

<u>Issue</u>	<u>Action</u>	<u>Who</u>	<u>When</u>	<u>Status</u>
<b>A. Property, Plant and Equipment</b>				
<p>1. There were no reconciliations performed between the SAM system (used by the Estates team) and the RAM system (used by the finance team). This meant that the Council was unable to satisfy itself that the assets recorded in the financial statements were complete, exist, owned by the Council, and valued appropriately. A reconciliation has now been performed at our request.</p> <p><b>This reconciliation must be maintained going forward.</b></p>	<p><b>Agreed and accepted.</b> A formal process of review and reconciliation will continue on a quarterly basis. The reconciliation will be signed off by both system owners and evidence of review by senior managers documented.</p> <p>In the longer term an automated interface will be developed to eliminate the need for data transfers by spreadsheet between SAM and RAM.</p> <p>Moving forward, the reconciliation should be extended to include the Legal team to ensure all titles are matched to property assets, and a plan will be developed.</p> <p>See later notes on key reconciliation processes</p>	<p>MN JSW</p> <p>JSW</p> <p>MT</p>	<p>Quarterly from June 2017</p> <p>September 2017</p> <p>September 2017</p>	<p>Done</p> <p>Some Slippage new option identified Planned for 2017/18</p>
<p>2. All valuations are performed manually using Microsoft Excel. The data from the Excel spreadsheet is then manually entered into the SAM/RAM systems. The use of Excel spreadsheets to calculate valuations and the manual transfer of data from the spreadsheets to the SAM/RAM systems increases the risk of calculation errors occurring through accidental amendments to spreadsheet formulae and data loss or error on manual transfer from Excel to SAM/RAM. We have seen evidence of poor control over the valuation models in Excel which leads to errors and inconsistency of approach.</p> <p><b>The Council must put in place robust controls over the data</b></p>	<p><b>Agreed and accepted.</b> The use of spreadsheets without appropriate quality assurance and development controls can lead to the creation of erroneous data entry.</p> <p>The relevant spreadsheet model will be reviewed to ensure it is supported by appropriate documentation which describes its operation and to determine whether control totals can be built it to sense check data entry.</p> <p>In future, formal valuations will be prepared by an independent expert to eliminate the need for internal</p>	<p>MN JSW</p> <p>MT</p>	<p>August 2017</p> <p>July 2017</p>	<p>Complete</p>

<p><b>within the Excel valuation models and the transfer of such data to the SAM/RAM systems.</b></p>	<p>calculations. A procurement exercise will commence in July 2017 and information will be available for 2017/18 accounts preparation</p> <p>In addition the Estates team will be more closely engaged with the finance team throughout year end planning to ensure effective quality assurance is applied to data submission. This will be evidenced through 2017/18 year end closure timetable and plan.</p>	MT	Sept 2017	Complete – weekly meetings
<p>3. The Council obtains significant amounts of data to support the asset valuations made. However, the source of the data is not always clear, and the analysis of the data and how it has been applied to the resultant valuation is not clearly documented. There is a tendency to list comparable data without analysis as to the context and asset in question. With so many assets in similar geographic area, often a single list is applied to multiple assets without application to the specific asset in question. This means that asset valuations are difficult to review and challenge.</p> <p><b>All asset valuations should be evidenced as reviewed by an appropriately qualified individual.</b></p>	<p><b>Agreed and accepted.</b></p> <p>This a further example where effective quality assurance and review should enhance the quality of source data provided.</p> <p>The development of clear working paper standards is in progress and will be tested during the production of the 2016/17 statement of accounts.</p> <p>In future the Council will formally contract the services of an independent, expert to support the internal process.</p> <p>It should be noted that in respect of the 2015/16 valuation data, the relevant Strategic Director has documented the directorate's quality assurance review of base data. This included the implementation of standard templates to ensure consistency and transparency within the valuation process and comparability of data.</p>	<p>MT</p> <p>JSW</p>	<p>July 2017</p> <p>September 2017</p>	<p>In progress</p> <p>Complete</p>
<p>4. The Robust review and challenge of valuations has been difficult for the Authority to achieve. We note that there have been several changes made to staffing within the Council's Estates team since late 2015 in an attempt to address issues around the lack of dual sign-off for major asset valuations, the lack of peer review of valuations from a suitably qualified</p>	<p><b>Agreed and accepted.</b></p> <p>Going forward, sufficient resource will be made available to ensure the Estates team are effectively supported by external expertise with the relevant technical knowledge.</p>	JSW	July 2017	In place

