

Report

Audit Committee

Part 1

Date: 19 November 2020

Item No: 10

Subject **Lessons Learned – 2019/20 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 2019/20 accounts closedown. It gives an assessment on the findings of the lessons learned review and the plans in place to implement for 2020/21 and the key risks to the closedown process for 2020/21.

Author Assistant Head of Finance

Ward General

Summary Following the closedown of the 2019/20 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 2019/20 accounts, this review is of high importance to ensure improvements are delivered for 2020/21. The review is even more significant this year given the circumstances surrounding the Covid-19 pandemic and how Newport City Council and Audit Wales are adapting to remote working whilst still working to statutory deadlines.

We have met with Audit Wales to have a discussion on lessons learned and a further meetings will take place with Audit Wales 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 2020/21.

Proposal **Committee is recommended:**

To note the lessons learned process that has been carried out to date and agree the proposed plan for 2020/21 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
Audit Wales Office

Signed

Background

2019/20 closedown of accounts and preparation of the Statement of Accounts has been very challenging in the backdrop of the Covid-19 pandemic. With the country going into lockdown at the end of March, the finance team were faced with closing down the financial year end and producing a draft statement of accounts while working from home and without the usual access to a number of files and contacts. There were also significant competing demands across accountancy and other service areas in the response to the Covid-19 pandemic.

Despite the challenges the finance team were able to utilise remote working technology such as 'Teams'; and continued access to the Councils networks and financial ledger to produce and publish a draft Statement of Accounts on 6th July 2020, just over three weeks after the statutory deadline for approval of 15th June 2020.

The audited statement was due to be completed by 15th September, however again due to the challenges arising from the Covid-19 pandemic this was not achievable, and this was signed off electronically on the 30th September.

Understandably, it is common across Wales and the UK that either deadline was not met this year. Despite the challenges faced this year, alongside Audit Wales, we were able to build on previous improvements, especially in relation to early audit review of capital items, the number of amendments in relation to these have reduced from previous years.

Whilst progress was made again within 2019/20 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 2020/21. These are discussed further in the report.

Early discussions have taken place with Audit Wales, a meeting has taken place to discuss lessons learned with Finance Officers, and another will be arranged to review work that could be undertaken early by both the Accountancy Teams and Audit Wales 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 2020/21 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 2020/21 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 2020/21 and information has already been provided to us which will enable us to continue to look at Property, Plant and Equipment notes before March 2021. By completing this exercise in 2018/19 and now 2019/20, it showed us areas that could be improved which will be implemented for 2020/21.
- Coding of expenditure and income were improved from 2019/20, but work still needs to continue to help make year-end closing more efficient.
- 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.
- The use of Microsoft Teams has meant communication between service areas, third parties and the finance team has been able to continue however it has been different and difficult at times as everyone has had to adapt to remote working. We also need to explore the opportunities that new technologies give us to share information with audit and training is provided where applicable.
- Audit Wales highlighted the issue of creditors in the report with 3 out of 19 sampled creditors being incorrectly accrued for. Again the closedown process was hampered by Covid-19 and without access to a number of pieces of information service areas and the accounting teams were required to make a number of assumptions when carrying out accruals at year-end. We will enforce the message on accurate accrual accounting across the service areas for 2020-21 to ensure this improves in the future.
- Audit highlighted a number of simple amendments that had to be corrected. To avoid these being repeated in the future, more checks will be built into the process to ensure these are captured where possible
- Audit Wales have been provided with all necessary access to the IT systems NCC use to undertake a significant amount of testing themselves, but only on one laptop. Since remote working has been introduced it has illustrated that one laptop is not sufficient as it cannot be shared within the team.
- Whole of Government Accounts (WGA) brought out a new system for figures to be input and be able to share information easily such as Counter Party Inter Transactions more straightforwardly. On reflection as the Statement of Accounts is pulled together a reconciliation on what figures are input to the WGA will assist in identifying any incorrect figures or balances.
- There was two uncorrected misstatement on the ISA260, these were
 - Overstatement of soft loans by £1.9m
 - Accounting treatment of loan modifications under IFRS 9
 Both 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 Audit Wales at an early stage which will need to be discussed with Audit Wales in the immediate future, these are:

- Communication and Information sharing due to operational changes and stepped up digitisation
- Continued early review of provisions, leases and PPE valuations
- Notes/accounts that can be reviewed by Audit Wales prior to year end
- Changes in accounting policies - IFRS 16 Leases, whilst this standard does not come in until 2021/22, we will have to include the potential impact this will have within the 2020/21 statement of accounts.
- Information required from third parties to complete statement of accounts (especially group)
- QA undertaken by Members as part of the draft and final accounts timetable
- Declaration of Interest for members
- Ensure enough time is built into the timetable for an effective review

I. Review of provisions and leases

A review of certain provisions such as accumulated absence was undertaken by finance staff during early 2020 to enable Audit Wales 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 2021. All other provisions and lease reviews will also be completed within the same timescales.

