

## Audit & Standards Committee

6 March 2017

### Early Approval of the Statement of Accounts – An Assessment of Warwickshire’s Preparedness

#### Recommendations

The Committee is recommended to:

- (i) Note the work going on and planned to ensure the authority is able to meet the earlier closure deadline for the approval of the 2017/18 accounts.
- (ii) Consider whether there were any aspects the Committee wish to raise with the wider organisation.

#### 1. Introduction and Background

- 1.1. On 17 February 2015 regulations were laid before parliament confirming proposals to bring forward the date by which local authority accounts must be published in England to 31 July, effective from the 2017/18 financial year, as shown in the table below.

	2016/17	2017/18
Certification of the draft accounts by the chief financial officer	30 June	31 May
Approval and publication of the audited accounts	30 September	31 July

- 1.2. At a previous meeting of this Committee, where this was raised as part of the external auditor’s regular reports, it was suggested that it would be useful for the Committee to have an understanding of the County Council’s preparedness and to consider whether there were any aspects the Committee wished to raise with the wider organisation.

- 1.3. This report seeks to meet this request. It outlines the key factors that will support moves towards an earlier closure of the accounts and reports on our self-assessment of our preparedness, using a checklist developed by Grant Thornton.

## **2. Why are we doing this?**

- 2.1. An earlier date for the publication of the Statement of Accounts is part of the Government's wish to improve local government transparency and accountability. It is the Government's view that a more timely closedown process will increase public interest in local government accounts, especially when coupled with proposed moves to simplify the accounting statements and the requirements for the same public inspection period across all local government.
- 2.2. The move towards an earlier closedown of accounts is, for the Finance Service, part of a wider vision to transform and improve financial management and reporting arrangements across the organisation. Through the system and process changes that will be introduced it is hoped the requirement for an earlier closedown will support more rigorous in-year monitoring, improved financial controls and result in improved certainty and clarity about the financial position.

## **3. Key Factors**

- 3.1. The key factors for successfully advancing the closure of accounts are:

- Committed leadership
- Efficient and effective systems and processes
- Working with auditors
- Working with other partners

The factors identified are those found by Grant Thornton through surveys of those local authorities already meeting the earlier deadline. This section summarises the main issues under each of these factors.

### **3.2. Committed leadership**

Having the right culture within the organisation is as essential to achieving sustainable change in financial management and accelerating financial reporting as having robust plans in place to manage the process. The most common and critical factor for success is strong leadership, with senior officers and members understanding the plans and showing commitment to these.

It also requires a rigorous approach to project management with developed and implemented clear and robust project plans that are realistic about how long each of the required tasks takes, regular monitoring arrangements to ensure plans remain on track and effective arrangements for quality assurance and review.

Within Warwickshire our focus to date has been one of continuous improvement and the application of 'right first time' principles in completing tasks and preparing working papers throughout the financial year, involving all those routinely involved in the detail of the closedown process. The phase of the project focussed on the engagement of the wider organisation is due to commence after the 2016/17 closedown is complete.

### **3.3. Efficient and effective systems and processes**

To deliver a faster close we need to question the status quo at every stage, seeking to identify new and more efficient ways of working. This requires investment of the appropriate time and effort to:

- Improve the financial IT systems, maximising the extent of integration and automation between the general ledger and feeder financial systems.
- Reduce the number of manual processes and the need to create additional spreadsheets to support the preparation of the draft accounts.
- Maintain accounting records throughout the year through regular posting of routine transactions and timely reconciliation of control accounts.
- Regularly review in-year management reporting information.
- Put in place robust management arrangements to inform the greater use of estimation making sure the rationale for preparing these can be clearly disclosed in the financial statements and evidenced appropriately.

