

AUDIT AND GOVERNANCE COMMITTEE
8 DECEMBER 2017**FINAL ACCOUNTS 2016/17 - LESSONS LEARNED REPORT**

Recommendation

1. **The Interim Chief Financial Officer recommends that:**
 - a) **The report be noted; and**
 - b) **The Committee receives an update report at its meeting on 16 March 2018.**

Background

2. The statutory deadline for publishing the 2016/17 audited set of accounts was 30 September 2017, although the Council was aiming to publish by 31 July 2017. Members will be aware from previous reports to Committee that there were a number of issues during the closure of accounts process that meant that the statutory deadline was not met.
3. The Final Accounts pack including the Statement of Accounts for the financial year ended 31 March 2017 was approved by this Committee on 13 October 2017 and the Chief Financial Officer signed the Letters of Representation on behalf of the County Council. It was agreed that the Interim Chief Financial Officer would provide a "Lessons Learned" report to this meeting.
4. This report examines the issues leading up to the publication of the accounts and what lessons will be learned to ensure that the 2017/18 accounts are closed and audited within the statutory deadline, which for 2017/18 is being brought forward to 31 July 2018.

Review

5. The Interim Chief Financial Officer took up post on 16 October 2017 and immediately commenced the "Lessons Learned" review. As part of the evidence gathering, the following took place:
 - Meeting with Grant Thornton Director and Audit Manager
 - Meetings with central finance staff directly responsible for preparing the accounts
 - Meetings with finance staff located outside central finance e.g. finance staff supporting service directorates
 - Meetings with other staff who contributed to audit evidence eg Human Resources staff in particular those with responsibility for payroll and pensions
 - Review of Audit and Governance reports and relevant Management team minutes
 - Review of Best Practice documentation
 - Review of training materials and the final accounts project plan

Findings and actions

6. There are a number of actions that are already in place in preparation for the 2017/18 final accounts process. This includes ensuring that the experienced Finance Manager resumes the role of being the named point of contact with External Audit and takes responsibility for coordinating all queries as they arise. The Finance Manager met with Grant Thornton's Audit Manager and "In Charge" Auditor on 20 November 2017 to confirm the project plan timetable and activities required.

7. The results of the review and actions which have been / are being put into place are detailed in the following table under a number of key themes.

Finding	Action
<p>Leadership and Governance The Finance Leadership Team did not receive regular reports on the progress against delivering the closure of accounts. It is important that senior managers are routinely updated so that any issues can be highlighted and resolved at an early stage.</p>	<p>There will be a standing item on the Finance Leadership team agenda "Final Accounts" and the lead officer will provide updates to every meeting. This will include an issues and risk log which will pick up any items raised by the auditors, staff or as part of the Council's Annual Governance Statement process. The first of these updates took place on 27 November 2017.</p> <p>In addition, the Interim Chief Financial Officer will take responsibility to provide regular updates to Strategic Leadership Team. Reports will be made to every Audit and Governance Committee.</p>
<p>Pre Planning The External Auditor's report to Audit and Governance Committee in March 2017 highlighted some potential issues, which subsequently came to fruition. Given that these had been identified at an early stage, there was an opportunity to take action to address these prior to the drafting of the final accounts. Any technical accounting issues should be discussed in advance of the drafting of accounts.</p>	<p>Early planning meetings with Grant Thornton auditors will ensure accounting issues will be aired and discussed early.</p> <p>These will be discussed and mapped as part of the issues and risk log for the final accounts process and actively managed by the Finance Leadership Team</p>
<p>Project Management A timetable had been agreed with External Audit colleagues, but deadlines were not met. There was insufficient capacity and flexibility within the plan, and no one person was responsible for ensuring deadlines were met. It is advantageous to have a single point of contact who is experienced in the final accounts process.</p>	<p>A detailed project plan is being developed and will be reviewed / monitored by the Finance Leadership Team. There is a designated Finance Manager responsible for the plan who will be the single point of contact with External Audit. She will be supported by dedicated project management resource. There will be a clear escalation procedure for delays/concerns which will be shared with External Audit.</p>

