

<b>Classification</b>	<b>Item No.</b>
<b>Open</b>	

<b>Meeting:</b>	Audit Committee
<b>Meeting date:</b>	March 2022
<b>Title of report:</b>	External Audit – Lessons Learnt 2020/21 and Preparation 2021/22
<b>Report by:</b>	Sam Evans Executive Director of Finance
<b>Decision Type:</b>	Key Decision
<b>Ward(s) to which report relates</b>	None

### **Executive Summary:**

The External Audit of the 2020/21 Statement of Accounts had significant challenges that resulted in a delayed conclusion. Whilst this is consistent with numerous Council's it is not a position Bury Council want to be in.

A lessons learnt exercise was conducted identifying three key categories for improvement, these being: quality control, overall management, and resources.

Actions have been taken to address the lessons learnt and make improvements for 2021/22. These actions have already started to take effect: namely, the recruitment of a dedicated resource to lead the process and a complete timetable in place detailing the actions required through to completion of the Statement of Accounts.

The External Audit Management Letter for 2020/21 included a number of recommendations of which 3 were high priority. Action has been taken to address the high priority recommendations whilst the others have either started commencement or are planned to be implemented by the end of March 2022.

### **Recommendations**

The Audit Committee is asked to note:

- the lessons learnt from the 2020/21 external audit.
- the plans for the completion of the Statement of Accounts 2021/22.
- progress on implementing the 2020/21 external audit recommendation.

## **1 Introduction and Background**

- 1.1 This report reviews the lessons learnt from the 2020/21 external audit undertaken by Mazars and how these will be embedded into the preparation of the 2021/22 Statement of Accounts and subsequent audit preparations.
- 1.2 Alongside this, an update on progress in implementing the recommendations from the 2020/21 audit is also included.
- 1.3 The external audit of the 2020/21 Statement of Accounts was signed off on 14th January 2022. This was beyond the required deadline of 30<sup>th</sup> November 2021.
- 1.4 Putting this into context across the sector, by the end of January 2022 only 45% of bodies who were opted into the Public Sector Audit Appointments (PSAA) framework were completed. This highlights the challenges across the sector both for the bodies being audited and the resources to complete the audits within the audit firms.
- 1.5 The management letter from Mazars identified a series of difficulties during the audit, this alongside internal discussions has enabled lessons to be learnt for the preparation of the Statement of Accounts for 2021/22 and the audit.
- 1.6 The management letter also identified several recommendations in relation to the Council's internal control environment. There were three high, four medium and 1 low priority recommendations.

## **2 Lesson Learnt**

- 2.1 There were a significant number of issues identified during the 2020/21 external audit. Following a review of the management letter, discussion with the external auditors and internal discussions across the team; the lessons learnt can be categorised into three, these being: Quality Control, Overall Management and Resources.

### **Quality Control**

- 2.2 There was no overall quality control in place relating to the preparation of the draft accounts and working papers. Whilst there was a closedown timetable in place, this only focussed on the ledger entries and not necessarily the full process and preparation of the Statement of Accounts and associated notes.
- 2.3 The working papers identified the numbers to go into the accounts but did not substantiate this with clear supporting evidence. Subsequently when the working papers were submitted to Audit there was a significant amount of additional work required to identify and produce the required evidence.

## **Overall Management**

- 2.4 With no overall management of the process in place, there were issues in relation to proof reading of the draft accounts and ensuring the notes reconciled to the core financial statements. Alongside this there was limited review of changes to the Code of Practice and relevant updates were not applied. This was particularly evident in relation to the deficit balance on the Dedicated Schools Grant and the 3 year dispensation not to offset this against the usable reserves balance. There was also limited control over the records kept by other departments supporting the completion of the accounts and as a result work needed to be re-performed by external consultants.
- 2.5 All of this led to delays in the audit and the auditors having to wait lengthy periods of time for work to be re-done or for figures in the accounts to be reconciled and substantiated. Whilst this took additional time, the auditors required a greater level of assurance regarding other aspects of the accounts resulting in further work being undertaken by the team.
- 2.6 There was a lack of ownership across the team in relation to the overall coordination and delivery of the process. The preparation of the Statement of Accounts is a summary of all the work the team have undertaken in the past 12 months. As part of the improvement there will be an underlying move to improve the culture across the team improving ownership and pride in the production of the Statements. Whilst the process is very prescribed and mechanistic, the delivery of the end product is something to be proud of.

