

Report

Audit Committee



Part 1

Date: 30 November 2017

Subject **Lessons Learned – 2016/17 Accounts Closedown and Financial Statements Preparation**

Purpose This report presents the findings of an initial lessons learned review carried out by finance officers following the 2016/17 accounts closedown. It gives an assessment on the findings of the lessons learned review and the plans in place to implement for 2017/18 and the key risks to the closedown process for 2017/18.

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Ward General

Summary Following the closedown of the 2016/17 accounts, a lessons learned log was required to put into place improvements for the closedown of the accounts process. This lessons learned review should be taken as a matter of course, and with the issues that arose from the audit of the 2016/17 accounts, this review is of high importance to ensure improvements are delivered for 2017/18.

While there was a number of positives that came out of the closedown process in 2016/17 which can be taken forward into future years, there are a number of areas where weaknesses have been identified and improvements can be made. Processes, timetables and communication are essential in delivering these.

Proposal **Committee is recommended:**

- To note the lessons learned process that has been carried out to date and agree the proposed plan for 2017/18 closedown.

Action by (i) Head of Finance/Assistant Head of Finance – implement proposals and processes highlighted in the report.

Timetable Immediate

This report was prepared after consultation with:

Finance Teams
Wales Audit Office

Background

Following a much improved closedown process in 2015/16, the 2016/17 year end saw further improvements again and a number of the actions from the lessons learned reported to Audit Committee in November 2017 were implemented.

This saw a number of overall improvements implemented which included:

- Completion of both the single entity and group accounts by June 10th
- Draft accounts came to Audit committee on the 26th June signed by the Head of Finance
- Finance accounts and ISA260 went out for briefing early September which was earlier than in 2015/16.
- Further improvements made to working papers provided to Wales Audit Office and in a more timely manner
- Number of audit issues on the audit matrix log and ISA260 were also reduced from 2015/16

2016/17 also saw the introduction of reporting the CI&E on a management accounts basis (as reported to Cabinet), rather than on a Service Reporting Code of Practice (SeRCOP) basis, as part of the 'telling the story' approach that CIPFA has now adopted. This was also included a new statement called the Expenditure and Funding Analysis, as well as updates of the document and notes to the accounts which also included comparative prior year figures. This exercise was completed prior to year-end and allowed WAO to audit the comparative year before the end of the 2016/17 financial year.

While there was significant progress made again within 2016/17 there are still a number of improvements that need to be made to ensure a better process and completion of accounts by an earlier closing deadline in the near future. These are discussed further in the report.

Early discussions have taken place with Wales Audit Office, and a meeting has already taken place following the attendance by a number of key finance colleagues at the "Making reality of early closure" course being delivered by WAO.

Outcome – Certification of the Accounts

The opinion from the Independent Auditors report was that the accounts gave a true and fair view and have been properly prepared in accordance with the Code of Practice. This was in relation to both the single entity accounts and group accounts.

Process for improvement

The process for challenge and improvement for 2017/18 accounts closedown and financial statements has already begun and officers involved in the accounts closedown have all been asked to provide their analysis of:

- What went well?
- What didn't go well?
- What can be improved on?
- Key risks.

These have been completed and collated and the next stage of this process is now to review these findings and timetable the improvements that can be implemented prior to planning the preparation of

2017/18 year end accounts. Some of the key themes that have come from the initial review are as follows:

- A number of the notes and tasks were completed earlier in the closedown process/during the financial year, such as finance leases, depreciation and landfill provision as well as income and expenditure testing for the first 9 months of the year.
- Grant income coding has further improved for both the Statement of Accounts and Whole of Government Accounts
- Improvement still needs to be made to processes for internal recharges ensuring consistency across the team
- Continued improvement of working papers
- Weekly meetings with External Auditors meant that there was good, open engagement from both sides. Issues were raised early which enabled review and discussion with Key Finance staff.
- Better use of the systems to create automated accruals.
- Continue to create better links with the financial statements and Whole of Government Accounts. Carry out early reconciliations on transactions with other public bodies.
- Need to continue to improve the collection of third party data required for completion of accounts

The next stage is to look at each of these in detail and assign the delivery of these improvements with individual officers/teams to ensure delivery where applicable.

Key Risks

There are also a number of key risk areas that need to be focussed on and agreed with WAO at an early stage which will need to be discussed with WAO in the immediate future, these are:

- I. Continued early review of provisions, leases and PPE valuations
- II. Notes/accounts that can be reviewed by WAO prior to year end
- III. Internal recharges and income
- IV. QA undertaken by Members as part of the draft and final accounts timetable

I. Review of provisions and leases

A review of the landcapping and aftercare provision was undertaken by appropriate officers of the council during early 2017 to enable WAO to review early prior to the end of the year. Building on the work that was completed early, the same work and early review is planned for early 2018. All other provisions and lease reviews will also be completed within the same timescales.

II. Notes/accounts that can be reviewed by WAO prior to year end

Discussions need to take place with WAO about which testing can be undertaken prior to the sign off of the draft accounts. This will include notes such as capital disposals/additions/impairments, provisions, leases, creditors and early income/expenditure testing. Some discussion has already happened but a timescale for these will need to be formalised.