### **3.4. Working with auditors**

While local government bodies will need to change their financial processes to deliver against an earlier timetable, auditors will need to undertake and complete their work within a shorter timeframe as well. It is therefore critical we work with the auditors, in a spirit of partnership, to deliver earlier completion of the audit process. This means:

- Early dialogue with external auditors so that they can comment upon and agree any proposed methodology and timeframes.
- Reaching agreement on the approach and extent of electronic working papers.
- Ensuring any technical accounting issues are discussed and agreed well in advance of the preparation of the draft accounts.

### 3.5. Working with other partners

Whilst the production of the statement of accounts is viewed as essentially a finance activity, the process is reliant on the provision of information prepared by other experts – both internal and external – such as human resources, valuers, highways asset managers and actuaries as well as the accounts for any consolidated group entities. Each of these other parties are engaged with at an early stage, so that they understand the organisation's information needs and the timetable it is working to and are committed to deliver to this.

## 4. Self-Assessment

4.1. As part of their work on supporting authorities to successfully deliver an earlier closure of accounts Grant Thornton have produced a good practice checklist for authorities to use as a way to self-assess their current arrangements and identify where changes and improvements can be made. We have undertaken a self-assessment using the checklist and our self-assessment is attached at **Appendix A**.

4.2. The assessment shows that the authority has all the building blocks in place to meet the earlier closure deadline. Those areas where we are not or only partially meeting the recommended good practice are:

- The understanding, outside of those directly involved in the process, of the change. This has been a deliberate strategy whilst the focus has been on making progress in improving systems and processes. Engagement with senior management is planned for the next few months when we have a clearer picture of any specific investment to further systemise/automate processes that needs prioritising or support is needed to prioritise the work of those staff, from across the organisation, who contribute to the statement of accounts.
- The resilience of the process due to the reliance on a few individuals to complete critical content.
- A complete review of processes and procedures with a view to streamlining, standardising and automating these as far as possible.
- The in-year, timely completion of financial tasks and reconciliations to avoid additional procedures at year-end.
- Working with suppliers and contractors to ensure efficient year-end processing arrangements.

4.3. The feedback from those involved in the closedown process and the completion of this assessment is that the assessment has identified the right areas and that, across all of these areas, it is the closedown of accounts in

relation to maintained schools that is the highest priority as this is central to the critical path. Schools closedown is also the area where we struggle most in meeting the current closedown timetable and where most effort has been expended in improving systems and processes for the early closedown dry-run in 2016/17. It is hoped that the changes we have introduced will result in significant time savings in the overall closedown process.

## 5. Action Plan

5.1. As a result of both the self-assessment and other on-going work to improve financial management and reporting arrangements across the organisation an action plan to support the delivery of early closure has been drawn-up. This is set out below and the Committee is asked to note and comment on the Plan.

Action	Benefit
A review of the financial ledger chart of accounts to ensure that this is structured and mapped in the right way	This will enable financial reports and draft accounts to be generated directly from the financial system with minimal need for further manual intervention or adjusting journals, once generated.
Standardise processes and procedures as far as possible	This will enable a smoother consolidation of data, a higher quality of financial information across the authority and less dependency on individuals within departments to complete non-routine or service specific tasks.
General ledger and feeder systems reconciliations are prepared and reviewed on a regular basis and any reconciling items are investigated and resolved.	This will minimise the additional workload at the end of the year and support the development of a culture of seeing the closedown process as a “business as usual” task.
Keep suspense accounts to a minimum and ensure that these are checked and cleared on a regular basis.	This will minimise the additional workload at the end of the year.
Reconsider timing of March invoices and payments	This will enable creditor accruals to be based on well informed expectations of what will be received, can speed up the year-end procedure and minimise additional administrative tasks.
De-clutter the accounts	This will improve the ability of the reader of the accounts to understand relevant information, help achieve accelerated timelines and result in a higher quality publication

