



Audit and Risk Management Committee
Monday, 23 September 2019

REPORT TITLE:	Closedown Process 19/20
REPORT OF:	Director of Finance & Investment (S151)

REPORT SUMMARY

This report has been produced in response to a request from the Audit & Risk Management Committee to provide assurance on planned improvements to the annual Closedown Process. These improvements are designed to achieve submission of the annual Statement of Accounts to the Committee - for final approval - in advance of the target publication date of 31 July.

RECOMMENDATION/S

The Audit & Risk Management Committee is requested to note and support the following actions being taken by the Director of Finance and Investment (S151):

- i. Investigation of the option to purchase Chartered Institute of Public Finance and Accountancy (CIPFA) Closedown Software, to enable greater automation of the Closedown Process and Statement of Accounts production; and
- ii. Initiation of a joint workshop with Grant Thornton LLP, the Council's external auditors, on audit planning improvements for the year ending 31 March 2020.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

- 1.1 The current Closedown Process accounts for a significant proportion of finance resource time and effort in any given year - with activity spanning an intensive period of at least six months, from February to July each year.
- 1.2 The intensity of this activity was recently heightened in 17/18 when the deadline for finalisation of the accounts was brought forward from 30 September to 31 July. This change was made despite warnings issued by the Local Government Association (LGA) about curtailing the timetable, in the context of reducing funding and pressures on front-line services.
- 1.3 Recent statistics published by the Public Sector Audit Appointments Limited (PSAA) confirm that 40% of Local Authority audits had not concluded by the target date of 31 July. In response to this, the LGA has now made a request for the deadline of 30 September to be restored.
- 1.4 In acknowledgement of the burden placed on Councils of the Closedown Process, the new CIPFA president has also set an objective for this year to simplify Council accounts and make them 'more useful to stakeholders'.
- 1.5 During the Closedown Process, the current deadlines for publication and finalisation of the Statement of Accounts - by 31 May and 31 July respectively – have to be given priority and divert key Finance Team members from other business critical tasks for a significant period of time.
- 1.6 Although the 31 May deadline was met this year and the accounts were formally re-published on 31 July, the audit of the accounts had not concluded in time for the accounts to be formally approved by this date.
- 1.7 The key reasons for this are the number of changes that needed to be made to the accounts, after their initial publication, to reflect:
 - Additional pension fund liabilities, following a court ruling at the end of June 2019 on the McCloud & Sargeant case;
 - Changes to the accounting treatment of the Minimum Revenue Provision (MRP); and
 - Additional disclosures to reflect the impact of IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments'.
- 1.8 The extent and timing of these changes, coupled with significant resource pressures experienced by both the Council and Grant Thornton, led to a delay in conclusion of the audit.
- 1.9 To minimise the risk of this situation happening again, efficiency improvements need to be made to internal processes for closing the accounts and preparing for the external audit. In addition, opportunities to improve the efficiency of the external audit also need to be explored.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 Bringing in temporary additional resources to help address pressures on the Finance Team during the Closedown Process is an option that has been considered. However, the Finance Team Restructure – which is currently underway – is expected to address several issues that contributed to the delay in finalising the Statement of Accounts this year.
- 2.2 These include the creation of a designated Strategy, Policy & Financial Accounts team which, once all vacancies are filled, will increase the number of staff directly responsible for this activity. As a result of the restructure, reliance on key individuals will also be reduced to ensure that the Finance Team is better able to respond to instances of unplanned absence.
- 2.3 Increasing resources in the Strategy, Policy & Financial Accounts team is also expected to enhance technical capability and help to reduce pressures on key individuals during Closedown.

3.0 BACKGROUND INFORMATION

- 3.1 The key activities carried out by the Finance Team as part of the Closedown Process are as follows:
- Planning, producing and communicating the Closedown Process timetable across the organisation;
 - Ensuring that the year-end Trial Balance in the accounting system appropriately reflects all transactions for the year, in line with Accounting Standards and the Council's own Accounting Policies;
 - Completing the CIPFA Toolkit – to collate the financial information needed to complete the Statement of Accounts tables;
 - Producing the Statement of Accounts and gathering supporting narrative information from across the organisation;
 - Preparing detailed Audit Working Papers to support all values included in the Statement of Accounts and demonstrate compliance with the CIPFA Code of Practice;
 - Supporting the external audit by gathering responses to audit queries on the Statement of Accounts and detailed transactional activity (pre and post year-end), as well as accounting processes and controls;
 - Processing any agreed changes through the Statement of Accounts; and
 - Responding to any Public Accounts Inspection queries.
- 3.2 The Statement of Accounts is a complex document, consisting of over 200 pages; incorporating the accounts of the Collection Fund and the Merseyside Pension Fund. The level of disclosure required in the accounts is significant and the complexity of the Council's operations, coupled with changes in accounting standards, often require careful consideration of highly technical accounting issues.

