

AUDIT COMMITTEE

22 MARCH 2016

ANNUAL GOVERNANCE REPORT – PROGRESS ON IMPLEMENTING RECOMMENDATIONS

Report from: Phil Watts, Chief Finance Officer

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Summary

The BDO Final Report to the Audit Committee, also referred to as the Annual Governance Report, and presented to Audit Committee on 24 September 2015 contained a number of recommendations. The Committee resolved to monitor progress on implementing the recommendations.

This report details progress on implementation and is an update on the report presented to the January meeting.

This report also includes BDOs plan for the audit of the accounts for the financial year 2015/16 (Appendix 1).

Budget and Policy Framework

1.1 International Standards on Auditing require the audit plan to be communicated to ‘those charged with governance.’ The terms of reference of this committee include: discussions with the external auditor on new accounting standards, changes to the reporting framework and the basis of the annual audit, including the content of performance work.

2. Background

2.1 In accordance with the International Standards on Auditing it is necessary to communicate the annual audit plan for 2015/16.

2.2 The purpose of the audit plan is to:

- ensure that there is mutual understanding of the respective responsibilities relating to the audit
- provide an overview of the planned scope of the audit for the year ending 31 March 2016

- ensure that the areas of potential risk of material misstatement which the external auditor have identified are consistent with the areas which the council perceives to be the key areas and to promote effective two-way communication.

2.3 The overall scope of the work to be carried out is determined by the Audit Commission's Code of Audit Practice and Appendix 1 sets out details of the key reports, opinions and conclusions that will be provided by BDO. Principal objectives will include their opinion on the financial statements, a report on the Whole of Government Accounts return and an opinion on the arrangements for securing economy, efficiency and effectiveness in the use of resource.

2.4 The Audit Plan to the year ending 31 March 2016 is attached as Appendix 1 of this report. A separate report will be issued later this year with regards to the audit fees for the 2016/17 audit.

3. Annual Governance Report – progress on implementing recommendations raised concerning the audit of the 2014/15 accounts

3.1 Related Party Transactions

3.1.1 **Recommendation:** Following over disclosure in 2014/15, review the methodology for disclosing related party transactions to ensure that the transactions disclosed are compliant with the Code and fully meet the definition of a related party per IAS24.

3.1.2 **Progress:** Officers have discussed the approach to disclosures with BDO. The questionnaires to members and senior officers will remain substantially unchanged. Only officers who are part of the corporate management team will be included in officer disclosures. Disclosure for both members and relevant officers will be limited to cases where the individual or close family member has significant influence over either party.

3.2 Senior Officers Remuneration Note

3.2.1 **Recommendation:** Following over disclosure in 2014/15, review the content of the Senior Officers' Remuneration Note to ensure that the disclosures are in line with the Code. Consider the Council's Management Structure and identify those officers who report directly to the Head of Paid Service as part of this process.

3.2.2 **Progress:** Only officers who meet the definition of a statutory Chief Officer or Head of Service that reports directly to the Head of Paid Service will be included in the disclosure. This represents the corporate management team, however officers can also report senior officer remuneration details via the data transparency route. The chief finance officer will consult with members as to the level and details of any such proposals in order to satisfy member requirements.

3.3 HRA Assets Within the Fixed Asset Register

3.3.1 **Recommendation:** Consider splitting out the individual HRA assets on the fixed asset register going forward to ensure all of the individual assets are identifiable, including any related gains and losses on revaluations.

3.3.2 **Progress:** The Council is acquiring new fixed asset software and the practicality of this approach will be considered as part of the implementation. Any change will be implemented in 2016/17. Work on the software is still in progress.

3.4 Housing Benefit Overpayments

3.4.1 **Recommendation:** In 2014/15 and prior years the Council accounted for Housing Benefit Overpayments on a cash basis and therefore, unlike similar authorities, no debtor balance was shown in the year end balance sheet. The recommendation is to review the accounting treatment of housing benefit overpayments and ensure that the debtor balance is correctly accounted for on an accruals basis on the balance sheet. A reasonable provision value to off-set the debtor balance based on collection rates and known collection agreements with housing benefit claimants should be calculated.

3.4.2 **Progress:** Work is in progress on developing a more sophisticated methodology for calculating the provision.

3.5 Review of Financial Statements

3.5.1 **Recommendation:** Ensure a detailed review of the draft financial statements is carried out with evidence of review by the Chief Finance Officer. The review should incorporate high level sense checks to ensure that items included in disclosure notes agree to the main statements and that known errors that have arisen in previous years have been addressed.

3.5.2 **Progress:** As reported in January, a revised timetable for the production of the Statement of Accounts has been agreed by the finance team which will provide the Chief Finance Officer with a draft Statement of Accounts earlier to enable the review to take place.

3.6 Preparation of the Financial Statements

3.6.1 **Recommendation:** Management should review and revisit current resources and timetables in place to ensure that they are prepared for the earlier deadline that will be imposed in two years' time.

3.6.2 **Progress:** No additional resources are available for preparation of the financial statements, however the Head of Finance Strategy is considering a review of the current structure to address the matter. Guidance notes have been issued and recent training given within the Finance Strategy team which will help avoid some of the previous year's issues.

4. Financial and Legal Implications

- 4.1 The International Standards on Auditing require the plan to be communicated to discharge governance requirements.
- 4.2 There are no direct legal implications arising from this report.

5. Risk Management

- 5.1 BDO have assessed the key audit risks, which are contained within the audit plan. However, there will always be a risk that the auditor may find material errors or misstatements in the accounts and the results of the audit of the statements will not be known before they are presented for adoption by the Council as part of the Audit Committee function.

6. Recommendation

- 6.1 That the Audit Committee accepts the proposed annual audit plan for 2015/16.
- 6.2 That the Audit Committee notes the contents of the Planning Letter 2015/16
- 6.3 Members are asked to note the contents of the report and the progress addressing the issues raised in the Annual Governance Report.

Lead officer contact

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Appendices

Appendix 1 – The Medway Audit Plan 2015/16

Background papers

Annual Governance Report 2014/2015

Report to Audit Committee, 24 September 2015 (item 359 refers)

<http://democracy.medway.gov.uk/ieListDocuments.aspx?CId=121&MId=3212&Ver=4>

Audit Governance Report -Progress on Implementing Recommendations

<http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=29355>