

The 2018/19 audit of Renfrewshire Council

Report on accounts closure



ACCOUNTS COMMISSION 

Prepared by Audit Scotland
March 2020


The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

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- assessing the performance of councils in relation to Best Value and community planning
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Contents

| | |
|---------------------|---|
| Commission findings | 4 |
| Executive summary | 5 |
| Conclusion | 9 |

Commission findings

- 1** The Commission accepts the Controller of Audit's report on matters relating to the closure of 2018/19 accounts in Renfrewshire Council.
- 2** Timely closure of accounts is an important part of the assurance that audit provides on the stewardship of public finances. The auditor delayed issuing their opinion on the council's financial statements beyond the statutory deadline to allow for appropriate adjustments to the accounts to be made by the council and for the audit team to complete their work to an appropriate standard. We therefore note the Controller's support of the auditor's decision.
- 3** We also note that the Controller and auditor are content with the actions that the council has put in place to avoid a recurrence of the issue, which involve process changes to a business support system. We are assured about how the council responded to and learned lessons from the matter.
- 4** The auditor will report to the Controller on the outcome of the 2019/20 audit, and we ask the Controller to update us accordingly.

Executive summary

Introduction and background

1. The Code of Audit Practice requires auditors to produce a report summarising the significant matters arising from their work at the conclusion of each year's audit. For local authorities, these reports are addressed to elected members and the Controller of Audit.

2. I have received the [2018/19 annual audit report for Renfrewshire Council](#) (the Council) from Audit Scotland, the appointed auditor. The most significant issue in their report relates to the late closure of the council's 2018/19 Accounts and the auditors unqualified, but, modified audit opinion in relation to the adequacy of accounting records maintained by the council. I have therefore decided to use the reporting powers available to me under s102 (1) of the Local Government (Scotland) Act 1973 to bring this issue and subsequent developments to the Commission's attention.

3. This report also provides an update on the position outlined in the auditors' reports.

Reporting the 2018/19 audit

4. It is normal practice within Audit Scotland for the auditor to report the outcome of both their financial statements (annual accounts) audit and their wider dimensions work in the Annual Audit Report. At the same time, the auditor would normally issue a brief letter to the council outlining the auditors' compliance with International Standard on Auditing (ISA260) 'Reporting to Those Charged with Governance'. However, due to the issues outlined further in this report the auditor took the decision to separately report, under ISA260, the issues arising from their financial statements audit and to then summarise the outcome of the completed audit in their Annual Audit Report.

5. The auditors' ISA260 report was considered at the meeting of Renfrewshire Council on 26 September 2019.

6. The auditor's Annual Audit Report was considered by the Council's Audit, Risk and Scrutiny Board (ARSB) on 4 November 2019. The report has also been published on Audit Scotland's website.

7. I draw the Commission's attention to the following points in relation to the closure of the council's 2018/19 accounts.

Context

8. Renfrewshire Council has a strong track record of good financial management. Having reviewed the last five years audit reports, it is clear that the final accounts process has historically been straightforward, with auditors reporting that the draft accounts have consistently been submitted on time and to a good standard.

9. In addition, the annual audit report for the 2018/19 audit highlights several positive aspects from this year's audit work, for example:

- The council's strategic financial management is effective, with strong budgeting, financial monitoring and reporting processes
- The council's financial position is sustainable into the foreseeable future

- Appropriate action is being taken through the council's Transformation Programme to address the projected funding gap of £45 million
- The council continues to make good progress addressing the recommendations contained in the 2016/17 Best Value Assurance Report.

10. It was therefore disappointing for all concerned that these issues arose at the end of the audit process for 2018/19.

Key aspects of the 2018/19 audit

System changes

11. Renfrewshire Council undertook significant changes to its core systems during October 2018 through the implementation of an Enterprise Resource Planning (ERP) system (Business World). The ERP system combines finance, human resources, payroll and procurement into a single integrated application. The council appropriately identified the ERP system implementation risk within its corporate risk register prior to commencing the project. Having delivered a series of actions to mitigate against this risk, the system change was well managed.

12. In their Annual Audit Plan for 2018/19, considered by the council's ARSB on 21 January 2019, the auditor highlighted the increased risk of financial reporting errors inherently arising from the implementation of the new system. In particular, the auditor noted risks in relation to the implementation of a new control environment.

