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Agenda Item No.

10

JOINT INDEPENDENT AUDIT COMMITTEE
Date 10 JUNE 2020

Subject	**REVIEW OF ACCOUNTS PROCESS AND PREPARATION FOR 2019/20**
Report by	**Gillian Holder, Deputy Chief Finance Officer**
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SUMMARY AND PURPOSE OF REPORT

To provide the committee with a review of the closure of accounts process for 2018/19 and the preparation for the closure of accounts from 2019/20 onwards.

RECOMMENDATION

That the Committee note the review of 2018/19 and the preparation for 2019/20 onwards.

A. Supporting Information

1. Introduction

The purpose of this report is to review the closure of accounts process for 2018/19 including the external audit by Ernst & Young LLP (EY). The report will also outline the plans for 2019/20 onwards but given the timing of the report the work on the 2019/20 accounts is now well underway.

2. Review of 2018/19 final accounts process

2.1 The accounts were prepared in a timely manner for each stage of the process as timetabled by the yearend plan. The first draft of the accounts was presented for review by the PCC and CC on 10 May 2019. At this stage there was no issues identified with the processes.

2.2 A separate JIAC working group meeting to review the pre-audit accounts took place on 24 May 2019. This meeting continued to work well with the relevant finance team members involved in discussion on the accounts with the JIAC members.

2.3 The interim audit did identify that a full stock take of the uniform stores had not been undertaken to support the final accounts. The stock-take exercise was undertaken in April and resulted in a small stock write off which was not material to the final outturn position.

2.4 Due to operational difficulties with the contracted valuers in 2017/18, the contract for 2018/19 only, was directly awarded to the previous valuers to avoid risking a delay to the closure of the accounts.

2.5 A technical paper was written entitled IFRS9 Financial Instruments and presented at interim audit, this facilitated a successful implementation of the new standard for 2018/19. The new regulation had very little impact on PCC final accounts.

2.6 The pensions note was revised to incorporate the PCC for Leicestershire format and this has provided more clarity and visibility of the Home Office top up grant.

2.7 The 2018/19 accounts were the first audit for the new external auditor, Ernst & Young LLP (EY). EY were also appointed external auditor for the other four PCC/CCs in the East Midlands region.

2.8 In spring 2019 it became apparent that EY were experiencing severe resource constraints which would result in delays to the audit which was expected by the 31 July 2019. EY informed the PCC and Force about the issues and the audit was rescheduled to later in the year.

2.9 The unaudited final accounts for 2018/19 have been published on the PCC and Force websites since the end of May 2019 alongside a statement explaining that the delayed completion of the audit is due to EY resourcing pressures. The audited financial statements will be published on the websites once they have been signed.

2.10 The JIAC were briefed on the issues surrounding the 2018/19 audit in November 2019. At that time it was envisaged that post audit financial statements and the ISA260 would be presented to the JIAC meeting in January 2020.

2.11 A meeting was held with the PCC/CC CFOs, G4S staff and EY at the start of January to discuss the difficulties experienced throughout the audit, learn lessons for the next year and to finalise the arrangements for the sign off of the accounts. Unfortunately, despite previous assurances, EY explained that there was now an issue with the McCloud pension adjustment which was causing problems. No explicit allowance had been made for:

- The full impact of the salary increase assumption of CPI+1%
- The membership profile underlying the scheme.

The pension adjustment figures had been prepared by the appointed Actuary, Hymans Robertson (HR).

2.12 An agreement was reached between the PCC/CC CFOs and EY in March which led to the PCC/Force requesting a revision of the McCloud adjustment figures from HR. HR delivered the required revised figures on 14 April 2020.

2.13 The 2018/19 accounts were then updated to include the revised HR figures and the statements and notes were re-drafted to reflect their inclusion.

2.14 EY expect to issue an unqualified audit opinion on the PCC and CC's financial statements, and they confirmed that the Annual Governance Statement is consistent with the principles of the CIPFA/SOLACE Framework; Delivering Good Governance in Local Government. Importantly

EY also concluded that there are no matters to report on the PCC and CC's arrangements to secure economy, efficiency and effectiveness in the use of resources.

3. Preparation for 2019/20 final accounts process

3.1 The preparation for 2019/20 final accounts has been impacted by the severe delay in the 2018/19 accounts. The timetable has had to be revised to allow for the additional work needed to complete the McCloud pension adjustment work whilst commencing 2019/20 year work.

