

Report

Audit Committee

Part 1

26 November 2015

Item No

Subject **Lessons Learned – 2014/15 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 2014/15 accounts closedown. It gives an assessment on the findings of this lessons learned review and the plans in place to implement for 2015/16 and the key risks to the closedown process for 2015/16.

Author Assistant Head of Finance

Ward General

Summary Following the closedown of the 2014/15 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 2014/15 accounts, this review is of high importance to ensure improvements are delivered for 2015/16.

While there was a number of positives that came out of the closedown process in 2014/15 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 2015/16 closedown.
- To note the proposed treatment of companies that we have an interest in, subject to further discussion with Wales Audit Office on smaller bodies.

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

The completion of the accounts closedown and preparation of the Financial Statements was a challenging one in 2014/15, with a significant number of key members of staff having left the authority during the preceding financial year and therefore a number of new staff members that had not been involved in the process before.

Despite these challenges both the draft accounts and final accounts were prepared and presented within the statutory deadlines. Indeed, there were also a number of positives from the 2014/15 closedown process that can be continued into future years.

A meeting has taken place with Wales Audit Office, where the findings of our review and action plan was discussed. There was also a discussion around Wales Audit Office's own review of the 2014/15 close down and it was agreed that there were a number of areas of improvement that could be made from both parties. These are highlighted in this report.

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. There was however an emphasis of matter included in relation to the failure to prepare Group Accounts for the consolidation of Newport Transport Ltd accounts. This is discussed later in lessons learned.

Process for improvement

The process for challenge and improvement for 2015/16 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 2015/16 year end accounts. Some of the key themes that have come from the initial review are as follows:

- Number of year end tasks that can be completed earlier in the closedown process/during the financial year.
- Improved timetable with less emphasis on all items being included, but to have a high level timetable with more targeted deadlines for appropriate officers.
- Early identification of the requirements for working papers by individuals in discussion with External Auditors, with a review of the deliverables document.
- Better work instructions linked to working papers. This will allow both officers who are new to the role, but also auditors, to understand how working papers are derived and what processes are used to get to the position.
- Meetings with External Auditors to agree any implications of changes to the Code and any updates we are making to our processes. This was discussed at lessons learned meeting with Wales Audit Office, and it was agreed that communication was key to avoid issues such as the treatment of Newport Transport at the late stages of the accounts process in 2014/15, and the implications this had.
- Better use of the systems to create linked notes, accruals.
- Early review of Group Accounts requirements and implementation.
- More time built in for quality assurance.

- Create better link with the financial statements and Whole of Government Accounts. Carry out early reconciliations on transactions with other public bodies.

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.

In addition to the lessons learned above, as agreed at Audit Committee in September, we have undertaken a review of the companies in which we have an interest and our proposed treatment of these. This will be presented separately.

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 2014-15 Group Accounts
- 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 2015	Carry out lessons learned review with relevant officers on accounts closedown 2014/15 – Completed
November 2015	Meeting with Wales Audit Office to agree lessons learned and action plan – take to Audit Committee
November 2015	Review of Oracle system to review coding structure and balances on accounts. Update word document and excel tables in preparation for 2015/16.
Early December 2015	First “closing” meeting set up with relevant officers to discuss lessons learned log, assign responsibilities, and discuss closing timetable.
Mid December 2015	Early DRAFT timetable and memo sent out to relevant officers and teams including payroll, accounts payable, revenues etc. Schools to be included in communication and discussions on the timetable.
Early January 2016	FINAL timetable and memo to be agreed with responsible officers and HoF
January 2016	Group Accounts to be prepared based on 14-15 figures – shared with WAO for review. Review deliverables document with WAO.
February 2016	Final timetable and memo sent out to appropriate officers
February/March 2016	Completion of earlier closedown tasks to take pressure off closedown periods
3rd week April 2016	ALL transactions relating to Outturn to have been completed
4th week April 2016	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
1st week June	Completed draft SOA ready for QA and review
2nd week June	Approval of SOA by HoF – dates of Audit Committee to be confirmed but likely to be in July.

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?
Consolidation of Newport Transport Accounts	H – Accounts could be qualified	M – First year of producing, will require “buy-in” from third party	Early communication with Newport Transport Ltd outlining the requirements. Early completion of 2014/15 Group Accounts with Audit review in order for 2015/16 to follow same process.	Assistant/Head of Finance
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 Considered/Available

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

Agree proposed treatment of interest in other companies subject to discussion with Wales Audit Office

Preferred choice and reasons

As above

Comments of Monitoring Officer

N/A

Staffing Implications-: Comments of Head of Human Resources and Policy

There are no staffing implications arising from the report

Background Papers

Appendix A – Treatment of interest in other companies.

Appendix A - Summary of Group Accounting Requirements for 2015/16 Statutory Accounts

Body	Current Treatment	Required Treatment Per Code	Larger / Smaller Body	Actions required	Proposed treatment	% To Account for in Council's Statements
The South East Wales Education Achievement Service Ltd	Transactions in single entity accounts Disclosure Note included No consolidation	Joint Venture - Joint control of a company limited by guarantee with rights over net assets. This requires equity accounting.	Larger	Discuss the approach with other authorities as they have all accounted for it within their single entity accounts.	As per current treatment Other authorities do not consolidate on equity method - grant funding	20%
Newport Transport Ltd	Transactions included within single entity accounts. Disclosure Note included	Full consolidation - a limited company 100% owned by the council.	Larger	Consolidate, as stated will be the case in the accounts for 2015/16	Consolidate in Group Accounts	100%
Newport Norse	Transaction within single entity accounts. Disclosure Note included	Separate Entity but Authority does not have significant influence. Minority representation on board.	Larger	As per current	As per current	20%
Newport Live	N/A set up 1 April 2015	Newport Live has been set up as a Charitable Trust. Whilst we have 2 members on the board, there is no control and no influence. Commissioning contact only	Larger	No action required due to not having significant influence	Transactions in single entity accounts Disclosure Note	N/A
The Gwent Wide Integrated Community Equipment Service (GWICES)	Items within single entity accounts. Pooled arrangements	Joint Operation - joint control with no separately constituted entity.	N/A	As per current	As per current	N/A
The Gwent Frailty Programme	Items within single entity accounts. Pooled arrangements	Joint Operation - joint control with no separately constituted entity.	N/A	As per current	As per current	N/A
Gwent Joint Records Committee	Transactions within single entity accounts.	Joint Venture - joint committee	Smaller	Subject to discussion - No action (Equity Method - % to be included in single entity accounts)	As per current	31%

Greater Gwent Cremation Committee	Transactions within single entity accounts.	Joint Venture - joint committee	Smaller	Subject to discussion - No action (Equity Method - % to be included in single entity accounts)	As per current	27%
Project Gwyrdd	Transactions within single entity accounts.	Joint Venture - joint committee	Smaller	Subject to discussion - No action (Equity Method - % to be included in single entity accounts)	As per current	20%
South East Wales Transport Alliance	Transactions within single entity accounts.	Joint Venture - joint committee	Entity no longer exists	N/A	N/A	N/A
Welsh Purchasing Consortium	Transactions within single entity accounts.	Joint Venture - joint committee	Smaller	Subject to discussion - No action (Equity Method - % to be included in single entity accounts)	As per current	5%
Coroners Court	Transactions within single entity accounts.	Not separate entity	N/A	As per current	As per current	N/A

* Equity method for **Smaller** bodies to be discussed as only a reduced return for audit purposes required.