## **Resources**

- 2.7 Due to timetable not focussing on the full process, the planning of workload and resources was challenging. With no specific team in place to complete the Statement of Accounts, the workload fell to a number of key individuals across the team. Whilst this is usual across the sector (and other public sector bodies) it does place a lot of reliance on specific individuals reducing the capacity for cover.

## **3 Changes for 2021/22 to address Lessons Learnt**

- 3.1 Based on the lesson learnt from 2020/21, the following actions have been put in place for 2021/22:
- Management resource has been added in terms of an Interim Chief Accountant to focus on year-end, preparation of Statement of Accounts and lead the audit process for the Council.
  - A complete timetable of all actions required to complete the Statement of Accounts has been prepared, providing a focus for the team; this will be closely monitored to ensure the timetable stays on track and where tasks slip resources will be identified to ensure any risks to delays are mitigated. Wider engagement across the team will broaden capacity allowing several tasks to be completed in a shorter timescale. (7 Members of the team

focussed on year end 2020/21, it is anticipated 3 times that will be used in 2021/22) This will benefit the review and reconciliation process reducing errors and providing a high quality first draft document with robust working papers.

- There will be significant focus on preparation of working papers and supporting documentation as we complete the draft accounts, these will be prepared for the Council and not waiting for specific requests from Audit. There will also be a full review process in place to ensure working papers are complete and any cross references reconcile.
- Engagement across the organisation will be in place to ensure those outside of the finance team that have an involvement in the preparation of the Statement of Accounts are engaged in the process. An example of this are the weekly meetings in place with Property Services to discuss: valuations, impairments, asset classification and leases.

3.2 The actions taken in response to the lessons learnt from 2020/21 also address some of the external audit recommendations. An update regarding the audit recommendations is in Section 4 of this report.

#### 4 2020/21 External Audit Recommendations and Update

4.1 The table below identifies the external audit recommendations from 2020/21, the management responses at the time and an update on the actions taken in preparation for 2021/22

External Audit Recommendation	Management Response	Update
<p>Management should undertake a full debrief of the accounts preparation process to identify how the errors in the financial statements occurred. Management should ensure there is an appropriate arrangement for quality control review in future years.</p> <p><b>HIGH PRIORITY</b></p>	<p>Once the Director of Finance and Deputy Director of Finance were alerted to the number of issues with the accounts the Deputy Director of Finance intervened and got more involved with the closedown team and the audit. We also sourced the advice and expertise of colleagues from another Greater Manchester authority who have supported our own team in responding to the audit queries and have mentored and upskilled some of our staff as part of the process. Within the finance restructure there are plans for a Chief Accountant post but the restructure will not be ready for its 90 day consultation until the final quarter of this financial year. Therefore, we are in the process of sourcing an interim chief accountant to support with:</p> <ul style="list-style-type: none"> <li>• A lessons learnt review from the 20/21 accounts and audit process – a full report will be brought to the next Audit Committee</li> <li>• A debrief of all the staff involved in this years process and a review of personal development plans to identify if any further training or support is required such as mentoring and coaching</li> <li>• A complete detailed final accounts closure timetable with assigned tasks to individuals and deadlines that allow for a comprehensive quality check and cross referencing of the accounts. This timetable will not only include those tasks assigned to finance but those that are required from other departments such as valuations etc.</li> </ul>	<ul style="list-style-type: none"> <li>• An Interim Chief Accountant started beginning of January 2022.</li> <li>• A lessons learnt exercise has been undertaken</li> <li>• A complete closedown timetable has been produced. This includes a thorough quality control process of reviews and reconciliations.</li> <li>• Attendance at the Mazars year end workshop.</li> <li>• Updates and Training to the team is planned</li> </ul>