Action	Benefit
Review materiality and the use of estimates	This will speed up the year-end procedures, minimise additional administrative tasks and improve the understanding of the accounts. However, it needs to be noted that the greater use of estimation may result in more changes to the accounts as a result of the audit process but that this will be the result of further, more certain information becoming available rather than poor quality financial reporting initially
Report on the review of the 2016/17 closedown process to Corporate Board	This will ensure support for any further investment in financial systems and appropriate prioritisation of workloads is forthcoming
Improve the communication of requirements, timelines and the overall project plan to other parties, both internally and externally from other specialist sources, that contribute information for the statement of accounts	This will ensure there are no unnecessary blockages or delays where we are waiting for important information for the accounts
Identify our group relationships and seek consolidation information as early as possible	This will ensure timely consolidation of transactions and balances from the entities' financial statements and enable the auditors to obtain sufficient assurances that group arrangements are materially stated prior to the approval of the organisation's accounts and the signing of the audit opinion.

## 6. Summary

- 6.1. The report has outlined how accelerating the timetable for the preparation of the accounts will require changes to systems and processes that will take time to develop, implement and embed to ensure that the right systems and processes are in place and that officers have the capacity and skills to make the change a reality. It will require the commitment to change behaviours, ways of thinking and how people work. Facilitating this change will take leadership and oversight from senior finance officers and buy-in from across the organisation.
- 6.2. To make a success of the project, it is critical that it is not just led from within the finance team, but that plans are owned and delivered by officers

throughout the organisation, all of whom should understand the part they play. It will also mean committee diaries will need to be brought forward and elected members will need to understand why this is necessary.

- 6.3. Whilst this may at face value seem a significant task we are well down the road of being able to deliver to this earlier timetable. Key areas of concern and areas where we can make significant gains in time through automating processes and ensuring all reconciliations are kept up to date on an on-going basis are already in train. The dry-run being undertaken as part of the closure of the 2016/17 accounts will identify any remaining hot-spots that will flesh out the action plan for the next twelve months and be the focus of reporting to the organisation's wider management.

## 7. Background Papers

None

	<b>Name</b>	<b>Contact Information</b>
Report Author	Virginia Rennie	vrennie@warwickshire.gov.uk
Head of Service	John Betts	johnbetts@warwickshire.gov.uk
Strategic Director	David Carter	davidcarter@warwickshire.gov.uk
Portfolio Holder	Alan Cockburn	<a href="mailto:cllcockburn@warwickshire.gov.uk">cllcockburn@warwickshire.gov.uk</a>

Elected Members have not been consulted in the preparation of this report.

## Advancing Closure – Warwickshire Self-Assessment Good Practice Checklist

Key considerations	Yes/No	Comments
<b>Leadership and planning</b>		
Has the authority clearly defined roles and responsibilities across the organisation in relation to its financial reporting?	Yes	The closedown timetable sets clear responsibilities and deadlines for key tasks. These are discussed in advance and signed off by the Finance Managers Forum. There are number of risk areas that have been highlighted through this process that have a material impact on the accounts such as asset valuations, IT developments and the overall consolidation where we rely heavily on one person. Access to alternative specialist expertise is not always readily available.
Has the authority clearly communicated the statutory timetable and its commitment to faster closing, both to officers and members?	Partial	Senior management within the Finance Service are aware, as are key contacts in the other service areas that are involved in the process. Senior management within the Finance Service has signed up to the plans and is taking an active role in ensuring developments are followed through. The project is listed on the organisation's project hub which is reported to both Corporate Board and Group Leadership Teams on a regular basis.
Has senior management signed up to the plans and taking an active role to promote its importance and the benefits that will result?		
Are members and senior management routinely updated on the progress made in delivering the authority's closedown plans?		
Has the authority ensured that audit committee and council meetings are brought forward to reflect the earlier timetable?	Yes	Democratic Services are aware of the revised dates required and have built these into the draft timetable for the 2018/19 year. Both the Audit and Standards Committee and Council will be scheduled for the last week in June.