3.2 The timetable identifies who is responsible for producing the components within the statement of accounts to avoid any confusion, and to ensure key decision makers are available during this period so that the necessary actions are completed. A regular meeting to discuss the timetable continues to take place to monitor progress against key deadlines and discuss any issues.

3.3 A further complication to the 2019/20 work is the implications of the Covid-19 pandemic legislation. This has had a couple of key impacts on the 2019/20 work. Firstly, the entire Finance team is now working from home to comply with current lockdown rules and mitigate the risk of infection and service disruption. This will undoubtedly have an influence on how the work is progressed but at present it is too early to assess the impact. The second impact is that the Ministry of Housing & Local Government (MHCLG) have revised the regulations extending the statutory publication deadline with Authorities having the ability to produce draft accounts by 31 August latest, and publish final audited accounts by 30 November. At present the PCC and Force have agreed a one month extension meaning the draft accounts will be approved by the end of June 2020.

3.4 A further consequence of Covid-19 lockdown is that the proposed Interim Audit which was scheduled for mid-April has been done remotely. This has included telephone walkthrough tests with EY and G4S Finance staff.

3.5 The high-degree of change which is accompanying the closure of the 2019/20 accounts as detailed above is going to be achieved because of the continuing flexibility, communication and teamwork which is on-going between the teams responsible for the final accounts.

3.6 A separate paper on the Accounting Policies was submitted at the January 2020 JIAC meeting. The accounting policies have been reviewed and will be updated before the publication of the draft 2019/20 accounts. The committee will be made aware of any changes to policies as part of the review of draft and final accounts.

3.7 Align Property Partners have been appointed as the valuers for 2019/20 and the valuations have been completed. Changing valuers on such a regular basis increases potential risk as they could have different approaches around valuations.

3.8 The experiences of the 2018/19 process were discussed at a lessons learned workshop undertaken with PCC/CC, G4S and EY staff. This was a really

useful exercise to analyse what went well and what requires further improvement next year. There was always an expectation that a new auditor would bring new ways of working. We now understand the processes better, this will help to shape our working practices for the 2019/20 accounts.

3.9 EY have been much more proactive and engaging in their work to date for the 2019/20 audit. We are currently involved in a number of calls with their team to try and get a head start on some of the audit work, particularly around the data analytical work which is needed. This is a positive sign but of late their responses seem to be taking longer and at times require chasing. All parties must continue to actively engage with the process to ensure an effective audit.

3.10 Staff attended technical update workshops capturing any changes in the Code of Practice. Prior to the Covid-19 pandemic, the key change for 2019/20 was the implementation of IFRS 16 Leases but MHCLG have agreed to defer this for a year.

3.11 Balance Sheet Reconciliations are carried out on a monthly basis and working papers updated to ease some of the pressure on resources at year end.

3.12 Reconciliations of budget/reserves changes are maintained throughout the year to streamline the process at year end, and any mid-year budget changes decision papers are to be carried out in year.

3.13 Proactive dialogue has been on-going with the PCC/Force Actuary, Hymans Robertson, to ensure the police pension figures provided are based on the correct assumptions. We intend to share any assumptions or valuation reports with EY as soon as possible to try and mitigate the issues which further delayed the 2018/19 accounts.

3.14 Corporate Finance will liaise with the PCC's Communication and Media Services provider regarding branding of the final accounts documents.

3.15 The current plan for the 2019/20 accounts is to bring the pre-audit accounts to a JIAC working group on 25 June. Detailed analysis of key variances will also be provided at this group as requested. The EY audit is scheduled for late June and July but this could be delayed by the impact of Covid-19. The post audit accounts are scheduled to be presented to JIAC in September dependent on the progress of the audit, with the October meeting providing an alternative option should it be required.

B. Financial Considerations

None.

C. Legal and Human Rights Considerations

None.

D. Personnel, Equal Opportunities and Diversity Issues (Including any impact or issues relating to Children & Young People)

None.

E. Review Arrangements

A review of 2019/20 closure of accounts process will be provided in October 2020.

F. Risk Management

Measures are being put in place, as described above, to mitigate the risk of a repeat of the 2018/19 delays.

G. Public Access to Information

Information in the report along with any supporting material is subject to the Freedom of Information Act 2000 and other legislation.