External Audit Recommendation	Management Response	Update
	<ul style="list-style-type: none"> <li>The 21/22 accounts will undergo a thorough review process by the Chief Accountant, Deputy Director of Finance and then the Director of Finance. The finance restructure takes account of the needs of the business and is very much development and staff training focussed to deliver a high-quality service and outcomes and output.</li> </ul>	
<p>Management should ensure that the experts used understand the requirements of keeping adequate records of work completed in order to evidence the values within the accounts.</p> <p><b>HIGH PRIORITY</b></p>	<p>The Section 151 Officer will support the Director of BGI to ensure the Council has an appropriate skilled and able valuer service (either inhouse or external). Through a programme of soft and hard closes it will identify any remaining issues that are not fully resolved following the lessons learned workshops.</p> <p>The final accounts timetable described above will also ensure that all individuals assigned a task are fully aware of their deadlines and obligations in undertaking these tasks and the consequences for themselves, their professional standing and also the authority if these are not carried out to the required standards and records retained in accordance with professional and records management requirements.</p>	<ul style="list-style-type: none"> <li>Weekly meetings are being held with Property Services and external valuers have been commissioned to undertake the valuations.</li> <li>The timetable also incorporates a review process that will ensure appropriate records are maintained to substantiate the values and disclosures in the accounts.</li> </ul>
<p>Management should ensure that there is adequate review processes in place to ensure that the assets within the fixed asset register are both classified correctly and valued on the correct basis for the relevant classification.</p> <p><b>HIGH PRIORITY</b></p>	<p>A review of the fixed asset register is planned for the final quarter of this financial year with the support of the interim Chief Accountant, additional Capital Support within the finance team and an experienced Unit 4 consultant whom we have recently entered into a contract with to ensure we not only apply the correct classification to assets but that this is reflected in the financial system.</p>	<ul style="list-style-type: none"> <li>A review of the fixed asset register is underway, this includes ensuring assets are appropriately classified, asset lives are accurately recorded and that assets are valued on the correct basis. This work is due for completion mid-March.</li> </ul>

External Audit Recommendation	Management Response	Update
<p>Management should implement processes to ensure that all year end debtors and creditors are correctly analysed.</p> <p><b>MEDIUM PRIORITY</b></p>	<p>As part of the lessons learned, a process of month end reviews will be undertaken to ensure debtors and creditors are classified correctly. A review of all debtors and creditors held by the council will be undertaken to reduce the risk of material disclosure errors.</p>	<ul style="list-style-type: none"> <li>• System updates have been designed and tested to label each customer and supplier in the Accounts Payable and Accounts Receivable ledgers enabling reports to be produced correctly classifying the debtor and creditor balances. This will go live in March.</li> </ul>
<p>For all asset entries ensure there is a check of reasonableness and accuracy of the asset lives data input into the system prior to posting to prevent inaccuracy in the depreciation calculation. The instructions provided to the valuer should be to request that the valuer provides an indication of the remaining useful lives of the assets subject to revaluation. This will provide assurance over the asset lives that are used are up to date and the resulting depreciation calculation will be more accurate.</p>	<p>A review of the fixed asset register is planned for the final quarter of this year with the support of the interim Chief Accountant, additional Capital Support identified within the team and an experienced Unit 4 consultant whom we have recently entered into a contract with to ensure we not only apply the correct asset life but will ensure there is a cycle where assets are review periodically to prevent inaccuracy in the depreciation calculations.</p>	<ul style="list-style-type: none"> <li>• A review of the fixed asset register is underway, this includes ensuring assets are appropriately classified, asset lives are accurately recorded and that assets are valued on the correct basis. This work is due for completion mid-March.</li> </ul>

External Audit Recommendation	Management Response	Update
<b>MEDIUM PRIORITY</b>		
<p>Ensure that leavers are communicated to the system custodians promptly and that access is revoked on or before the users' leave date.</p> <p><b>MEDIUM PRIORITY</b></p>	<p>Linked with an upgrade in the iTrent HR system in April 2022 we will be able to ensure a monthly report is produced and system access is revoked and amended as necessary. A piece of work will be undertaken to review all current status of Agresso users in January 2022.</p>	<ul style="list-style-type: none"> <li>• A review of all Agresso users is scheduled to be completed before the end of the year to ensure access is still appropriate (amended where not) and access is closed to those that have left the Council.</li> <li>• A monthly report of leavers will then be reviewed to remove any leavers.</li> </ul>
<p>The Council should ensure that all leases are reviewed regularly, including a review of rent. It should also be assured that the Council holds up to date lease documentation signed by both parties to the lease.</p> <p><b>MEDIUM PRIORITY</b></p>	<p>The Section 151 Officer will support the Director of Business Growth and Infrastructure to ensure the Council manages its leases, ensuring the appropriate documentation is in place including signed leases and where appropriate, ensure the rent has been reviewed on a regular basis.</p>	<ul style="list-style-type: none"> <li>• A review of all leases is underway ensuring documentation is retained in the property management system.</li> <li>• This data will be used to prepare the lease note in the accounts.</li> </ul>
<p>Disaster Recovery should be tested at least annually to ensure resilience to issues affecting the primary server.</p>	<p>We will undertake guidance on this from our IT department , sharing your recommendations.</p>	<ul style="list-style-type: none"> <li>• The back-up facilities of the Council are being transferred to the Cloud and this includes Agresso, options are being</li> </ul>



