

Report



Governance and Audit Committee

Part 1

Date: 28th March 2024

Subject **Lessons Learned – 2022-23 Accounts Closedown and Financial Statements Preparation**

Purpose This report presents the findings of a lessons learned review carried out by finance officers following the 2022/23 accounts closedown. It gives an assessment on the findings of the lessons learned review and the plans in place to implement for 2023/24 and the key risks to the closedown process for 2023/24.

Author Chief Accountant

Ward All

Summary Following the closedown of the 2022/23 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 2022/23 accounts, this review is of high importance to ensure improvements are delivered for 2023/24.

Proposal **To note the lessons learned process that has been carried out to date and the planned improvement following lessons learned review.**

Action by Chief Accountant / Assistant Head of Finance

Timetable Immediate

This report was prepared after consultation with:

- Finance Teams
- Audit Wales

Background

The 2022/23 year-end saw further improvements from previous years and a number of the actions from the lessons learned reported to Governance and Audit Committee in March 2023 were implemented.

These included:

- In common with previous years, a task timetable was agreed with senior accountants. The majority of tasks were completed within timescale and the draft Statement of Accounts was published by 30th June 2023.
- Reserves – there was a change to the process for administration and approval of reserves. In previous years, agreement of the outturn position and transfers to various reserves introduced significant delays which impacted on the balance sheet preparation. For 2022/23, reserve requests were grouped into phases, with each phase getting separate approval, meaning that much of the work required for the accounts was done before year end. This minimised the level of transfers requiring member approval and did not delay the technical team in working on the statement of accounts.
- Related Party relationships – Prior to the accounts for 2022/23, the amount of members which did not submit updated annual declarations was flagged as a weakness by Audit Wales within the ISA 260 Report. However, all members submitted annual declarations for the 2022/23 accounts, following increased efforts by officers to ensure compliance.
- Importance of Coding and Categorising -- An increasing focus of Audit Wales feedback has been on gross rather than net account presentation, which has led them to conclude “overstatements” to individual notes. Whilst the net position remained accurate in the Statement of Accounts, and so were correctly reported, staff were reminded of the importance about how transactions are subsequently categorised, and this issue was resolved for 2022/23.
- A longer period of review was built into the closing accounts timetable. This meant that the quality of the draft accounts submitted to Audit Wales was improved as simple errors such as transposition errors, and incorporation of third party data, which were noted within the Lessons Learned report last year, were reviewed before the accounts were passed to Audit Wales.

Process for improvement

Audit Wales have issued an unqualified true and fair view assessment of the Statement of Accounts for 2022/23. However, there will always be refinement issues from the annual audit process captured in Audit Wales’ ISA260 Report and this year was no exception.

This report considered improvements alongside the ISA260 Report which was submitted to Governance & Audit Committee on 23rd November 2023. The ISA260 report captured the issues raised, their cause and an initial reflection about how such issues can be mitigated in future, where possible.

Whilst the volume of corrected misstatements has slightly decreased to that of previous years, there were two significant issues arising from the audit.

- Review of assets with zero Net Book Value which included reviewing and removing net nil book asset entries
- Liability to Newport City Homes relating to repair of the Duffryn District Heating System

The process for challenge and improvement for the 2023/24 accounts closedown and financial statements has taken place and key officers involved in the accounts closedown were asked to provide their thoughts on what went well, key areas of risk and how they could be managed and improved upon. The next stage

of this process is now to review these findings and look at the improvements that can be implemented prior to the preparation of the 2023/24 accounts.

In general, it was felt that the Statement of Accounts process went well and was very positive. There were good client relations between Newport Council and Audit Wales and it was felt that the two teams worked well together. Weekly meetings were held and were helpful to discuss any findings, which allowed issues to be resolved promptly, as well as discussing any information outstanding, ensuring that the Audit was able to continue quite smoothly. However, this report will focus on the areas that could be improved and detail the work that can be done to facilitate this.

Whilst a significant amount of work has been done to improve the issues that were raised as part of the 2021/22 Audit, some work still remains to be concluded.

Fixed Assets

- Review of zero net book value - As part of their audit in 2021/22, Audit Wales identified £12.8 million of property, plant and equipment assets with a net book value of zero in the draft accounts that were no longer in use by the Council, and which were removed for the final 2021-21 accounts. The Council agreed to review such assets in detail in 2022/23, which was also required as part of the preparation work for the new finance system which is going live on 2nd April 2024. This review has been ongoing, but Audit Wales identified a further £2.6m of assets that were no longer in use by the Council and so needed to be removed from the 2022/23 accounts. However, it should be noted that whilst the value of this finding is significant, it is only in relation to two assets. The review has been continuing as part of the preparatory work for the transfer over to new system as well as for the 2023/24 statement of accounts.
- Construction inflation uplift - this was an all-Wales issue, which was raised by Audit Wales as part of the 2021/22 accounts. Given recent inflationary pressures, assets valued under the depreciated replacement cost method would likely be subject to material increases in value during 2022/23. Therefore, the Council (in line with many other councils in Wales) undertook an exercise to uplift the value of those assets in 2022-23 using appropriate industry indices.

Whilst Audit Wales were satisfied with the Council's approach to calculate these uplifts in value, there were some incorrect figures were included in working papers which led to the calculations being overstated by £1.7 million in 2022/23. The Council opted not to correct this misstatement given the volume and complexity of accounting entries required and the resulting impacts on supporting notes to the accounts. This is an annual exercise so the misstatement will be corrected as part of the calculation for 2023/24. Given the small nature of the team and the fact that key members of staff have also been heavily involved in the new system, it is not expected that this will be an issue for 2023/24. However, the Council will ensure that this is done as early as possible within the accounts process so that the working papers can be reviewed by other members of the team, rather than relying on one individual.

