



## **REPORT of INTERIM SECTION 151 OFFICER**

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**to  
PERFORMANCE, GOVERNANCE AND AUDIT COMMITTEE  
27 FEBRUARY 2020**

### **ACTIONS TAKEN TO THE FINDINGS AND COMMENTS OF THE EXTERNAL AUDITOR ARISING FROM THE 2018/19 AUDIT OF ACCOUNTS**

#### **1. PURPOSE OF THE REPORT**

- 1.1 The Committee asked that a report be brought back on the actions taken in response to the findings of the external auditor arising from the audit of 2018/19 accounts.

#### **2. RECOMMENDATIONS**

- (i) That the Committee considers and notes the reasons for the issues identified by the external auditor in the 2018/19 audit of accounts, actions taken by the Interim Section 151 Officer as set out in section 3 of the report and **APPENDIX 1** and **APPENDIX 2** and the risks as identified in paragraph 3.5.

#### **3. SUMMARY OF KEY ISSUES**

- 3.1 As part of the reporting requirements the external auditor presented and discussed his findings to the Committee at its meeting on 28 November 2019 in a report under the International Auditing Standard 260 (IAS260) requirements. The report is titled: *Report to the Audit Committee on the audit for the year ended 31 March 2019 Issued 12 November 2019 for the meeting on 28 November 2019 (Agenda Item 6 APPENDIX 1 pages 27-30 refers).*
- 3.2 At the time, the Interim Section 151 Officer had explained to the Committee the reasons for the delay in the production of the 2018/19 Statement of Accounts and some of the causes for the external auditor's findings. These were in order of severity:
- The loss of key members of staff during the implementation of the Future Council model and during and leading up to the critical period when preparations for close down would be taking place and during the accounts closedown period. The period referred to is February 2019 to May 2019. During this period there were two permanent Finance Specialists in post but the key post of Senior Finance Specialist reduced from the post of Finance Manager was vacant and remains so at the time of writing this report.. An external consultant was recruited in late February to undertake the closedown however, with that person being new to the Council, had a very steep learning curve in how Maldon operates and its financial systems.

Furthermore, it has been reported to the Interim Section 151 Officer that there was very little if any senior management direction. This would have been a factor in leading to the finding regarding the accounting policies and management papers in respect of IFRS 9 and 15.

These were drawn up by the external consultant as part of the work on the production of the financial statements with direction from the Interim Section 151 Officer.

- Furthermore, the IT network outage in early summer and the server outage in September led to downtime in Finance which contributed to the delays in completing the Statement of Accounts.
- The Council runs a significant part of its year end closedown through a combination of its Sage financial management system and Microsoft Excel workbooks. This adds a level of complication and time especially in ensuring reconciliation and feeding into the financial reporting templates. Under the circumstances, the initial draft financial statements, which were published for public inspection and presented for audit were not of the expected standard. They had to be redrafted and reformatted to ensure compliance with the Cipfa Code of Practice at the same time as the audit was taking place. The main reason for this was the loss of the experienced Finance Manager who would have managed the closedown process; produced the financial statements; and managed the operational relationship with the external audit manager.
- In terms of the quality of the working papers, it has to be said that format and the setting out of the information was the same as in previous years and had not been an issue reported on previously. However, working papers can always be improved upon, but in the view of the Interim Section 151 Officer, the understanding by the reader of what is being presented to them in the working paper is also relevant. As such, some members of the external audit team had difficulty in understanding some of the working papers and the accounting concepts as they apply to local government accounting, which added additional time in servicing the audit. It has to be recognised and accepted that 2018/19 was the first year for Deloitte LLP as the Council's external auditor and that not all of its audit team engaged on the audit was familiar with local government. Therefore, it is not entirely true to say that the working papers were poor because they were drawn up in the same way and format as the previous years. I myself, witnessed a number of examples of the gap in the auditors' knowledge which was brought to the attention of the external audit manager and the external auditor.
- The findings and the adjustment in the accounts regarding the White Horse Lane Car Park, arose due to a difference of views on the assumptions used in the valuation by the Council's appointed professional valuer and Deloitte's professional surveyor. The Council's professional valuer, following discussions directly with Deloitte's professional surveyor, agreed to the amendment to the valuation. This added a delay that had not been envisaged. Therefore, it is important to understand that there was no accounting error

per se in the accounts however in the report and in accordance with the requirements it is identified as a corrected misstatement.