External Audit Recommendation	Management Response	Update
<p>The Council should reposition the disaster recovery server at a greater distance from the primary server. If this is not possible the Council should implement controls to ensure the secondary server is protected from being affected by environmental issues which might affect the primary.</p> <p><b>LOW PRIORITY</b></p>		<p>considered and plans being developed.</p>

## 5 Conclusion

- 5.1 The 2020/21 Audit was signed off later than planned due to significant issues in both the preparation and review of the Statement of Accounts, this delayed the completion of the Audit. Whilst the completion and signing of the Statement of Accounts were delayed, there were still 65% of Council's whose accounts still needed to be signed off as at the end of January 2022.
- 5.2 A series of lessons learnt meetings have been held and identified where improvements can be made for 2021/22.
- 5.3 These improvements have already been actioned or are included in the planning for this year. These improvements include changing the underlying culture on the completion of year end and preparation of the Statement of Accounts on the premise that this is the culmination of the teams work for the year and should therefore have a vested interest and take pride in its preparation and production.
- 5.4 The auditors raised several recommendations regarding the control environment including three high priority recommendations. Action has been taken to address all the high priority recommendations with action taken or planned for all the remaining recommendations.

## 6 Recommendations

- 6.1 The Audit Committee is asked to note:
- the lessons learnt from the 2020/21 external audit.
  - the plans for the completion of the Statement of Accounts 2021/22.
  - progress on implementing the 2020/21 external audit recommendation.

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### Community impact / Contribution to the Bury 2030 Strategy

The Statement of Accounts is a public document and provides an opportunity for the Council to demonstrate its successes and achievements during the year and how it has used its resources to achieve the Bury 2030 Strategy.

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### Equality Impact and considerations:

24. *Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:*  
*A public authority must, in the exercise of its functions, have due regard to the need to.*
- (a) *eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act.*

- (b) *advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;*
  - (c) *foster good relations between persons who share a relevant protected characteristic and persons who do not share it.*
25. *The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services.*

An equality impact assessment has been undertaken and identified no areas of negative impact in relation to protected characteristics.

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### **Assessment of Risk:**

The following risks apply to the decision:

Risk / opportunity	Mitigation
<ul style="list-style-type: none"> <li>• Staff will be reluctant to adopt new working practices in the preparation for year-end as they see it as not being part of their role.</li> <li>• Staff turnover will result in knowledge being lost from the team and a shortage in resource.</li> <li>• The team are going to be consulted on a restructure during this period and their attention may be elsewhere resulting in timescales not being achieved.</li> </ul>	<ul style="list-style-type: none"> <li>• Strong planning and management of the process will ensure staff are on-board and adapt to the new practices.</li> <li>• Whilst turnover will have an impact, close management of the timetable will enable resources to be deployed from other activities to ensure the plan remains on track.</li> <li>• The restructure will provide clarity regarding year end going forward and will ensure everybody is on-board giving the team an interest in the current process.</li> </ul>

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### **Consultation:**

In preparing the lessons learnt in this paper, the Finance team involved in the closedown and preparation of the Statement of Accounts 2020/21 were consulted alongside Mazar's the Councils External Auditor.

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### **Legal Implications:**

There are no specific legal comments however learning and reflecting on lessons learnt it a key approach to embedding good governance arrangements, the report provides a set of actions and outcomes to be delivered following this learning piece.

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### **Financial Implications:**

There are no direct financial implications of this report but the implementation of these lessons learnt should ensure a much smoother audit process and fewer potential errors being identified in the 2021/22 statement of accounts

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### **Background papers:**

Statement of Accounts 2020/21  
Mazar's External Audit Management Letter

Both of these papers were reviewed by Audit Committee in January 2022.

**Please include a glossary of terms, abbreviations and acronyms used in this report.**

Term	Meaning
None	