<p>and experienced individual, and the lack of in-house experience of more technical aspects of asset valuation.</p> <p><b>A stable robust staffing structure needs to be created and maintained within the Council's Estates team, supported, as deemed necessary, by the use of outside expertise.</b></p>	<p>The current Estates team have worked hard to support the revised valuation process and are now deemed to be fit for purpose.</p> <p>Lessons have been learnt and in future the Estates Team will be more closely engaged within the planning process and timetables of the finance team and be involved in training and awareness of any changed reporting requirements.</p>	MT	September 2017	Complete Weekly meeting in place
<p>5. There is no robust process in place to ensure that significant events giving rise to impairment or other significant change in valuation are appropriately considered in the valuation of PPE. This has meant that valuations are not updated on a timely basis to reflect significant events impacting on the valuation of assets.</p> <p><b>The Council's close-down process for the preparation of the annual statement of accounts needs to include provision for the documented review of indicators of impairment</b></p>	<p><b>Agreed and accepted.</b></p> <p>This activity is fundamental requirement within the production of the statement of accounts and will be reinforced in future years.</p> <p>The use of the CIPFA checklist provides an effective control to ensure all aspects of the "code" are considered in the preparation of the accounts.</p>	MN	For 2016/17 accounts	In progress
<p>6. Asset lives are not reassessed on a timely basis. Our audit procedures found that assets that had a 1 year life span at beginning of period were not assessed for a new useful life where capital additions had been made, and so fully depreciated in the year. The value of these additions and depreciation is £4.9m. Failure to reassess asset lives on a timely basis leads to: -</p> <ul style="list-style-type: none"> <li>• Depreciation charges at risk of misstatement,</li> <li>• Inaccurate information used for maintenance/capital replacement programs, and insurance needs.</li> </ul> <p><b>The Council's close-down process for the preparation of the annual statement of accounts needs to include provision for</b></p>	<p><b>Agreed and accepted.</b></p> <p>Again, the review of asset lives is a fundamental requirement in the preparation of the annual accounts and this process will be built into future year end planning processes commencing with 2016/17 accounts.</p> <p>The use of the CIPFA checklist provides an effective control to ensure all aspects of the "code" are considered in the preparation of the accounts and this will form part of the working papers to support the accounts.</p>	MN	For 2016/17 accounts	In progress

