

**AUDIT AND GOVERNANCE COMMITTEE**  
**16 MARCH 2018****FINAL ACCOUNTS 2016/17 - LESSONS LEARNED UPDATE**  
**REPORT**

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**Recommendations**

1. **The Interim Chief Financial Officer recommends that:**
  - a) **The Lessons Learned update report be noted;**
  - b) **The review of the technical accounting policies be noted; and**
  - c) **The Chairman and Vice Chairman of the Committee be provided with regular updates on any issues that may arise with the closing of the 2017/18 accounts.**

**Background**

2. The statutory deadline for publishing the 2016/17 audited set of accounts was 30 September 2017. Members will be aware from previous reports to Committee that the statutory deadline was not met, with the Final accounts pack including the statement of accounts being approved by this Committee on 13 October 2017.
3. The Interim Chief Financial Officer provided a "Lessons Learned" report to the Committee on 8 December 2017 which examined the issues leading up to the publication of the accounts and what lessons needed to be learned. It was particularly important given the statutory deadline for the final accounts publication for 2017/18 has been brought forward to 31 July 2018 (Minute no. 439 refers).
4. It was acknowledged in the previous report that there was still significant work to be done and this will be closely monitored over the coming months. It was recommended that Committee receive an update report on progress at its next meeting in March 2018. This report examines the progress made since the last meeting, and what further work needs to happen in advance of the next Committee meeting on 26 July 2018.

**Findings and actions**

5. A number of actions were identified in the previous report, some of which were already in place in preparation for the 2017/18 final accounts process. This included ensuring that the experienced Finance Manager resumed the role of being the named point of contact with External Audit, taking responsibility for coordinating all queries as they arise. The External Auditors noted that the action plan was very demanding and the Council was also faced with added pressure of producing the 2017/18 accounts using the new ledger for the first time within a compressed timescale.

6. The table below provides an update on the progress made since the last report to Committee under the key themes identified.

<b>Finding</b>	<b>Progress made</b>
<p><b>Leadership and Governance</b>            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>The Finance Leadership team meets every fortnight, with additional meeting programmed as required. There is a standing item "Final Accounts". The lead officer has provided a highlight report to every meeting, and this will continue. This includes current activities, planned activity for the coming two weeks and any risks or issues identified, mitigation for which are discussed and agreed.</p>
<p><b>Pre Planning</b>            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 have taken place with Grant Thornton auditors.</p> <p>Meetings have taken place with Place Partnership regarding the technical aspects of valuations necessary and instructions have been given.</p> <p>The final accounts team are liaising with Economy and Infrastructure staff client managers with regard to enabling access to information retained by Mercia Waste relating to the valuation of the Energy from Waste site plant and equipment.</p> <p>Officers have attended Grant Thornton 'Chief Accountant' training to consider issues and changes to the final accounts process and have already been in discussion with Grant Thornton auditors on some of the key areas which will need action.</p> <p>Grant Thornton's Good Practice checklist has been completed and included at Appendix 1.</p> <p>The early audit took place 22 January 2018 to 2 February 2018. The process was generally positive with an improvement in the quality and timely provision of information. We are working with Grant Thornton to agree further improvements.</p> <p>There were a number of actions agreed from the audit which have been implemented.</p>