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

Discussions will be had with Audit Wales 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.

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 Audit Wales. 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. Due to COVID-19 the new standard will come into force in 2021/22 however the authority will also be required to state what the likely impact of adopting IFRS 16 will be within the 2020/21 Statement of Accounts. Whilst the new standard does not come into force until the 2021/22 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.

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 2019/20, 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. QA of the Statement of Accounts

A review and quality assessment (QA) of the Statements of Accounts is carried out at every level. However this year has taught us that a QA needs to be more effective on the statement of Accounts and the working papers. Not only should it be reviewed to cross check that figures and balances match but also that it is

understood how that figure has been attained and does it seem sensible. Checklists are being drawn together to put in place to help resolve errors and avoid miscalculations.

VI. 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.

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 in 2020/21 as we all continue to learn and adapt to remote working and new technologies, and we will need to engage the appropriate officers to take these improvements forward. Liaison with Audit Office during the lessons learned and planning stages is also key to a smooth closedown and audit process to understand how remote working will be working for them going forward, what the preferred communication method is and how information sharing can be improved.

Following the initial lessons learned meeting discussions which need to take place with Audit Wales 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 2020	Carry out lessons learned review with relevant officers on accounts closedown 2017/18 – Completed
October 2020	Meeting with Norse to agreed required information and deadlines – completed
November 2020	Communication with third parties to provide them with the requirements for earlier closing
November 2020	Meeting with Wales Audit Office to agree lessons learned and action plan
November - December 2020	Review of Oracle system to review coding structure, classification of expenditure and balances on accounts. Update word document and excel tables in preparation for 2020/21. Review of income and ensure that internal recharges are being dealt with correctly and consistently.

Early December 2020	First “closing” meeting set up with relevant officers to discuss lessons learned log, assign responsibilities, and discuss closing timetable.
December 2020 – January 2021	Provisions, leases and PPE valuations reviewed. Revaluations received from Newport Norse
January 2021	Review deliverables document with AW with AW undertaking early review of relevant notes where agreed.
Early February 2021	FINAL timetable and memo to be agreed with responsible officers and HoF
February 2021	Final timetable and memo sent out to appropriate officers
February/March 2021	Completion of earlier closedown tasks to take pressure off closedown periods
3rd week April 2021	ALL transactions relating to Outturn to have been completed
4th week April 2021	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?
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 31 July deadline increases	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

the risk of qualification, and increases reputational external perception risks.				
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* 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, for 2019/20 the Council was 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. There have been further identified improvements in the process for closure of the accounts for 19/20 as a result of implementing a number of actions agreed with Audit Committee from the lessons learned last year. The final accounts have been certified as a true and fair record by the Audit Wales in accordance with the CIPFA Code of Practice. This Report sets out further lessons and recommended improvements for the 20/21 accounts closure and financial statements process, for approval by Audit Committee. From 2020/21 the Council will be required to prepare the draft statement of accounts for the previous year by 31st May and publish the final statement of accounts by 31st July.

Comments of Head of People and Business Change

Undertaking lessons learned reviews are important to demonstrate continuous improvement and ensuring this administration maintains strong corporate governance and internal controls. The outcomes of this review also provides assurance to the Council’s external and internal auditors of the process undertaken by the Council remain robust and effective.

There are no HR 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

To support the delivery of the Wellbeing of Future Generations Act, public sector bodies including local authorities should be considering the seven corporate areas of change including finance. This report submitted to the Audit Committee is a demonstration of how the Council's finance team are self-reflecting on their performance and improving their delivery. This is also a good demonstration of having a collaborative approach with the Council's service areas and External Audit (Audit Wales) to implement their improvements and to have sufficient assurance that the processes are effective and efficient to meet the necessary legislative requirements

Crime and Disorder Act 1998

N/A

Consultation

N/A

Background Papers

Statement of Accounts 2019/20 - available to public.

ISA 260 Audit of Financial Statements 2019-20 – available to public

Dated: 04/11/2020