the documented review of asset lives				
<p>7. A significant proportion of PPE additions relates to 'Eureka fees', effectively the capitalisation of management time to projects. The rates used are not formally approved and the amounts logged in the spreadsheet for eureka fees did not reconcile to the general ledger.</p> <p><b>Capitalisation rates should receive formal approval and there should be evidence of review and approval by the Service Directors for the amount of capitalized spend at the end of each financial year.</b></p>	<p><b>Agreed and accepted</b></p> <p>The capitalisation of "internal" project management costs should be reviewed on a project by project basis to ensure the appropriate charges are reflected in both revenue and capital costs.</p> <p>A review of the process, scope and control of the capitalisation of internal costs will be undertaken to develop a more structured and transparent policy and appropriate working papers prepared to evidence management review and approval</p>	<p>MT NG</p> <p>MT MN</p>	<p>Initial review in July 2017</p> <p>Update financial regs in Autumn 2017</p>	<p>On going</p> <p>In progress</p>
<p>8. No reconciliation between the fixed asset register and the general ledger takes place throughout the year – everything is done at the year end. This puts significant pressure of the limited resource in the finance team to close and reconcile the PPE balances. This increases the risk that the Council is unable to meet the statutory deadline for preparation of its statement of accounts.</p> <p><b>Management should consider processing addition/disposal transactions throughout the year, and undertaking asset valuations at an earlier point to enable sufficient time for transactions to be processed and reviewed to ensure quality of financial reporting is maintained.</b></p>	<p><b>Agreed and accepted.</b></p> <p>Best practice, issued by CIPFA some years ago, indicated that balance sheet management was as important as revenue management.</p> <p>The finance team resource is directed to revenue management but will be revised to ensure capital monitoring within directorates have equal focus. This will ensure that capital expenditure is identified and accounted for on a more timely basis.</p> <p>In addition future year end planning will seek to accelerate the asset valuation process will be complete by December and capital accounting completed in February in advance of the year end.</p>	<p>MT</p> <p>MT</p>	<p>Re-focus Finance Team Summer 2017</p> <p>September 2017</p>	<p>In progress</p> <p>In progress</p>
<p>7. The use of indexation to approximate asset valuation movements is a blunt instrument and difficult to justify when individual asset valuations are challenged.</p> <p><b>Indexation should only be used as a tool to revalue assets when the indexation basis can be demonstrated to be directly relevant to the assets to which it is being applied.</b></p>	<p><b>Agreed and accepted.</b></p> <p>To support the use of indexation, in respect of certain asset categories, an appropriate rationale will be provided in order for the basis to be both understood and constructively challenged. Where the use of indexation is expected to be significant, an early meeting with yourselves will be programmed into the year end timetable to ensure a consensus of approach.</p>	<p>JSW MN</p>	<p>Update for 2016/17 accounts</p>	<p>Planned for 2017/18</p>

<p>8. Assets had multiple lines in the asset register due to componentisation of individual assets. The value was not appropriately apportioned between the various individual line items in the asset register and caused uncertainty as to which assets were included in the valuation. This issue, coupled with weaknesses in the SAM to RAM reconciliations above, increases the risk that the valuation of PPE recorded in the financial statements will be materially misstated.</p> <p><b>The valuation provided by the Council's valuers should be agreed to the total value recorded in the fixed asset register for the particular asset subject to valuation.</b></p>	<p><b>Agreed and accepted.</b> Where assets have separate components in the asset register, revised valuation estimates will be fully reflected against the entire asset. To enhance the process, and evidence action, a separate working paper will be developed to document componentised assets to demonstrate that valuation estimates have been properly accounted for.</p>	MN	August 2017	
<p>9. Descriptions of assets were not clear due to historical capturing of the capital expenditure. This resulted in certain assets being written off in the asset register as a result of not being verified. Assets to the value of £5.5.million relating to parks could be not verified and was written down.</p> <p><b>The Council should ensure that all capital expenditure is appropriately described in the asset register, and matched to the relevant existing asset (where applicable).</b></p>	<p><b>Agreed and accepted</b> It is clear that there are weaknesses in the financial accounting and monitoring processes regarding the identification and recording of capital expenditure. Planned changes in the structure and focus of the finance team should support the resolution of this matter and progress will be monitored to ensure the improvement is delivered.</p>	MT	Finance team restructure Summer 2017	In progress
<p>10. Timelines were not appropriately set, adhered to and monitored to ensure that adequate review time was set for working papers across departments.</p> <p><b>The Council needs to ensure that a detailed project plan is in place for preparation of the statutory financial statements and an individual is given responsibility for ensuring that all departments adhere to the quality and timing requirements contained therein.</b></p>	<p><b>Agreed and accepted</b> The year end planning process will be refined to ensure that a clear timetable, resource and responsibility plan is prepared well in advance of year end. The revised process will include guidance on working paper standards and quality assurance and evidenced review of information supporting key account balances</p>	MT	July 2017	In place and in use for 2016/17
<b>B. Cash and Bank Balances</b>				
The Council has insufficient oversight of the cash management	The control framework around cash and bank balances	TN	Monthly	Complete

