT OFFICER

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Implementation of ISA 260 (2012/13) Recommendations

APPENDIX

| Issue | Commentary (extract from ISA 260) | Management Response | HoS | Activity Manager | Deadline for achievement | Proposed Action |
|-------|--------------------------------------|---------------------|-----|------------------|--------------------------|-----------------|
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Recommendation Not Agreed by Management.

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| Governance | Financial position (continued) (page 15 of ISA 260 Report) | 7.8 | We believe it is also best practice that zero based budgeting is performed and appropriate challenge is applied during the budget setting process to better identify and understand the Authority's cost base. | This can be extremely resource hungry, but it has its place and could be an appropriate tool in the future as we search for an additional £3.2M of savings. | Assistant Director (Finance & Resources) | N/a | N/a | It is considered that Zero Based Budgeting will not be the most productive means of cost management. However, where applicable services will be reviewed on a ZBB basis on an ongoing but ad-hoc basis. |
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Recommendation where No further action required.

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| Governance | Project management (page 17 of ISA 260 Report) | 8.5 | No arrangements for the Authority to share in efficiencies through cost reductions except where changes in systems or deliverables proposed. | This contract, at HDC request, was based on a fixed price contract with no inflation provision, thus implicitly requiring LGSS to make efficiency savings equivalent to inflation each year to break-even. | No action required | No action required | No action required | No action required |
|------------|--|-----|--|--|--------------------|--------------------|--------------------|--------------------|

Recommendations not yet implemented.

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| Accounting | Cut off treatment for housing and council tax benefit (page 8 of ISA 260 Report) | 1 | On the basis that there is no clear guidance, a variety of options are being used by Authorities, the amount is below materiality, any impact on the general fund would be trivial and the improvement of the information provided to the users of the accounts would be negligible, it has been deemed reasonable for the authority to continue to account on a paid basis. We have agreed this will be included as a critical accounting judgement in the Annual Financial Report which has already been amended by management. We recommend that management monitor the value year on year and consider whether adjustments should be made in future years. | > For 2013/14 and future years financial reporting, the value of benefit payments paid in the following year that are applicable to the year of account will be determined and a consequential creditor accrual produced. To negate any impact on the General Fund Balance an equal and opposite debtor accrual will be made to reflect the amount that will be reimbursed by government. | Assistant Director (Finance & Resources) | Accountancy Manager | 30 June 2014 (not possible to do prior to the financial year-end as this is an Accounts Closure task) | During April, in consultation with Housing Benefits, an amount of HB paid 2013/14 but applicable to 2014/15 and paid 2014/15 but applicable to 2013/14 will be established. If the net amount exceeds the "materiality threshold" (we shall use a figure of £1.0m) then an adjustment will be made in the accounts (Debtors and Creditors). However, if it is not material then no adjustment will be made but the working paper will be kept to prove the decision. |
| Accounting | Estimated economic useful lives of property, plant and equipment and intangible assets (page 10 of ISA 260 Report) | 5 | The Authority does not depreciate additions and enhancements in the year of acquisition. We confirmed that the impact of depreciating in the year of acquisition is not material. We recommend that management ensures that they continue to review the reasonableness of applying this policy on an annual basis. | > Agreed | Assistant Director (Finance & Resources) | Accountancy Manager | 30 June 2014 (not possible to do prior to the financial year-end as this is an Accounts Closure task) | An annual assessment during the period of "capital closure" will be made to confirm the reasonableness of this policy. |
| Governance | Financial position (continued) (page 15 of ISA 260 Report) | 7.5 | Some items are held on central codes pending allocation to individual services so that the net budget is achieved but all of the budget may not be allocated to services at that time. | > This relates to certain shared items that are often technical or cross service. For example the provision for inflation before it is allocated at detailed budget level or a restructuring where it is not yet clear what the impact will be on the individual service budgets. It will only be used where unavoidable and only for as long as necessary. | Assistant Director (Finance & Resources) | Accountancy Manager | 30-Apr-14 | See Management Response |

Implementation of ISA 260 (2012/13) Recommendations

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Recommendations implemented.

