

# Report

## Audit Committee

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### Part 1

Date: 01 December 2016

**Subject** **Lessons Learned – 2015/16 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 2015/16 accounts closedown. It gives an assessment on the findings of the lessons learned review and the plans in place to implement for 2016/17 and the key risks to the closedown process for 2016/17.

**Author** Assistant Head of Finance

**Ward** General

**Summary** Following the closedown of the 2015/16 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 2015/16 accounts, this review is of high importance to ensure improvements are delivered for 2016/17.

While there was a number of positives that came out of the closedown process in 2015/16 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 2016/17 closedown.

**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**

Following a challenging closedown process in 2014/15, the 2015/16 accounts closedown saw a much improved process where a number of the actions from the lessons learned reported to Audit Committee in November 2015 were implemented.

This saw a number of overall improvements which were highlighted in the audit report brought to the committee in September, these include:

- Completion of the single entity accounts by June 10<sup>th</sup> (2 weeks earlier than previous year)
- Consolidation of Newport Transport accounts, which removed the emphasis of matter reported in 2014/15
- Improved working papers provided to Wales Audit Office in a more timely manner
- Significantly reduced number of audit issues on the audit matrix log

While there was significant progress in just one year, 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.

Early discussions have taken place with Wales Audit Office, and a formal meeting will take place following the attendance by a number of key finance colleagues at the “Making reality of early closure” course being delivered by WAO.

## **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 2016/17 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 2016/17 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.
- Grant income coding improved for both the Statement of Accounts and Whole of Government Accounts

- As per the ISA260 there were a number of items of revenue expenditure that had been classified as revenue expenditure. These charges will be reviewed to ensure that they are correctly treated in this financial year.
- Improvement in processes for internal recharges
- Continued improvement of working papers
- Meetings with External Auditors to agree any implications of changes to the Code and any updates we are making to our processes.
- Better use of the systems to create automated accruals.
- Continue to create better links with the financial statements and Whole of Government Accounts. Carry out early reconciliations on transactions with other public bodies.
- Need to improve the collection of third party data required for completion of accounts

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.

## Key Areas

There are also a number of key 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. Early review of provisions and leases
- II. Notes/accounts that can be reviewed by WAO prior to year end
- III. New/amended notes to be included

### I. Review of provisions and leases

The 2015/16 ISA260 Audit of Financial Statements highlighted the fact that the landfill capping and aftercare provision had not been reviewed for a number of years and thus when audited the estimate may be overstated. Therefore there will be a review undertaken by the appropriate officers of the Council of this provision to be completed by early 2017 for review by WAO prior to the sign off of the draft accounts. Details of the provisions and leases to be reviewed and agreed and timescales of the review are in Appendix 1 of this report.

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

Discussions need to take 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. Details of the notes that will be focused on are detailed in appendix 1 of the report.

### III. New/amended notes to be included

In addition to the change to Highways Network Assets, there are changes to how the Comprehensive Income & Expenditure Account (CI&E) is reported. Previously the CI&E has been reported on a Service Reporting Code of Practice (SeRCOP) basis to enable comparison across authorities. However as part of "telling the story" CIPFA have introduced that the CI&E will now be reported on a management accounts basis (as reported to Cabinet). This will require update of the document and notes to the accounts as well as comparative prior year figures, which can be completed prior to year-end.

Again WAO will be requested to review these updates at the earliest opportunity to ensure efficient closure of final accounts.