Key considerations	Yes/No	Comments
<b>Project planning</b>		
Has the authority appointed a project manager, of sufficient seniority within the finance team, to oversee the delivery of the project?	Yes	
Have the necessary staff resources been identified to support the delivery of the project and the impact this will have on their other responsibilities?	Yes	Additional temporary staff to provide additional capacity has been provided. Also, access to specialist IT services to take forward some of the system changes and automation of processes has been made available.
Are all individuals aware of their responsibilities for preparing each section/note of the accounts?	Yes	The closedown timetable sets clear responsibilities for key tasks. These are discussed in advance and signed off by the Finance Managers Forum. "Champions" for each element of the accounts have been identified.
Has a realistic project plan been developed, setting out detailed timelines for completion of tasks, who will complete these and contingency for unforeseen issues?	Yes	The closedown timetable sets clear responsibilities and deadlines for key tasks. There is only minimal contingency for those tasks identified as being on the critical path. Delays reduce the time built into the plan for quality assurance.
Has the authority identified the potential blockages and barriers in the delivery of its plans and identified actions to address these?	Yes	IT support to systemise and automate processes in relation to schools closedown has been provided. Schools closedown and asset valuations
Is this project plan supported by clear financial procedures and closedown instructions to ensure clear communications to officers of requirements?	Yes	Action plans for individual tasks show start dates, dependencies, duration, critical paths and buddies so that we can address the issue of resilience and contingency arrangements. There is still scope to roll this approach out more widely.
Has the authority identified opportunities to rotate or upskill a wider group of individuals within the organisation to provide resilience for unforeseen loss of key staff and develop skills across the finance team?	No	The lack of resilience in some areas is an identified risk within the project plan. This is particularly true for those areas outside of the Finance Service that have a key role in the production of the statement of accounts. Within a climate of decreasing capacity identifying opportunities to rotate or upskill a wider group of individuals will continue to be difficult.
Has the authority established a committee or group to routinely monitor the progress against plans and ensure these stay on track?	No	This is managed as part of the routine line management of those responsible for delivering the earlier closedown. There are ad hoc reports on progress to the wider finance community.

Key considerations	Yes/No	Comments
<b>Systems and processes</b>		
Has the authority reviewed the outcomes of the previous year's accounts preparation processes and identified where changes or improvements can be made?	Yes	A review is undertaken each year and discussed with finance managers supporting all services. This has identified the key areas where changes to processes are required if the earlier timetable is to be met.
Has the authority reviewed all manual procedures and financial processes and considered where there is scope to automate and/or standardise these across the organisation?	Partial	Procedures and processes in the key areas of concern have been reviewed and work is currently on-going to automate these as far as possible, with the 2016/17 closedown being used as a dry run.
Has the authority reviewed its financial procedures and tasks to identify scope for streamlining, modification and improvement?	Partial	This is part of the wider vision to transform and improve financial management and reporting arrangements across the organisation and has not been undertaken specifically to deliver an earlier closedown.
Have all routine financial tasks been performed on a timely basis throughout the year to avoid additional procedures required at year end?	Partial	A number of key tasks are now being done throughout the year i.e. suspense account reconciliation. System reports have been developed to facilitate this.
Has the authority reviewed its monthly management reporting processes to identify opportunities to align these more closely to the year-end processes?	Partial	A review of monthly management reporting is currently being undertaken to support the monitoring of the delivery of the One Organisation Plan 2020. Any opportunities to align these processes more closely to the year-end processes will be taken.
Has the authority undertaken an in year interim hard close of its accounts to identify any possible issues early?	No	It is planned that an earlier closedown can be achieved without an interim hard close. This will be reviewed after our dry run this year for the 2016/17 closedown.
Is the authority up to date on expected accounting changes in the financial reporting framework and considering the impact of these as early as possible?	Yes	Key staff attend training on any accounting changes and publications of the requirements of accounting standards are routinely purchased. Project plans are put in place to implement any changes and reports brought to Audit and Standards Committee where approval of any changes to accounting policies is required. All material changes are agreed with our auditors in advance.
Has the authority reviewed its accounting policies to reflect any changes and ensure that these are tailored and appropriate for its circumstances? Have these policies been shared and discussed with the audit committee?	Yes	A full review was undertaken last year as part of de-cluttering and streamlining the accounts. Material accounting policy changes are discussed with the Committee before the end of the financial year. In recent years this has included school assets and the highways maintenance infrastructure code.

