

Report

Audit Committee

Part 1

Date: 22 November 2018

Item No: 7

Subject **Lessons Learned – 2017/18 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 2017/18 accounts closedown. It gives an assessment on the findings of the lessons learned review and the plans in place to implement for 2018/19 and the key risks to the closedown process for 2018/19.

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Ward General

Summary Following the closedown of the 2017/18 accounts, a lessons learned review 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 2017/18 accounts, this review is of high importance to ensure improvements are delivered for 2018/19.

A meeting has already taken place with Wales Audit Office (WAO) to discuss what needs to be put in place to meet the earlier closing deadline and which areas of the accounts can be audited early.

Proposal **Committee is recommended:**

To note the lessons learned process that has been carried out to date and agree the proposed plan for 2018/19 closedown.

Action by 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

Signed

Background

The 2017/18 year end saw further improvements from previous years and a number of the actions from the lessons learned reported to Audit Committee in November 2017 were implemented.

These included:

- Completion of single entity accounts by 8th June and group accounts by June 13th
- Draft accounts came to Audit committee on the 21st June signed by the Head of Finance
- Finance accounts and ISA260 went out for briefing early September.
- Further improvements made to working papers provided to Wales Audit Office and in a more timely manner.

While there was significant progress made again within 2017/18 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.

2018/19 year end will be the first year where the final date on which the accounts must be signed and published will be brought forward from 30th June to 15th June with an audited statement completed 15th September.

Early discussions have taken place with Wales Audit Office, and a meeting has already taken place to discuss lessons learned with Finance Officers, as well as discussing work that could be undertaken early by both the Accountancy Teams and WAO to ensure that the revised deadlines can be met.

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 key officers involved in the accounts closedown have been asked to provide their thoughts of:

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

These have been completed 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 2018/19 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 income and expenditure testing for the first 11 months of the year, accumulative absence provision, sections of the Officer Remuneration note, depreciation, a number of areas of Property, Plant and Equipment note and review on certain leases.
- Classification and coding of expenditure and income needs to be improved.

- 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.
- Reconciliations on transactions with other public bodies for Whole of Government Accounts were completed throughout the year
- Need to continue to improve the collection of third party data required for completion of accounts so the earlier deadlines can be met.
- Allowing WAO to have access to IT systems such as 'Oracle' and 'Information at Work' meant that they could undertake a significant amount of testing themselves.
- There were a significant amount of queries following asset revaluations, which took some time to resolve
- There were some changes to wording, in particular to the Head of Finance narrative which were only noted when the draft statement of accounts were presented to Audit Committee following review by the members.
- There was one uncorrected misstatement on the ISA260 which was the same as in 2016/17, work will be started shortly to correct this for 2018/19.

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. Classification of Expenditure and Income
- IV. Changes in accounting policies - IFRS 9 Financial Instruments
- V. Information required from third parties to complete statement of accounts (especially group)
- VI. Thorough review of the Statement of Accounts with a look to streamlining the accounts
- VII. QA undertaken by Members as part of the draft and final accounts timetable

I. Review of provisions and leases

A review of certain provisions such as accumulated absence was undertaken by finance staff during early 2018 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 2019. All other provisions and lease reviews will also be completed within the same timescales.

This review will be especially important in regards to leases due to the new IFRS 16 standard which replaces the earlier leasing standard IAS 17. Whilst the new standard does not come into force until the 2019/20 financial year, IFRS 16 could lead to major changes in the way local authorities account for assets used under lease arrangements and the obligations under those leases. Early review of leases will not only be important for 2018/19 year end, but will provide a solid foundation for the change to the new standard in 2019/20.

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

Discussions have already taken 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. Additional meetings have already been planned, once certain queries have been resolved to finalise what has discussed.

Officers have also had a meeting with Newport Norse to agree what information can be provided earlier in respect of revaluation of assets. As this information will be provided before year end, estimates will have to be used, but the processes and the data which will be as the basis has been discussed with WAO.

III. Classification of Expenditure and Income

The 2017/18 audit identified a number of classification errors within the Income and Expenditure Analysis note. This note identified that a significant amount of 'employee benefits' were journalled from the correct code and recoded as 'other services expenditure'. A number of 'government grant income' was also incorrectly classified in the note, although this was correct within the financial system. A review has already been undertaken and work has commenced on improving the process to ensure that this does not happen in 2018/19. A review will be undertaken shortly on the work completed to date.

IV. Changes in accounting policies - IFRS 9 Financial Instruments

A review of our financial instruments will take place during the year, with proposed treatment for the implementation of the new technical standard being provided to Wales Audit Office for review on an early basis. We do not anticipate the implementation of IFRS9 to have a significant impact on the statement of accounts.

V. Information required from third parties to complete statement of accounts

There is a significant amount of information required from third parties in order to complete the statement of accounts. Delays in receiving some information meant that group accounts were completed a week later than single entity accounts. This is a risk considering the new earlier deadlines which will be implemented in 2018/19. The new deadlines for the statement of accounts and the dates for any required information have already been sent to parties concerned and reminders will be sent throughout the year leading up to year end.

VI. Review of Statement of Accounts

We will undertake a full review of the accounts and notes within to assess whether the accounts can be "streamlined". This would assess whether any notes could be reduced or removed all together. This will look at materiality and also whether the information provided adds value to the reader of the accounts and is required by the Code of Practice. This may save on both the time to prepare the accounts and also the auditing of the accounts.

VII. 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. This would be especially relevant for the Head of Finance narrative, this will be planned to be completed earlier in the process and time for QA will be built into the accounts timetable.

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 2018	Carry out lessons learned review with relevant officers on accounts closedown 2017/18 – Completed
October 2018	Meeting with Wales Audit Office to agree lessons learned and action plan – completed
October 2018	Communication with third parties to provide them with the requirements for earlier closing - completed
November - December 2018	Review of Oracle system to review coding structure, classification of expenditure and balances on accounts. Update word document and excel tables in preparation for 2017/18. Review of income and ensure that internal recharges are being dealt with correctly and consistently.
Early December 2018	First “closing” meeting set up with relevant officers to discuss lessons learned log, assign responsibilities, and discuss closing timetable.
December 2018 – January 2019	Provisions, leases and PPE valuations reviewed. Highways Network Asset systems reviewed by internal audit. Revaluations received from Newport Norse
January 2019	Review deliverables document with WAO with WAO undertaking early review of relevant notes where agreed.
Early February 2019	FINAL timetable and memo to be agreed with responsible officers and HoF
February 2019	Final timetable and memo sent out to appropriate officers
February/March 2019	Completion of earlier closedown tasks to take pressure off closedown periods
3rd week April 2019	ALL transactions relating to Outturn to have been completed
4th week April 2019	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	Probability	What is the Council doing or	Who	is
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	Risk if it occurs* (H/M/L)	of risk occurring (H/M/L)	what has it done to avoid the risk or reduce its effect	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 15 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 15th June and publish the final statement of Accounts by 15th September. The closure of the accounts for 17/18 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 18/19 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 2017/18 - available to public.

ISA 260 Audit of Financial Statements 2017-18 – available to public

Dated: 06/11/2018