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|------------|--|-----|--|--|--|---|---------------------------|---|
| Accounting | Treatment of trading operations (page 8 of ISA 260 Report) | 2 | Our view is that, whilst management's new assessment of what constitutes a trading activity is deemed reasonable, the initial treatment within the draft Annual Financial Report did not conform with the Code guidance notes, which stipulate that income and expenditure associated with services provided under the Authority's remit should remain within the net cost of services. This has resulted in the prior year reclassification being removed from the Annual Financial Report on the basis of materiality. | > All accounting adjustments have been made. | Assistant Director (Finance & Resources) | Accountancy Manager | 30-Jun-13 | Implemented. |
| Accounting | Bank reconciliations (page 9 of ISA 260 Report) | 3 | Following discussion with management we have been provided with one reconciliation which reconciles all bank account balances in total with the ledger balance as at 31 March 2013. However, reconciliations should be performed on an account by account basis. | > A review is currently being undertaken to determine the "general ledger" opening balances for each individual bank account. Once completed (by end of December) the working papers will be submitted to external audit for consideration in the interim audit for 2013/14. | Assistant Director (Finance & Resources) | Accountancy Manager | 31-Dec-13 | Implemented. |
| Accounting | Pensions liability (page 9 of ISA 260 Report) | 4 | Cambridgeshire County Council Local Government Pension Scheme (CCC LGPS) provided an estimated pension liability position at 31 March 2013 of £58 million. A subsequent report in August showed a higher figure that would have increased the figure by around £3M. This issue affects all admitted bodies to the CCC LGPS. | > External Audit will provide their view on the necessary action as soon as possible. This will either require adjustments to the statements or just a change to the notes. Any adjustment to the statements is non-cash so will not affect the level of the Council's General Reserve. | Assistant Director (Finance & Resources) | Accountancy Manager | 30-Jun-13 | Implemented. |
| Accounting | Provision for bad debts (page 12 of ISA 260 Report) | 6 | | > A review of the provision has been performed. This work resulted in management identifying the potential for releasing £0.390m from the bad debts provision back to general reserves but due to the difficult economic climate the decision was taken to be cautious by only releasing half of this sum in 2012/13 and reviewing the position again when the 2023/14 accounts were produced. Following discussion with the auditors the full £0.390m has been released in the 2012/13 accounts which increases the General Fund Reserve by £0.195m. | Assistant Director (Finance & Resources) | Accountancy Manager | 30-Jun-13 | Implemented. |
| Governance | Financial position (page 15 of ISA 260 Report) | 7.1 | Despite this use of reserves, and comparing approved budgets to the final out-turn for the years 2009/10, 2010/11 and 2011/12, it has been demonstrated that there has been a consistent pattern of under spending. | > 1. Accountants will undertake a preliminary review of budgets pre-budget holder meetings; including identifying areas of concerns and ways to address. 2. Accountants will meet with Budget Holders, discuss budget (including previous years trends) and agree forecasts (all forecasts are to be "meaningful" and reflective of service requirements. 3. Where accountants/budget holders disagree, this will be escalated to Accountancy Manager/then AD (Finance and Resources) > Financial training is being prepared for budget holders | Assistant Director (Finance & Resources) | Accountancy Manager | Ongoing from October 2013 | Implemented (monthly budget holder meetings are forensically reviewing budgets, including developing forecasts. Such forecasts, based on the Head of Service format are reported to COMT on a monthly basis, commencing in October 2013) |
| | | | | | Assistant Director (Finance & Resources) | Accountancy Manager | 31-Oct-13 | Implemented |
| | | | | | Assistant Director (Finance & Resources) | ALL Senior Managers and Team Managers Meeting | | Implemented. > Discussed at Senior Management Group 4th September 2013. > Discussed at Activity Managers Group 17th September 2013. |