Finding	Action
<p>Quality Assurance There were issues with quality assurance from beginning to end of the process. The first version of the accounts, produced on 22 May 2017 contained a number of obvious errors. As queries arose throughout the audit, responses were described as being "inadequate" in some cases.</p>	<p>Additional layers of quality assurance will be in place for accounts preparation, supporting working papers, dealing with audit queries, including sign off by Finance Managers within directorates and reviewed by the Finance Leadership Team.</p>
<p>Technical Judgements There was not collective "ownership" regarding the key judgements made in compiling the accounts.</p>	<p>The increased leadership and governance will ensure key issues and judgements are debated and collectively owned before accounts are compiled.</p> <p>Accounting policies are being reviewed and will be brought to a future meeting of Audit and Governance Committee.</p>
<p>Managing Relationships / Communication Officers from outside the central finance team have indicated that they were not always clear on what information was needed, which meant the quality of response suffered as a result. Clarity was needed on what evidence was required and what was acceptable as working papers. Relationships were challenged across the Council, partners and external audit.</p>	<p>The designated Finance Manager is an officer with many years' experience of completing this process at Worcestershire County Council. Relationships within and outside the Council are of many years' standing and it is believed that this will provide some clarity of understanding in terms of what is required.</p> <p>Clear communication with services outside of finance (e.g. HR and Place Partnership) will be undertaken with detailed requirements for the audit and responsible officers communicated.</p> <p>Finance Managers will be reminded of their roles and responsibilities with regard to final accounts and the role of their teams. They will be reviewing the project plan on a regular basis as part of their finance managers meetings and issues arising will be escalated to the Finance Leadership Team for solution.</p>

Finding	Action
<p>Systems and Processes</p> <p>There had been issues with financial systems which affected the ability to obtain information required. Firstly the previous financial system was in disaster recovery mode for a week. Secondly, there was difficulty in obtaining the necessary reporting from the new general ledger system in order for the external auditor to complete the necessary testing.</p>	<p>There is an acknowledgement that implementation of the new financial system has not gone as smoothly as we would have liked. There is a recovery plan in place and discussions have taken place with our systems supplier and Grant Thornton regarding the requirement to test key systems outputs. Timing is to be agreed with the External Auditor but it is anticipated that by the end of January there will be a "dry run" of the accounts closure process. A full set of controls processes are being documented and will be completed for the January dry run. This will include detailed testing of the data migration and cut-over to the new system.</p>
<p>Training/Expectations</p> <p>Members of finance teams were provided with training, the material for which was supported by external audit. The training covered items such as the type of supporting information that would be required. However, it is clear that this has not been followed in practice in some cases.</p>	<p>Training material will be refreshed to include the lessons learned from the 2016/17 audit. Training will be widened to non finance staff who may become involved in the audit, and partners.</p>
<p>Staffing</p> <p>Worcestershire has had a track record of early completion of the accounts, until the 2016/17 financial year. Responsibility stood with a very experienced small team within central finance. During the last year there were a number of staffing changes. Members of the experienced finance team had been seconded to the project for the implementation of the new finance system and replaced with temporary capacity at the same level of professional qualification. Although training had been given to the temporary staff, there was an issue with effective supervision and quality assurance of their work.</p>	<p>Staffing has been reviewed, both relating to the number of staff involved and their focus. The experienced central finance staff have returned to their substantive roles. There had been some vacancies in the team which have now been appointed to from internal resources and further recruitment processes are in train to backfill these roles from external sources.</p>

8. The Grant Thornton publication "Advancing Closure - Transforming the financial reporting of local authority accounts" has a number of recommendations, including a best practice checklist. Whilst the recommendations are primarily to ensure early closure, they are relevant in any case. The Finance Leadership Team will review

Worcestershire's performance against the checklist and this is contained as Appendix 1. These will be followed up in the detailed project plan.

Summary

9. There are many lessons to be learned from the finalisation of the accounts process for 2016/17. A major issue was that temporary staff were given the responsibility for the preparation of the accounts, and their work was not effectively quality assured. The External auditors had to complete significant additional work in order to deliver an opinion on the Council's financial statements, resulting in an increased audit fee of £35,072. This will be met from the Financial Services budget.

10. A return of the experienced in house team should bring a level of confidence given past performance in closing the accounts on time. The increased level of scrutiny and governance will ensure that any issues are escalated at the earliest possible opportunity.

11. It is acknowledged there is still significant work to be done and this will be closely monitored over the coming months. It is recommended that Audit and Governance receive an update report on progress at its next meeting in March 2018. The milestones for completion of the tasks will be agreed by the Council and Grant Thornton and these are included at Appendix 2.

Contact Points

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Supporting Information

- Appendix 1 – Good practice checklist
- Appendix 2 - Milestone plan

Background Papers

In the opinion of the proper officer (in this case the Interim Chief Financial Officer) the following are the background papers relating to the subject matter of this report:

Grant Thornton publication: "Advancing closure - Transforming the financial reporting of local authority accounts"

http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2016/grt103821_faster-close-report-v07-web-version.pdf