<p>function and this should be addressed as a matter of priority. We have noted several concerns with respect to the record keeping and financial controls in place around the management and recording of cash balances. The Council should put in place the following recommendations:</p> <ul style="list-style-type: none"> <li><b>Cash in hand balances should be reconciled at the year-end date, or for school balances; where school holidays fall over the year-end date, as near to it as practicable.</b></li> <li><b>All cash/bank accounts should be reconciled, regardless of value.</b></li> <li><b>Reconciling items should be cleared in a timely manner.</b></li> <li><b>Evidence should be presented with the cash and bank reconciliations to enable the reviewer to be satisfied that the reconciliation has been performed correctly and to an appropriate quality.</b></li> <li><b>All cash/bank reconciliations should be subject to a detailed review. This detailed review should be evidenced on the working paper.</b></li> <li><b>A high level review and challenge of balances in the cash/bank accounts should be performed on a monthly basis such that the Council understands the reasons for significant movements.</b></li> </ul>	is in the process of being completely reviewed and re-designed to ensure effective and timely reconciliation processes are in place. A schedule of key reconciliations and timescales will be developed to ensure key balances are fully reconciled and reflected in ledger at an appropriate time (daily/weekly/monthly/annually) A “monthly control review” of reconciliations and challenge of unreconciled items will be performed by the relevant Head of Finance All reconciliations will be subject to review by the Doff on a monthly basis starting with month end reconciliations as at the end of May 2017 Evidence of review and actions required will be maintained throughout the year on a monthly basis.	TN	from May 2017	In place
		TN	June 2017	In progress
		MT	Monthly from June 2017	In progress
		TN	Monthly form June 2017	In progress
<b>C. Record keeping and reconciliations to the general ledger</b>				
1. Reconciliation between Council Tax and NNDR System and the General Ledger: No reconciliations have been performed between the Council Tax/NNDR system and the general ledger throughout the year.  <b>The Council should reconcile these feeder systems to the General Ledger on a monthly basis, clearly setting out the reason/source of reconciling differences by way of working papers to support the reconciliation. The reconciliation</b>	<b>Agreed and accepted</b> The effective reconciliation between the general ledger and these two key income streams will be prepared on a monthly basis and form part of the “monthly control review” process. Reconciliations will be prepared, reviewed and challenged to ensure the correct information is reflected in the accounting records.	TN  MT	Monthly from May 2017  June 2017	Complete  In progress

should be subject to a detailed review, and evidenced as having received such.				
<p>2. Reconciliation between Tenants Rental Income Ledger and the General Ledger: No reconciliations have been performed between the Tenants Rent system and the general ledger throughout the year.</p> <p><b>The Council should reconcile these feeder systems to the General Ledger on a monthly basis, clearly setting out the reason/source of reconciling differences by way of working papers to support the reconciliation. The reconciliation should be subject to a detailed review, and evidenced as having received such.</b></p>	<p><b>Agreed and accepted</b> The effective reconciliation between the general ledger and these two key income streams will be prepared on a monthly basis and form part of the “monthly control review” process. Reconciliations will be prepared, reviewed and challenged to ensure the correct information is reflected in the accounting records.</p>	<p>TN</p> <p>MT</p>	<p>Monthly form May 2107</p> <p>June 2017</p>	<p>Complete</p> <p>In progress</p>
<p>3. We have observed several instances of control failure and poor practice with respect to record keeping which appears to have been caused by a lack of appropriately experienced resource, and effective supervision and review. Examples include:</p> <ul style="list-style-type: none"> <li>Failure to determine NNDR write-offs (In 2014/15 NNDR Debt Write Offs were £1.4m. For 2015/16 write-offs have been £200k). We have been told that this is due to a shortage of staff able to perform this exercise.</li> <li>Lack of understanding/challenge of provisions made against Tenants Rents receivable</li> <li>Accounts receivable and Accounts payable reconciliations have not been performed on a monthly basis throughout the audit period.</li> </ul> <p><b>The Council should put in place the following</b></p>	<p><b>Agreed and accepted</b> The Council’s Financial Regulations provide guidance as to how debt write-offs should be managed, reported and authorised. The disciplines required by the Financial Regulations will be reinforced and a monthly review of NNDR debt and Tenants’ rent debts will be established between the Head of Revenues and Benefits and the Director of Finance. Following the completion of the 2015/16 and 2016/17 accounts a review of provisioning policy will be performed In addition, the Financial Regulations will be subject to review to ensure they reflect best practice and are relevant within the context of the Council’s £220m net budget. <b>See response to reconciliations and general ledger controls above</b></p>	<p>JM</p> <p>MT</p> <p>MT</p> <p>TN</p> <p>MT</p> <p>JB</p>	<p>Start end of 1<sup>st</sup> qtr 2017</p> <p>By October 2017 By September 2017</p>	<p>In progress</p> <p>Planned for 2017/18 In progress</p>