## 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 2016</b>	Carry out lessons learned review with relevant officers on accounts closedown 2015/16 – <b>Completed</b>
<b>November 2016</b>	Meeting with Wales Audit Office to agree lessons learned and action plan
<b>November - December 2016</b>	Review of Oracle system to review coding structure and balances on accounts. Update word document and excel tables in preparation for 2016/17.
<b>Early December 2016</b>	First “closing” meeting set up with relevant officers to discuss lessons learned log, assign responsibilities, and discuss closing timetable.
<b>December 2016 – January 2017</b>	Provisions and leases reviewed. Highways Network Asset systems reviewed by internal audit.
<b>Early February 2016</b>	<b>FINAL</b> timetable and memo to be agreed with responsible officers and HoF
<b>January 2017</b>	Review deliverables document with WAO with WAO undertaking early review of relevant notes where agreed.
<b>February 2016</b>	Final timetable and memo sent out to appropriate officers
<b>February/March 2016</b>	Completion of earlier closedown tasks to take pressure off closedown periods
<b>3<sup>rd</sup> week April 2016</b>	<b>ALL</b> transactions relating to Outturn to have been completed
<b>4<sup>th</sup> week April 2016</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>Final week May</b>	Completed draft SOA ready for QA and review
<b>1st week June</b>	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?
Introduction of Highways Network Assets	H – Accounts could be qualified	M – Systems will need to be robustly reviewed to ensure figures are accurate and reliable	Internal audit have been asked to undertake a review of the systems which are integral in producing the figures that will be included in the Balance Sheet.	Capital Accountant/ AHoF/HoF
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 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**

N/A

## **Comments of Head of People and Business Change**

There are no staffing implications arising from the 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**

N/A

## **Crime and Disorder Act 1998**

N/A

## **Consultation**

N/A

## **Background Papers**

Statement of Accounts 2015/16 - available to public.

ISA 260 Audit of Financial Statements 2015-16 – available to public

Appendix 1 – Action plan

Dated: 08/11/2016

## Appendix 1

### Lessons Learned Action Plan

#### Review of provisions / leases

<b>Provision</b>	<b>Can it be completed reviewed prior to 31st March 2017</b>	<b>Can it be reviewed by WAO prior to draft accounts</b>	<b>What date should provision review be completed by?</b>	<b>Responsible Officer(s)</b>	<b>Date to be reviewed/agreed by WAO</b>	<b>Reviewed &amp; Agreed</b>
Accumulated Absences	Yes	Yes	- Teachers immediate - Other February	Laura Campbell	Teachers - Feb 2017 Other - during audit of draft accounts	
Insurance / MMI Provision	Yes	Unlikely	February - but would require use of estimates	Laura Campbell	During draft accounts	
Equal Pay	Yes	Yes	Likely to be completed during the 16/17 financial year	Laura Campbell	Feb-17	
Landfill Fines	Yes	Yes	Should know outcome by end of calendar year	Geoff Price	Feb-17	
Energy Provision	Yes	Yes	Complete update on the requirement of provision by end of Dec-16	Geoff Price / Norse	Feb-17	
Long Term Landfill Capping	Yes	Yes	End of Jan-17	Vimal Upadhyay & Ian Fisher	Feb-17	
Leases	Yes	Yes	End of Jan-17 for material leases	Vimal Upadhyay	Feb-17	

**Other Notes / Statements**

<b>Note/Statement</b>	<b>Can it be completed reviewed prior to 31st March 2017</b>	<b>Can it be reviewed by WAO prior to draft accounts</b>	<b>What date should note be completed by?</b>	<b>Responsible Officer(s)</b>	<b>Date to be reviewed/agreed by WAO</b>	<b>Reviewed &amp; Agreed</b>
Revised Comprehensive Income & Expenditure Statement - 15/16 comparators	Yes	Yes	Jan-17	Laura Campbell	Feb-17	
Update word document	Yes	Yes	Jan-17	Laura Campbell	Feb-17	
Draft Whole of Government Accounts	No	No	Sep-17	Owen James	Agree to audit during draft audit of single entity accounts	
Contingent Liabilities	Yes	Yes	Jan-17	Owen James	Agreement on what needs to be included by Feb-17	

**Capital Items**

<b>Capital item</b>	<b>Can it be completed reviewed prior to 31st March 2017</b>	<b>Can it be reviewed by WAO prior to draft accounts</b>	<b>What date should note be completed by?</b>	<b>Responsible Officer(s)</b>	<b>Date to be reviewed/agreed by WAO</b>	<b>Reviewed &amp; Agreed</b>
Depreciation	Yes	Yes	Jan-17	Vimal Upadhyay	Feb-17	
Capital Receipts / Disposals	Part-year	Part	Jan-17	Vimal Upadhyay	Feb-17	
Additions	Part-year	Part	Jan-17	Vimal Upadhyay	Feb-17	
Valuations	Not this year - but in future	No	2017/18	Vimal Upadhyay	Need to discuss with WAO	