13. The auditor provided a summary of the key findings arising from their interim work in their Management Report presented to the council's ARSB on 28 May 2019. In their report the auditor noted that the implementation of Business World, including the 'bedding-in' of the system, was still ongoing and elements of the system, for example procurement, had yet to be brought online. Additionally, the auditor noted that, as expected, the application and adjustment to a new system of this scale had put additional pressure on staff involved with the implementation process throughout the council.

Accounts closure

14. The unaudited accounts were approved by the council in June 2019 and presented for audit on 27 June 2019 in line with the agreed timetable set out in the 2018/19 Annual Audit Plan. During the audit process the auditor identified several issues that required adjustments to be made to the Financial Statements. While it is entirely normal for adjustments to result from the audit process, the auditor identified five material adjustments which were reported in Exhibit 2 of the ISA260 report (page 5 and 6) in and Exhibit 3 of the Annual Audit Report (page 12-14).

15. Of these five adjustments the most significant is in relation to trade receivables and trade payables. It is this issue alone, in a complex implementation plan for a suite of system changes, which resulted in the late closure of the council's 2018/19 accounts and the auditors' modified audit opinion in relation to the adequacy of accounting records maintained by the council.

16. The auditor has reported that balances in the council's financial ledger in respect of trade receivables and trade payables were not properly reflected within the Balance Sheet in the accounts presented for audit. These differences arose because council finance staff had identified issues with intra-group balances between the Council and Renfrewshire Leisure Limited (RLL), an arm's-length external organisation (ALEO) included in the council's group accounts. Journals continued to be posted to the ledger after the accounts had been presented to the auditor at the end of June 2019 to try and correct this issue.

17. However, this resulted in a difference between the accounts presented for audit, supporting working papers and the ledger and the journal postings did not appropriately correct the identified issues. Therefore, further correcting adjustments were required once the mismatch between the accounts, working papers and ledger came to light through the audit process.

18. The council provided a revised set of accounts for audit on 16 September 2019 and these accounts were presented, by Officers, for approval at the council meeting on 26 September 2019. The auditor reported to the council at the same meeting (through the ISA260 report) that:

- they would not be able to issue their audit opinion by the statutory deadline of 30 September 2019
- the audit opinion would be modified to include a report by exception highlighting that the council had not maintained adequate accounting records in respect to the trade receivable and trade payable balances disclosed in the Balance Sheet
- there were five key elements of audit work still outstanding at that date, specifically:
 - work to ensure all expected adjustments had been made to the version of the accounts presented for audit on 16 September
 - completion of substantive testing on this set of accounts
 - receipt and assessment of component auditor assurances for Renfrewshire Leisure Limited, following resolution of the issues highlighted in paragraphs 16 and 17 above
 - final audit director review of the completed work and revised financial statements
 - peer review of the proposed modification to the audit opinion.

19. At the meeting on 26 September the council resolved to *"approve the audited annual accounts for signature in accordance with the relevant regulations, subject to any further minor adjustments which may arise in concluding the audit process; in which case authority is delegated to the Director Finance and Resources, in consultation with the Convener of the Finance, Resources and Customer Services Policy Board to make any required minor adjustments to the audited annual accounts."*

20. Following the council meeting, a further set of accounts was presented for audit in line with the agreed delegation. The auditor completed their work on this final set of accounts and issued an unqualified opinion on the 2018/19 accounts on 9 October 2019, seven working days after the statutory deadline of 30 September. This opinion was in line with the position outlined in paragraph 14 above.

21. There had been a process of continuous engagement between the auditor and council officers throughout the key phases of the audit. Council officers had updated and engaged with Elected Members on this matter through briefings to the Group Leaders and a meeting of the ARSB on the 23 September 2019.

Subsequent events

Trade receivables and trade payables

22. Senior officers at the council have taken the issues arising from the audit of the 2018/19 accounts seriously and responded in a positive and constructive manner to the matters identified through the audit. Actions initiated by officers during the audit process to redress the identified issues clearly, and appropriately, fell into two categories:

- Immediate actions required to successfully correct the issues in the 2018/19 accounts.