Implementation of ISA 260 (2012/13) Recommendations

APPENDIX

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| | | (extract from ISA 260) | | | | | |
| Governance | Financial position (page 15 of ISA 260 Report) | 7.2 | <p>Examples of savings plans not being supported by robust working papers that substantiate or support the figures included in the MTP and budget.</p> <p>Relevant information did exist to support the relevant items but it was not adequately recorded in an organised fashion. This will be corrected in this year's MTP process and Project management arrangements will be put in place.</p> <ul style="list-style-type: none"> > - development of good supporting working papers. > - project planning, including the development of project plan. | See below | | | |
| | | | | Assistant Director (Finance & Resources) | Accountancy Manager | 22-Nov-13 | Implemented |
| | | | | Assistant Director (Finance & Resources) | Accountancy Manager | 04-Oct-13 | Implemented |
| Governance | Financial position (continued) (page 15 of ISA 260 Report) | 7.3 | <p>We understand from discussion with management that budget holders are sometimes provided with aspirational targets which are refined in subsequent MTP reviews.</p> <ul style="list-style-type: none"> > Modified processes will reduce this practice. Some of the aspirational targets set a few years ago turned out to be unreasonably optimistic and were reduced in subsequent MTPs. They will continue to have a place in the process but will only be used where there is some broad information to support the general scale of the figure and they will be a priority for refining at the earliest opportunity. | Assistant Director (Finance & Resources) | | 22-Nov-13 | Implemented |
| | | | | | | | Where aspirational estimates are used, these will be supported by a relevant working papers. |
| Governance | Financial position (continued) (page 15 of ISA 260 Report) | 7.4 | <p>The MTP process has been highly dependent on a single individual with minimal secondary review before submission to Members. In addition not all variances to the MTP spreadsheet are substantiated by working papers stating the assumptions made and any conditions attached.</p> <p>The financial and business planning processes are being redefined and integrated to provide greater consistency, transparency and ownership. The process this year has been more inclusive, both to:</p> <ul style="list-style-type: none"> > - ensure that the sources of data are fully recorded, > - but it will also ensure that the spreadsheet model is secure and checked. | See below | | | |
| | | | | Assistant Director (Finance & Resources) | Accountancy Manager | 22-Nov-13 | Implemented |
| | | | | Assistant Director (Finance & Resources) | Accountancy Manager | 22-Nov-13 | Implemented |
| | | | | | | | Each entry to the MTP model will be supported by relevant working papers |
| | | | | | | | There will be an ongoing process of reconciliation and appropriate spreadsheet control, including relevant password and version control. |
| Governance | Financial position (continued) (page 15 of ISA 260 Report) | 7.6 | <p>A formal savings plan is not separately identified, agreed at the start of each financial period and monitored over the course of the year.</p> <p>Currently, the practice is that savings items are generally allocated direct to the specific budgets that they relate to. It is then the task of the relevant service manager to manage the net budget that results and highlight through the budgetary control process whether they expect to underspend or overspend and why (including whether it was a significant variance on a savings item). Given the Council's financial position, and the intended integration with the business planning process,</p> <ul style="list-style-type: none"> > - the process of monitoring savings will be developed to give a timely consistent method which also highlights any impact on service delivery. | See below | | | |
| | | | | Assistant Director (Finance & Resources) | Accountancy Manager | 28-Feb-14 | Implemented |
| | | | | | | | From October 2013, the MTP savings that were identified for the 2013/14 budget are monitored on a monthly basis - including relevant comments from Heads of Service on reasons for non-achievement. This is reported to COMT on a monthly basis. |