<b>Finding</b>	<b>Progress Made</b>
<p><b>Project Management</b></p> <p>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>The project plan has been agreed with External Audit colleagues. It is acknowledged as a very challenging plan given that the accounts are being run from reports within a new ledger system.</p> <p>The single point of contact is Jenni Morris, Finance Manager.</p>
<p><b>Quality Assurance</b></p> <p>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>The first early audit took place from 22 Jan 2018 to 2 February 2018. The interim audit takes place 5 March 2018 to 16 March 2018.</p> <p>The initial requests for information for the early audit received some oversight from Finance Leadership team. Feedback from the initial responses was positive, but there are still improvements that can be made, which are being worked through with Grant Thornton.</p>
<p><b>Technical Judgements</b></p> <p>There was not collective "ownership" regarding the key judgements made in compiling the accounts.</p>	<p>Accounting policies have been reviewed, and comments from Grant Thornton incorporated. The latest version is attached at appendix 2.</p> <p>We have also reviewed our process for including material estimates and critical judgements; these will be finalised during the full year-end audit.</p> <p>Further work around confirming significant technical judgements around pensions prepayment are planned to be worked through during late February/ March 2018.</p>
<p><b>Managing Relationships / Communication</b></p> <p>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>There has been regular communication across Financial Services and other services outside of Finance, led by the experienced Finance Manager.</p> <p>This started with a "Launch of the Statutory Accounts" meeting on 5 December 2017.</p> <p>There have been specific training workshops around specific areas that caused issues in the 2016/17 audit, and feedback has been given to the early audit that took place for 2 weeks from 22 January 2018.</p>

### **Systems and Processes**

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.

The closing of the accounts to an earlier timescale, with a new financial system was noted as particularly challenging. Whilst testing has begun on the key systems outputs necessary to ensure the accounts can be closed this is not yet complete.

The Council is currently working on reproducing the 2016/17 statements using information from the e5 system. This is an opportunity to ensure that the reports can be extracted as required and also confirm our 2017/18 opening balances. In initial review of trial balance took place during the January audit and the other statements will be reviewed during the March audit.

The process has highlighted some data quality amendments within the system which we are currently addressing. We have also identified some reports which are required to support the production of the accounts which will need to be specifically written and we are working with the Council's Systems team to deliver these. There is a particular issue regarding the reporting of journals which is being followed up.

There is continuing work to review the output from Liberata from their year-end dry run for both reporting and process.

The Council continues to work closely with Liberata to ensure control account reconciliations are up to date by 31 March 2018, and to consider the activities required for the system year end.

A risk to the process is the ability to provide assurance as to the effectiveness of reconciliation processes around the financial system. To date, this is extremely challenging work and is the current focus of intensive efforts to work through these risks as we move towards financial close

Internal Audit teams from the Council and Liberata are currently carrying out assurance work which will report by the end of the financial year.

<b>Finding</b>	<b>Progress Made</b>
<p><b>Training/Expectations</b> 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 has been refreshed – the initial launch material included lessons learned from the 2016/17 audit.</p> <p>There have been workshops on specific areas: 12 December 2017 am - Termination payments 12 December 2017 pm – Working papers</p> <p>February 2018 – meetings with finance staff following interim audit work undertaken to discuss common feedback and to identify training requirements</p>
<p><b>Staffing</b> 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, with the experienced central finance staff returning to their substantive roles. There have been some vacancies within the team. Whilst these were recruited to in December 2017, the staff did not take up post until 3 January 2018.</p> <p>The central finance team is now fully staffed and this is supplemented by additional temporary staff experienced with working on the Council's finance system to support residual code reconciliation work and clearing suspense accounts.</p>

## Summary

7. The last report acknowledged that there were many lessons to be learned from the finalisation of the accounts process for 2016/17. Whilst the experienced in house team are in place and there is an increased level of scrutiny and governance at finance leadership team, the main challenge will be the ability to ensure the necessary reports are available from the new financial system within the timeframe required.
8. Overall, the interim audit work has gone well and to plan. There have been examples where improvements to the information provided to the external auditors can be made, and this is being addressed through training and a continued focus on quality assurance.
9. The Council is currently reproducing the 2016/17 key financial statements and as a result have identified some process improvements for extracting the information from e5 (the financial system). This includes specifying and scoping additional reports from both the payroll and financial system. We have also identified some data quality improvements which we are addressing. There is continuing work to review the output from Liberata from their year-end dry run for both reporting and process.

10. The Interim Chief Financial Officer will ensure that the Chairman and Vice Chairman of the Committee are kept fully briefed of developments as we work towards the key deadlines for accounts closure.

## **Contact Points**

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### Specific Contact Points for this report

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## **Supporting Information**

- Appendix 1 – Good Practice Checklist
- Appendix 2 – Accounting policies

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