Annual Governance Statement

For the 2022/23 accounts, the timetabling of this activity was better, a draft version was reviewed by Governance and Audit Committee twice before a final signed copy was received in October to be included within the final set of accounts which was presented to the Committee for signing in November. However, this process could still be improved. It needs to be brought far further forward in the process in getting both draft and final discussed by Governance & Audit Committee earlier and ultimate sign off by Chief Executive and Leader prior to the draft Accounts submitted to the Governance & Audit committee which would usually be June/July. This would align with the Welsh Government recommendation that the Annual Governance

Statement is published at the time the draft annual accounts are signed and dated by the responsible financial officer.

Audit Wales are required to use the version supplied to get comfort about the control environment in operation, which it cannot do if a significant adjusted version is provided in October, which would be one to two months after the traditional end of the audit process and was again, only able to be accommodated this year due to the audit process not concluding as early as the statutory deadlines. For 2023/24, the intention is for the Annual Governance Statement to be completed much earlier in the process, which should avert the issues experienced last year.

Grant Testing

The grant note within the statement of accounts involves a significant amount of Audit testing and requires information from all service areas. Discussions with Audit Wales have suggested that grant income testing could be started earlier in the process due to the amount of information and evidence that is required. Audit Wales have also provided some examples of good practice which can be used to educate service users on what information would be sufficient for their grant testing.

The Council has also been reviewing and implementing changes to the grants process, a database has now been created and is being used across Accountancy to hold grant information, including grant award letters and grant claims in one place to try and ensure consistency of information where possible. The Council have also reflected on how the way that the note is prepared could be improved and will look to include services areas to be responsible for the information required for compiling the note. This should also mean that the technical team will be able to provide an oversight role which will strengthen the review process.

Valuations for Property, Plant and Equipment

Newport Council have a good working relationship with Newport Norse and work closely together. Whilst the technical team have a good working relationship with the valuation department in Newport Norse, due to a key member of staff within Newport Norse being on maternity leave, it meant that there was a lack of experienced staff to carry out the valuations required for the 2022/23 accounts. This meant the process took far longer than it has previously, which did impact the work that the technical team were able to do on the Property, Plant and Equipment note to the accounts. As this is one of the largest notes within the accounts, this did have a significant impact, as it was not finalised until the beginning of June, which delayed the finalisation of other notes within the accounts.

Discussions have been had and a lesson learned review has also been undertaken with Newport Norse. Monthly meetings have now been set up and have been in place since October 2023. These meetings ensure that good communication between the two teams continues and as these meetings also include a number of staff from each team, this will mean that more people are aware of what is required, and should provide more resilience in the process for 2023/24.

Leasing & IFRS 16 adoption

Whilst this is not a lesson learned from previous years, the adoption of IFRS 16 Leases, which is the new accounting standard for how we account for leases, is now mandatory from 1st April 2024. It presents one of the biggest accounting changes in a number of years and will mean that the Council will need to ensure that it has processes in place to be able to provide assurance that all information for the leases that the Council has is available and that the process will enable any new leases to be captured as they are agreed going forward. Work has been undertaken across the Council, including schools, to gather the relevant information and fully understand the impact upon the Council. However, this process still needs to be refined to ensure that we are capturing all information to ensure that they are accounted for correctly.

Financial Summary (Capital and Revenue)

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
Impact of new system migration on key staff	H	M	Constant Communication between the Council and the Audit team needs to happen to ensure that areas of work are prioritised depending on when Accountancy staff need to be released to work on the new system. As part of the close down process, additional staff are being trained to ensure there is some additional capacity within the team	Chief Accountant
Failure to approve and publish the accounts before the statutory 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	Chief Accountant /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 provide any comment for the planned improvement following lessons learned review.

Preferred Option and Why

As above

Comments of Chief Financial Officer

The outcome of the 2022/23 external audit process was positive, in that an unqualified opinion was issued and the number of issues identified within Audit Wales' ISA 260 report was lower than the previous year. However, despite this positive outcome, there are always opportunities to improve the process and reduce the issues identified in future years. This report highlights areas that either have been or will be reviewed in advance of the 2023/24 closedown process and, ideally, rectified so that they are not issues in future years. In addition, an internal process of review will continue so that other opportunities to identify efficiencies or improve the quality of the accounts can be capitalised upon.

Comments of Monitoring Officer

There are no legal implications arising. The Council is fulfilling its statutory and regulatory requirements in ensuring that it can meet statutory deadlines regarding its Statement of Accounts.

Comments of Head of People, Policy and Transformation

There are no staffing implications arising from the report which is a key part of our regulatory framework and reflects sound financial management.

Scrutiny Committees

N/A

Fairness and Equality Impact Assessment:

- **Wellbeing of Future Generation (Wales) Act**
- **Equality Act 2010**
- **Socio-economic Duty**
- **Welsh Language (Wales) Measure 2011**

For this report, a full Fairness and Equality Impact Assessment has not been undertaken. This is because this report is not seeking any strategic decisions or policy changes, with their purpose being to provide members with an overview of the steps being taken in preparing for the forthcoming closure of accounts process. The Wellbeing of Future Generations (Wales) Act 2015 forms an integral part of the financial management of the Council

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 2022/23 - available to public.

ISA 260 Audit of Financial Statements 2022/23 – available to public

Dated: 7th March 2024