Implementation of ISA 260 (2012/13) Recommendations

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| Governance | Financial position (continued) (page 15 of ISA 260 Report) | 7.7 | We consider it would be good practice for the Authority to introduce formal procedures to initially record and subsequently monitor savings plans, with each plan having an assigned 'owner' who monitors the plan regularly and reports variances to Cabinet with budgetary information. > - the position will be reviewed as we move into a phase of more visible links between financial and business planning. | The integrated process described above has served the council's needs. However, > - the position will be reviewed as we move into a phase of more visible links between financial and business planning. | See below Assistant Director (Finance & Resources) | Accountancy Manager | 28-Feb-14 | Implemented From October 2013, the MTP savings that were identified for the 2013/14 budget are monitored on a monthly basis - including relevant comments from Heads of Service on reasons for non-achievement. From December 2013 onwards, the savings monitoring document will be reported to Cabinet members on a monthly basis. |
| Governance | Financial position (continued) (page 15 of ISA 260 Report) | 7.9 | The regularity of the current in year financial reporting should be considered. > A high level dashboard on the financial position is produced monthly for all Members > and a further monthly service highlight report will be produced, based on Head of Service - with Heads of Service commenting on over or under spends. | > Cabinet receives financial monitoring reports quarterly and managers review their budgets monthly. > A high level dashboard on the financial position is produced monthly for all Members > and a further monthly service highlight report will be produced, based on Head of Service - with Heads of Service commenting on over or under spends. | Assistant Director (Finance & Resources) Assistant Director (Finance & Resources) Assistant Director (Finance & Resources) | Accountancy Manager Accountancy Manager Accountancy Manager | The schedule of reporting is: > July - previous year outturn + current year forecast (first 3 months) > September - budget forecast report + including current year forecast (first 5 months) > January - budget forecast report (first 9 months) This is produced by the end of the first week of each month for circulation the following week. Ongoing from October 2013 | Implemented Implemented Implemented |
| Governance | Project management (page 17 of ISA 260 Report) | 8.1 | The report refers to a legal view from the Authority being awaited as to whether the LGSS contract meets the definition of a shared service/partnership agreement, and if it should have been subject to EU tendering rules. > The Head of Legal and Democratic Services has provided a response setting out the legislation and case law exempting public sector contracts from EU procurement requirements, where there is co-operation between Councils with the aim of providing public services. | > The Head of Legal and Democratic Services has provided a response setting out the legislation and case law exempting public sector contracts from EU procurement requirements, where there is co-operation between Councils with the aim of providing public services. | Head of Legal and Democratic Services | N/a | | Implemented |
| Governance | Project management (page 17 of ISA 260 Report) | 8.2 | The Head of Legal and Democratic Services was involved in the review of the contract until a late stages in the process. > The Head of Legal and Democratic Services will be fully involved at an early stage in any further such contracts. | > The Head of Legal and Democratic Services will be fully involved at an early stage in any further such contracts. | Head of Legal and Democratic Services | N/a | 31-Mar-14 | See Management Response |
| Governance | Project management (page 17 of ISA 260 Report) | 8.3 | Working Papers to substantiate the reduction to £3,997k have not been found. No challenge was made at the time to request supporting information from the relevant manager. > All managers will be reminded that they must ensure that records for any such adjustments are fully supported and retained. | > All managers will be reminded that they must ensure that records for any such adjustments are fully supported and retained. | Assistant Director (Finance & Resources) | N/a | 31-Oct-13 | Implemented An email to be sent to all managers to instruct them to justify all savings, budget adjustments and forecasts. |
| | | | > 1. Accountants will undertake a preliminary review of budgets pre-budget holder meetings; including identifying areas of concerns and ways to address. 2. Accountants will meet with Budget Holders, discuss budget (including previous years trends) and agree forecasts (all forecasts are to be "meaningful" and reflective of service requirements. 3. Where accountants/budget holders disagree, this will be escalated to Accountancy Manager/then AD (Finance and Resources) | > 1. Accountants will undertake a preliminary review of budgets pre-budget holder meetings; including identifying areas of concerns and ways to address. 2. Accountants will meet with Budget Holders, discuss budget (including previous years trends) and agree forecasts (all forecasts are to be "meaningful" and reflective of service requirements. 3. Where accountants/budget holders disagree, this will be escalated to Accountancy Manager/then AD (Finance and Resources) | Assistant Director (Finance & Resources) | Accountancy Manager | Ongoing from October 2013 | Implemented (monthly budget holder meetings are forensically reviewing budgets, including developing forecasts. Such forecasts, based on the Head of Service format are reported to COMIT on a monthly basis, commencing in October 2013) |