It is also important to note that apart from that there were no other misstatements to report.

- The findings regarding ‘Documentation of Controls and Process ‘; ‘Review and approval of working papers’ and ‘Approval of Journals’ has been addressed through strong direction from me to the Finance Specialists and the Resources Caseworkers. As early as August 2019 within the first three weeks of my arrival I set out a schedule of internal controls and quality standards that I expected to see operating in Finance and by the Resources Caseworkers working on financial activities. These were circulated to the Finance Specialists and to the two Tier 2 Managers in Resources. These are attached at **APPENDIX 1**.

Having completed and submitted the Budget 2020/21 report; Council Tax 2020/21 report and other associated suite of financial reports to the 13 February 2020 Council meeting, I have turned my attention to the 2019/20 year end. On 13 February 2020, I sent out detailed instructions to the Finance Specialist and the two Tier 2 Managers in Resources giving clear direction to the recipients on the closedown of the 2019/20 accounts and the production of the Statement of Accounts. See **APPENDIX 2**. I shall be handing over to the incoming Interim Director of Resources and Section 151 Officer who is scheduled to start on 2 March 2020 and so it will up to them as to how they want to progress from then on.

- 3.3 It has to be said and recognised that the closure of the 2018/19 accounts and the production of the financial statements occurred during a period of significant change in the organisation and which was a direct contributory factor in key experienced staff leaving the organisation. As a result the change over from the old structure to the new structure did not successfully transition with the remaining staff not having the time to train the staff who were to be taking over some of the finance activities and routines. Added to that has been the fact that some of the key internal controls and checks have been either dropped by design from being done in the new structure or have/had lapsed. At the time of the closedown of the 2018/19 and the production of the financial statements the two Finance Specialists were and continue to carry the bulk of the work that had been done by four members of staff.

At the time of the closure of the 2018/19 accounts and with the organisation in a state of flux, the then Director of Resources who was also the Council’s Returning Officer would have been fully involved in the preparation for and running the District Council elections on 2 May 2019.

- 3.4 Council has approved a supplementary estimate for a fixed term full time Finance Specialist who will be as a minimum Association of Accounting Technicians (AAT) qualified to train and embed the internal controls and checks in the financial activities undertaken by the Resources Caseworkers and set up the reviews and checks and balances between the Finance Specialists and the Resources Caseworkers. It is also important to ensure that the knowledge based articles (procedure notes and process

maps in old terminology) are brought up to date and maintained through version controls.

- 3.5 The actions I have taken and the directions and guidance I have given to the staff and the organisation will minimise the risks of the same happening in this year as it did last year but cannot entirely eliminate them. However, there cannot be any guarantee of it not happening again.

If experienced staff leave or are absent from work or the Finance team continues to be staffed at below establishment or IT outages occur (like they did in 2019) then there is a risk that the closedown timetable could slip irretrievably.

#### **4. CONCLUSION**

- 4.1 The external auditor reported his findings on the audit of the 2018/19 accounts to the Committee on 28 November 2019. In the findings the auditor raises an number of risks and issues of internal controls and quality of the Council's documentation.
- 4.2 The Committee asked me to report back on how I was addressing the findings.
- 4.3 This report sets out what in my view contributed to the issues and findings in the external auditors' report and the actions I have taken. The report also sets out my comment on the quality of the external audit team which I had raised with the external auditor and his audit team manager.
- 4.4 I shall be finishing my interim tenure at the Council on 28 February 2020 and it will be up to the incoming Director of Resources/Section 151 Officer to take forward the matter as they consider necessary.

#### **5. IMPACT ON STRATEGIC THEMES**

- 5.1 None arising from this report

#### **6. IMPLICATIONS**

- (i) **Impact on Customers** – None arising from this report
- (ii) **Impact on Equalities** – None arising from this report
- (iii) **Impact on Risk** – The risks are identified in paragraph 3.5 above
- (iv) **Impact on Resources (financial)** – A supplementary estimate has been agreed to fund a one year fixed-term full time Finance Specialist post to support the service to transition to the new structure fully.
- (v) **Impact on Resources (human)** – Covered in (iv) above.
- (vi) **Impact on the Environment** – None arising directly from this report
- (vii) **Impact on Strengthening Communities** - None arising directly from this report

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