III. Internal Recharges

2016/17 saw the introduction of a new note, the Income and Expenditure Analysis. This note identified that a number of internal recharges were being coded, and therefore classified as external income. An income review has already commenced and another training session will be given at the next Accountancy development day to ensure consistency across the teams.

IV. QA undertaken by Members as part of the draft and final accounts timetable

Members' involvement as part of the QA done during both the draft and final statement of accounts would ensure that the number of audit queries raised at audit committee would be minimal. This will also help with early closure of the accounts.

Communication

Communication will be essential throughout this process, and we will need to engage the appropriate officers to take these improvements forward. Liaison with Wales Audit Office during the lessons learned and planning stages is also key to a smooth closedown and audit process. Following the initial lessons learned meeting discussions which need to take place with WAO include:

- Agreement to transactions and proposed methodologies/processes that can be completed earlier in the year (clarification of estimations and judgements used)
- Communication and agreement on upcoming policy changes
- Early review of provisions, leases and other relevant notes
- Agreement on level of working papers and timings- review of deliverables document
- Early discussions on earlier closing and working together to succeed

Timetable for improvement

October 2017	Carry out lessons learned review with relevant officers on accounts closedown 2015/16 – Completed
November 2017	Meeting with Wales Audit Office to agree lessons learned and action plan - completed
November - December 2016	Review of Oracle system to review coding structure and balances on accounts. Update word document and excel tables in preparation for 2016/17. Review of income and ensure that internal recharges are being dealt with correctly and consistently.
Early December 2017	First “closing” meeting set up with relevant officers to discuss lessons learned log, assign responsibilities, and discuss closing timetable.
December 2017 – January 2018	Provisions, leases and PPE valuations reviewed. Highways Network Asset systems reviewed by internal audit.
Early February 2018	FINAL timetable and memo to be agreed with responsible officers and HoF
January 2018	Review deliverables document with WAO with WAO undertaking early review of relevant notes where agreed.
February 2018	Final timetable and memo sent out to appropriate officers
February/March 2018	Completion of earlier closedown tasks to take pressure off closedown periods
3rd week April 2018	ALL transactions relating to Outturn to have been completed
4th week April 2018	All “technical” transactions to be complete
Continuous	Working Papers to be completed at earliest opportunity rather than waiting for Outturn to be closed off – if not changing complete – checks to be made.
Throughout May	Put financial statements together as per agreed timetable.
Third week May	Completed draft SOA ready for QA and review QA undertaken by members
Last week of May	Approval of SOA by HoF – dates of Audit Committee to be confirmed

Financial Summary

There are no direct financial implications arising from this report.

Risks

There are a number of key risks to the closedown process that need to be mitigated against. The following table highlights these.

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Number of new staff/loss of key staff	M	M	Good working papers need to be set up and easy to follow. Complete work instructions and clear responsibilities for closing tasks	Finance
Delayed accounts due to reliance on third parties	M	L	Estimations/judgements may be required where the information isn't available from third parties i.e. accruals Ensure third parties are aware of timetable deadlines	Finance
New policies/treatments	L	L	Knowledge of changes to the 'Code' and impact on the Authority's financial statements. Attendance at relevant year end courses. Discussions with auditors at early stage of process.	Finance
Failure to approve and publish the accounts before the 30 Sept deadline increases the risk of qualification, and increases reputational external perception risks.	M	L	The Council works with its Auditors to ensure the Accounts are prepared and suitably reflect the financial position of the authority	Assistant/Head of Finance

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

Effective financial management is essential if an organisation is to achieve its stated objectives.

Options Available and considered

Note and agree process of planned improvement following lessons learned review.

Preferred Option and Why

As above

Comments of Chief Financial Officer

Comments of the Chief Finance Officer are included in the above report.

Comments of Monitoring Officer

There are no specific legal issues arising from the Report. Under the Public Audit (Wales) Act and the Accounts and Audit Regulations, the Council is required to prepare their draft statement of accounts for the previous financial year by 30th June and publish the final statement of Accounts by 30th September. The closure of the accounts for 16/17 was completed earlier than previous years as a result of lessons learned and improvements identified and were certified as a true record by the WAO in accordance with the CIPFA Code of Practice. This Report sets out further lessons and recommended improvements for the 17/18 accounts closure and financial statements process, for approval by Audit Committee.

Comments of Head of People and Business Change

There are no HR or People and Business Change related matters arising directly from this report.

Comments of Cabinet Member

N/A

Local issues

There are no local issues arising from this report.

Scrutiny Committees

N/A

Equalities Impact Assessment and the Equalities Act 2010

N/A

Children and Families (Wales) Measure

N/A

Wellbeing of Future Generations (Wales) Act 2015

The report is mindful of the Act, especially in terms of the principles of transparency. The report sets out the development made to date in the Authority's year end work and the particularly how we can continue making progress and securing financial resilience and managing risk.

Crime and Disorder Act 1998

N/A

Consultation

N/A

Background Papers

Statement of Accounts 2016/17 - available to public.

ISA 260 Audit of Financial Statements 2016/17 – available to public

Dated: 11/11/2017