Implementation of ISA 260 (2012/13) Recommendations

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| Governance | Project management (page 17 of ISA 260 Report) | 8.4 | No penalty clauses for underperformance other than the fact that remedial action can be undertaken at LGSS' expense. | Noted. | COMT | 30-Nov-13 | All future contracts with LGSS will include penalty clauses. | |
| Governance | Project management (page 17 of ISA 260 Report) | 8.6 | Performance monitoring reports are prepared by LGSS and reviewed at performance review meetings; however these are not subject to independent scrutiny and review for accuracy. | Position will be reviewed to determine any proportionate ways of verifying accuracy. | Head of Corporate Office | Corporate Policy and Performance Manager | 30-Nov-13 | Implemented (although late, not until January 2014) Review of LGSS Performance Statistics HDC will expect to receive LGSS performance statistics in respect of all performance criteria within the current contract. This will then be reviewed by HDC to determine if the LGSS statistics seem reasonable - and discussed with them whereas necessary. Independent Validation of LGSS Performance Statistics HDC has in place, and recently re-emphasised with managers, the "exception" reporting of issues pertaining to LGSS. The comments received will be reviewed and reported to LGSS with an expectation that the problem will not occur again. There will be ongoing monitoring of issues raised to determine if LGSS is "learning" from past issues. |
| Governance | Project management (page 17 of ISA 260 Report) | 8.7 | Contract overview meetings could be more formalised. | > A formal meeting cycle is now in place, with appropriate governance. | Head of Corporate Office | Corporate Policy and Performance Manager | 30-Nov-13 | Implemented |
| Governance | Project management (page 17 of ISA 260 Report) | 8.8 | At the time of writing this report a formal review and report on how the service is performing has not been undertaken. We understand that | > A formal report on service performance was taken to the September Employment Panel. | Head of Corporate Office | Corporate Policy and Performance Manager | 30-Nov-13 | Implemented |
| Governance | Project management (page 17 of ISA 260 Report) | 8.9 | We therefore recommend that additional evidence in respect of the compliance, regularity and value for money of the LGSS contract is sought to ensure lessons are learnt before making any decisions. | > All of the above points together with any further comments from staff and LGSS will be taken full account of during any further agreements with LGSS or other parties for sharing or outsourcing services. Project Management is included in the AGS | Head of Corporate Office | Corporate Policy and Performance Manager | 30-Nov-13 | Implemented |
| Governance | Procurement and Contracting (page 18 of ISA 260 Report) | 9.1 | | It is considered that the combination of the July report and the proposals in the report on the Panel's September meeting will cover these issues. This point is included in the AGS | Assistant Director (Finance & Resources) | Audit and Risk Manager | 30-Nov-13 | Implemented |
| Governance | Culture of control and compliance (page 19 of ISA 260 Report) | 10.1 | Concerns over the overall culture of compliance within the Authority, | > The Managing Director is personally addressing this issue and has made it clear at a number of meetings with managers that non-compliance is not an option and will potentially lead to disciplinary action. > Suitable processes are in the course of development. | Managing Director | N/a | 31-Dec-13 | Implemented At the November Corporate Governance Committee, the Committee received a report, and noted, that a series of Governance Boards were to be established to review key control areas (e.g. Finance, Procurement, Risk etc) to ensure that governance is embedded within Council business. The first Governance Board (Finance) commenced in early December 2012. See above. |
| Governance | Culture of control and compliance (page 19 of ISA 260 Report) | 10.2 | The Authority is heavily dependent on key individuals for its financial reporting, without whom the improvements made in the last two years could be lost. | > Future plans will ensure that risk is minimised. | Assistant Director (Finance & Resources) | N/a | 31-Dec-13 | Implemented Accounts Closure: - Working papers to support accounts production are comprehensive and based on best practice. - Where changes are made through the audit process, these changes are recorded and amendments made in future years. Budget - Through the 2014/15 budget preparation, a process of "hand-over" is being undertaken between the AD (Finance & Resources) and the Accountancy Manager. |