<p><b>recommendations:</b></p> <ul style="list-style-type: none"> <li>• <b>The Council should put into place procedures to ensure that write-offs are identified, approved and actioned on a timely basis.</b></li> <li>• <b>Where provision is made with respect to receivables balances, this should be done based on a documented and reviewed approach, taking into account all relevant data and assumptions.</b></li> <li>• <b>Further, the Council should be reconciling all sub-ledgers to the general ledger on a monthly basis and ensuring that reconciling items are appropriately dealt with, and in a timely manner.</b></li> </ul>				
<p>4. Role transition, accountability and review/support without appropriate handover: We have noted several instances where resource changes in the year have occurred, but the required amount of handover has not been performed. This has led to individuals being unclear as to the requirements of the role, and despite their best efforts, being unable to respond to audit enquiries.</p> <p><b>The Council needs to ensure that there is a sufficiently robust process for role transition in place, together with sufficient cross-working arrangements to enable appropriate levels of support and coaching to individuals new to roles.</b></p>	<p>Agreed and accepted Current Group Accountant leaves the authority in September and replacement agreed with support of E&amp;Y. Planned restructure of finance team will aim to ensure cross skilled teams in place and development structure operating to enhance professional and technical skills.</p>	MT	By September 2017	In progress
<p>5. Lack of accountability of individual service teams: Our audit procedures revealed examples of service teams providing information to the corporate accounting team for inclusion in the year-end financial statements which is delivered either late, without proper review, or both. For example, the schedule of accumulated absences provided to the Corporate accounting team by HR was so inaccurate that</p>	<p><b>Agreed and accepted</b> Effective planning for year end is critical to prepare timely, accurate and robust annual accounts. A revised planning process has been developed and is being applied to the 2016/17 accounts to minimise omissions and inaccuracies.</p>	MT	September 17	Team meetings in place for 2017/18 process



<p>they were unable to use the data and instead resorted to re-using the prior year data as an approximation to current year.</p> <p><b>The Council needs to put in place a process to ensure that data inputs to the statutory accounts closedown process are provided in accordance with specifications discussed and agreed in advance with service contributors, and with sufficient time for review and challenge by the finance team.</b></p>	<p>For the 2017/18 year end, planning will commence in September 2017 to ensure Estates are fully engaged. This will be rolled out across the council in December 2017 to ensure all relevant services are aware of the roles and responsibilities and the timescales to be met to support an effective and efficient closedown. Once 2015/16 and 2016/17 accounts are prepared an internal post implementation review will be conducted to identify all issues which impacted the accounts production and lessons learnt documented to future-proof future year end accounts closures.</p>	<p>MN MT HofF</p>	<p>September 2017 December 2017</p>	<p>Complete</p>
		<p>MT HofF</p>	<p>October 2017</p>	<p>planned</p>

CD – Christine Durrant, Strategic Director of Communities and Place; MT - Mark Taylor, Interim Director of finance, S.151 Officer; JB - Janie Berry, Director of Governance, Monitoring Officer; MN - Mark Nash, Group Accountant; TN - Toni Nash, Head of Finance; JM - John Massey – Head of Revenues and Benefits; JSW – Jayne Sowerby-Warrington, Head of Strategic Asset Management and Estates; NC – Nicola Goodacre, Group Accountant; HofF – Heads of Finance, Amanda Fletcher and Alison Parkin.