Key considerations	Yes/No	Comments
Has the timetable and procedures built in sufficient time for quality assurance checks of the accounts and supporting working papers?	Yes	
Has the authority identified those areas where significant judgements and use of estimates are required and identified the basis on which these will be prepared and the data needed to support them?	No	The dry run of early closedown this year will confirm the extent to which changes to systems and processes will deliver early closedown without the need for additional estimation and judgements. Following the review of the 2016/17 closedown where there are areas of concern this will be a key area of focus.
<b>Managing relationships with others</b>		
Has the authority identified those areas where information is required from other parties and ensured that this is incorporated into the project plan?	Yes	The requirements from HR, valuers, legal, actuaries, the Warwickshire Pension Fund and Performance (for the narrative statement) have been identified. The project plan identifies the earlier dates by which information would be required but whether any changes to systems/processes are required to meet them is still being explored.
Has the authority conducted an assessment of its likely group relationships and other external entities and agreed with its subsidiaries/associates/joint arrangements when group consolidation information or disclosures will be provided?	Yes	This is reviewed on an annual basis. Currently there is no requirement to produce group accounts. This is likely to change for 2017/18 with the establishment of the Catering company. Our requirements will be specified as part of the agreements setting the company up.
Has the authority spoken to its suppliers and contractors to ensure that arrangements for year-end processing and payment of invoices are managed effectively?	No	This will form part of the planning around the increased use of estimation and is specifically an issue around the value of work completed on major capital schemes
Has the authority discussed information requirements and timetables with other partner public bodies relating to any shared services and partnership working arrangements?	Yes	Initial discussions with the districts/boroughs re council tax and business rates information have taken place. Further work is still needed but all are faced with the same requirement to bring the production of the accounts forward and are developing their own project plans.

Key considerations	Yes/No	Comments
<b>Working effectively with auditors</b>		
Has the authority shared its closedown project plans with its auditors and agreed key dates and milestones?	Yes	These discussions form part of the annual audit planning process.
Has the authority discussed and agreed respective responsibilities and set clear expectations on the accounts preparation and audit processes?	Yes	Roles, responsibilities and timetables are part of the bespoke list of audit requirements is agreed as part of the interim audit before the end of the financial year.
Does the authority communicate with its auditors on a regular basis to discuss emerging accounting issues and progress against plans?	Yes	The chief finance officer and the authority's senior management have quarterly meetings with the auditors. The audit manager is also in regular contact with those responsible for the production of the statement of accounts.
Has the authority conducted a thorough review of its accounts and identified and discussed with its auditors those areas where there is scope to de-clutter and remove unnecessary notes and disclosures?	Yes	The Audit and Standards Committee have previously commented to the extent to which we have been able to reduce the size of the statement of accounts. We also undertake an annual review to identify areas where further de-cluttering and the removal of unnecessary notes and disclosures is possible.
Has the authority discussed and agreed its working paper requirements to support the completion of the audit?	Yes	The bespoke list of audit requirements is agreed as part of the interim audit before the end of the financial year.
Has the authority and auditors reflected staff availability and holiday commitments in the work timetables?	Yes	This is a standard part of our preparation for the annual audit.
Has the authority discussed with its auditor where audit procedures can be commenced early and financial records that can be tested at the interim audit?	Yes	A detailed plan and information requirements for testing at interim audit is agreed. This includes payroll, income and expenditure, grants, opening balances, restatements
Has the authority provided an early copy of the skeleton accounts and disclosures to allow opportunity for review of updated disclosures in advance of the year end?	Yes	These are provided as part of the interim audit
Has the authority met with its auditor to reflect on the previous year's audit process and identify areas that can be changed or improved?	Yes	This is part of the routine review that happens at the start of planning for the following year's audit