- Permanent, corrective changes to the system to prevent the recurrence of the same issues in the accounts for 2019/20 and beyond. The council has further reinforced these changes through enhancements to non-system process including:
 - focussed review of debtors and creditors
 - improved reconciliation and monitoring procedures
 - full balance sheet review at the end of October 2019 (period 7) and January 2020 (period 10).

23. The auditor is content that these actions and the detailed work that underpins them are an appropriate and credible response to the specific issues giving rise to the late and modified Opinion on the 2018/19 accounts. It is the auditor's view that, assuming no other major problems are identified, these actions should prevent a recurrence of those issues.

24. Nevertheless, the auditor has made clear to council officers that the key measures of success will be council's ability to produce a materially accurate, complete and timely statement of accounts for 2019/20, supported by good quality working papers and a clear audit trail. Success in this respect will be measured, ultimately, through the outcome of the audit process.

Wider developments

25. The council has taken the opportunity to look beyond the minimum actions required to address the trade receivable and trade payable issues and has agreed an ambitious closedown timetable for 2019/20 that seeks to advance the preparation of the annual accounts by more than a month compared to previous years. The council is planning to present the 2019/20 Accounts for audit on Wednesday 20 May, some five weeks earlier than the previous year and to present the unaudited accounts for consideration by ARSB on 26 May. Officers are clear that 2019/20 is a pilot year for the proposed new timetable and recognise the risks inherent within the plan. Appropriate action has been taken to mitigate against such risks, notably:

- Consulting with other councils who demonstrate a track record of successfully delivering early closure.
- Leaving the governance and approval timetable unchanged from previous years, so that the ARSB and council meetings, to consider and approve the accounts respectively, remain in September 2020. Thereby providing some contingency within the accounts completion timetable.
- Reinvigorating cross-departmental engagement and communication to secure acceptance and ownership of the proposed timetable under a single project manager.
- Refreshing and enhancing the finance team by actively recruiting to previously vacant posts and a placing a renewed and greater emphasis on focussed CPD.
- Continued close liaison and engagement with the auditor and wider audit team.

26. The auditor supports the council's approach, to achieving an earlier closedown and has committed to working with the council, within their remit as external auditor, to help the organisation realise this ambition. The aim of both the council and auditor is to achieve an earlier sign-off and opinion date for the 2020/21 statement of accounts.

Conclusion

27. Renfrewshire Council has a strong track record of presenting high quality financial statements and supporting working papers for audit and a sound and robust approach to closing its accounts. The issues experienced as part of the 2018/19 audit were therefore unusual and uncharacteristic of the organisation. It is clear that both Officers and Elected Members at the council took the issues very seriously and implementing appropriate and sustainable solutions is a key priority for the Director of Finance and Resources and the wider Finance Team.

28. The implementation of the ERP system was a significant and complex undertaking by the council and the process of system change was well managed. The matter which resulted in the delayed and modified auditors' opinion arose from the operation of a specific aspect of the system.

29. I recognise that the council acted to identify and address the underlying issues with trade receivables and trade payables in the 2018/19 Financial Statements and that these solutions ultimately enabled the auditor to issue an unqualified opinion on the financial statements. The identification of these solutions and the reworking of the financial statements to ensure their correct implementation added further time pressures into an already tight timetable, which, in itself, presented a risk of further errors and misstatements occurring. The additional time required to audit the revisions to the accounts further contributed to these pressures.

30. Therefore, I fully support the auditor's decision to delay issuing their opinion on the financial statements in order to reduce the level of pressure in the process and allow sufficient an appropriate time for finance officers to work through the adjustments and for the audit team to complete their work to an appropriate standard.

31. I agree with the Auditor's assessment as to the adequacy of the council's response to prevent a recurrence of the same issues in 2019/20. However, I acknowledge that work remains to be completed by both the council and the auditor in preparing and auditing the 2019/20 financial statements. The key test will be the timely delivery of a high-quality set of accounts, supported by an equally high standard of working papers for audit, and a successful audit outcome.

32. I welcome the council's wider review of its closedown process and support the council's ambition to achieve an early accounts closure and sign-off. I recognise the risks associated with this, as does the council, and the auditor will report to me again on the outcome of the 2019/20 audit.

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN

T: 0131 625 1500 E: info@audit-scotland.gov.uk 

www.audit-scotland.gov.uk 

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