

# Report

## Audit Committee

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### Part 1

**Date:** 05 November 2019

**Item No:** 7

**Subject** **Lessons Learned – 2018/19 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 2018/19 accounts closedown. It gives an assessment on the findings of the lessons learned review and the plans in place to implement for 2019/20 and the key risks to the closedown process for 2019/20.

**Author** Assistant Head of Finance

**Ward** General

**Summary** Following the closedown of the 2018/19 accounts, a lessons learned review was undertaken to put into place further improvements for the closedown of the accounts process. This lessons learned review is taken as a matter of course, and with the issues that arose from the audit of the 2018/19 accounts, this review is of high importance to ensure improvements are delivered for 2019/20.

A meeting has already taken place with Wales Audit Office (WAO) to discuss what additional processes needs to be put in place to ensure the earlier closing deadline is met and to confirm which areas of the accounts can be audited early for the 2019/20.

**Proposal** **Committee is recommended:**

To note the lessons learned process that has been carried out to date and agree the proposed plan for 2019/20 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 2018/19 year end was the first year where the final date on which the accounts had to be signed and published was brought forward from 30th June to 15th June with an audited statement completed by 15th September.

This year end saw further improvements from previous years and a number of the actions from the lessons learned reported to Audit Committee in November 2018 were implemented.

These included:

- Draft accounts came to Audit committee on the 6<sup>th</sup> June signed by the Head of Finance
- Final accounts and ISA260 went out for briefing end of August.
- A number of notes and other work were completed early and given to WAO before 31<sup>st</sup> March to allow early testing to be carried out and reduce some of the work that had to be completed at year end, allowing us to meet the tighter timeframes which were brought in during 2018/19.

Again, whilst progress was made again within 2018/19 there are still a number of improvements that can be implemented to ensure a better process and completion of accounts by the further earlier closing deadline in the 2020/21. These are discussed further in the report.

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 reviewing 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 2019/20 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 2019/20 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 again 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.
- Norse provided revaluation information earlier than previous years which allowed additional work within the Statement of Accounts to be done earlier. We are working closely with Norse again to ensure that the same process is followed in 2019/20 and information has already been provided

to us which will enable us to continue to look at Property, Plant and Equipment notes before March 2020. By completing this exercise in 2018/19, it showed us areas that could be improved which will be implemented for 2019/20.

- There were again significant amount of queries following asset revaluations, which took some time to resolve, so we are also looking at the ways that this can be improved from 2018/19. Completing this area of work early will mean that WAO can undertake early testing and reduce the number of queries that will be raised after the draft accounts.
- Coding of expenditure and income were improved from 2017/18, but work still needs to continue. Newport Live payroll, which the Council processes were included in the 2018/19 figures, however work has done to ensure that this will not happen again.
- 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. Early testing will also mean that any issues raised can be corrected for the publication of the draft accounts.
- Reconciliations on transactions with other public bodies for Whole of Government Accounts were completed throughout the year
- Some notes were condensed or merged together in order to try and streamline the accounts
- Collection of third party data required for completion of accounts improved in 2018/19 and deadlines will be communicated at the start of 2020 so this can continue for the 2019/20
- WAO were also given access to iTrent (the HR payroll system) in addition to the other IT systems they have already given access to which again meant that they could undertake a significant amount of testing themselves.
- 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 two uncorrected misstatement on the ISA260, these were
  - Understatement of Pension liability by £2.562m arising from the McCloud Judgement
  - Accounting treatment of loan modifications under IFRS 9Both of these were technical in nature and non-cash and had no impact on the general fund

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:

- Continued early review of provisions, leases and PPE valuations
- Notes/accounts that can be reviewed by WAO prior to year end
- Changes in accounting policies - IFRS 16 Leases, whilst this standard does not come in until 2020/21, we will have to include the potential impact this will have within the 2019/20 statement of accounts.
- Information required from third parties to complete statement of accounts (especially group)

- Further review of the Statement of Accounts with a look to removing some notes from the accounts to further streamline the accounts
- QA undertaken by Members as part of the draft and final accounts timetable
- Declaration of Interest for members

#### I. Review of provisions and leases

A review of certain provisions such as accumulated absence was undertaken by finance staff during early 2019 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 2020. 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 have already taken place with WAO about which testing can be undertaken prior to the sign off of the draft accounts, which is in line with what was agreed to be completed in 2018/19. This will include notes such as capital disposals/additions/impairments, provisions, leases, creditors and early income/expenditure testing.

As stated previously, 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 used as the basis has been discussed with WAO. Allowing an early review will mean that a number of issues can be resolved before the draft statement is produced.

#### III. Changes in accounting policies – IFRS 16 Leases

The early work and 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 2020/21 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. The Authority will also be required to state what the likely impact of adopting IFRS 16 will be within the 2019/20 Statement of Accounts..

#### IV. 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. In 2018/19, information was received in a timely manner in order for us to complete single entity and group accounts by the end of May. However, this remains a risk, especially in 2020/21 when the deadlines are brought forward by a further two weeks. Dates for any required information will be sent to the parties concerned imminently to parties concerned and reminders will be sent throughout the year leading up to year end.

#### V. Review of Statement of Accounts

Some work has already been undertaken to try and streamline the accounts and we have merged some notes where it was appropriate. We will also undertake a further review of the accounts and notes within to assess whether the accounts can be “streamlined” further by removing other notes to the accounts altogether. 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.

#### VI. 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.

## VII. Declaration of Interests

Within the ISA 260 it was noted that there were a number of declaration of interests from Council members which were not received, which meant that External Audit had to undertake other audit work to provide assurance. There will be a meeting arranged with Democratic Admin in the new year to discuss how this can be improved.

## 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

<b>October 2019</b>	Carry out lessons learned review with relevant officers on accounts closedown 2017/18 – <b>Completed</b>
<b>October 2019</b>	Meeting with Norse to agreed required information and deadlines – <b>completed</b>
<b>November 2019</b>	Communication with third parties to provide them with the requirements for earlier closing
<b>November 2019</b>	Meeting with Wales Audit Office to agree lessons learned and action plan – <b>completed</b>
<b>November - December 2019</b>	Review of Oracle system to review coding structure, classification of expenditure and balances on accounts. Update word document and excel tables in preparation for 2018/19. Review of income and ensure that internal recharges are being dealt with correctly and consistently.
<b>Early December 2019</b>	First “closing” meeting set up with relevant officers to discuss lessons learned log, assign responsibilities, and discuss closing timetable.
<b>December 2019 – January 2020</b>	Provisions, leases and PPE valuations reviewed. Highways Network Asset systems reviewed by internal audit. Revaluations received from Newport Norse
<b>January 2020</b>	Review deliverables document with WAO with WAO undertaking early review of relevant notes where agreed.
<b>Early February 2020</b>	FINAL timetable and memo to be agreed with responsible officers and HoF
<b>February 2020</b>	Final timetable and memo sent out to appropriate officers
<b>February/March 2020</b>	Completion of earlier closedown tasks to take pressure off closedown periods
<b>3<sup>rd</sup> week April 2020</b>	<b>ALL</b> transactions relating to Outturn to have been completed
<b>4<sup>th</sup> week April 2020</b>	All “technical” transactions to be complete

<b>Continuous</b>	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.
<b>Throughout May</b>	Put financial statements together as per agreed timetable.
<b>Third week May</b>	Completed draft SOA ready for QA and review QA undertaken by members
<b>Last week of May</b>	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?
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 2018/19 - available to public.

ISA 260 Audit of Financial Statements 2018-19 – available to public

Dated: 05/11/2019