3.3 Creating the financial tables for inclusion in the Statement of Accounts is currently a manual process, requiring Trial Balance information to be re-keyed into an Excel based CIPFA Toolkit. During this year, changes were made to the format of the Statement of Accounts which enabled the financial tables to be directly linked to the Toolkit for the first time. This improvement was designed to enable changes to be made more dynamically and to reduce the risk of error. Ultimately, this approach has reduced the time needed to process changes through the Statement of Accounts and the risk of error. However, the time and effort invested in making this change was significant – requiring detailed validation checks on the form and content of the new style tables.

3.4 Moving to greater automation, particularly in terms of creating the financial tables for inclusion in the Statement of Accounts, is seen as the logical next step to further improve the process for next year. The option to explore the potential benefits of implementing the CIPFA Closedown Software is therefore recommended in this report.

3.5 The expected advantages of the CIPFA Closedown Software are:

- Faster Closedown - through automated, direct links from the Trial Balance held in the accounting system into the financial tables in the Statement of Accounts;
- Simplified Compliance – through routine updates to the software for changes in Accounting Standards and compliance with the CIPFA Code of Practice. Use of updated software will require changes to be made in the accounting systems from the outset to achieve compliance. (The current CIPFA Toolkit is no longer being updated for Accounting Standard changes. Manual adjustments were therefore required this year in the Toolkit to reflect key changes resulting from IFRS 9 ‘Financial Instruments’);
- Reduced Risk of Error – resulting from automation and reduced manual intervention;
- Faster Audit – due to improved transparency of the link between the Trial Balance and the Statement of Accounts, fewer compliance issues (due to use of updated software to drive compliance with changes in Accounting Standards) and lower risk of error; and
- Reduced Resource Demand - enabling key Finance Team resources to allocate more time to critical, value added activity across the Council’s operations.

3.6 A number of issues were experienced with the audit process this year, which are acknowledged by both the Council and Grant Thornton. The areas of improvement that have been identified, as a result of a Lessons Learned exercise within the Finance Team and initial consultation with Grant Thornton, largely relate to improvements in planning to ensure that the right resources are in place, at the right time, and with the right quality of information available to them.

3.7 Key areas for focus include:

- Visibility of detailed plans for external audit activity, to enable co-ordination of activity with key Finance Team resources supporting each area and upfront agreement of deadlines;

- Review of the form and content of standard audit working papers – to ensure that their content meets the needs of the audit and that analytical review, explaining variances from one year to another, is captured as an integral part of their production;
- Increased pre-year activity to prepare for the audit, with as much audit work as possible completed in advance of 31 March and information to support audit working papers gathered throughout the year;
- Greater knowledge sharing with new members of the audit team - to ensure familiarity with their areas of responsibility, the appropriateness of their skill levels (ideally matched with previous Local Authority experience) and a basic understanding of the Council's systems and processes;
- Prioritisation of audit fieldwork to focus on key risk areas - to ensure that the most significant areas are covered first, with any issues discussed and resolved at the very start of the audit; and
- Preparation of a high-level plan for annual Finance Team activity, to ensure that other key activities (including annual Budget preparation and Medium Term Financial Plan updates) do not conflict with the demands of the Closedown Process.

3.8 To explore these key areas, a joint workshop is proposed with Grant Thornton, with an expectation that this will be timetabled within the next four to six weeks.

4.0 FINANCIAL IMPLICATIONS

4.1 If the outcome of a review of the CIPFA Closedown Software results in a recommendation to purchase the software, the expectation is that this may cost in the region of £15k to £25k (£10k for the software purchase plus CIPFA implementation costs). In addition, temporary specialist resources may be required for a short period to support the initial set-up and testing phase.

5.0 LEGAL IMPLICATIONS

5.1 It is a legal requirement to publish the Statement of Accounts. This would ordinarily be completed by 31 July each year, subject to completion of the audit. If the audit has not concluded by 31 July, as was the case this year, the Council is required to publish the reasons for this under Section 10.2a of the Accounts and Audit Regulations 2015 and to issue the audited Statement of Accounts as soon as reasonably practicable after the issue of the Audit Opinion.

5.2 Implementing the recommendations included in this report would help to reduce the risk of the Council being in this position again.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 There are no resource implications arising directly from this report. Should a decision be made to implement the CIPFA Closedown Software, additional temporary resources may be required, as stated in the Financial Implications section above.

7.0 RELEVANT RISKS

- 7.1 Although failure to meet statutory deadlines for the publication and finalisation of the Statement of Accounts carries no formal penalty, failure to improve the efficiency of the Closedown Process carries a reputational risk to the Council.
- 7.2 In addition, if the Closedown Process is not improved, key resources in the Finance Team cannot support other business critical activity on a timely basis.

8.0 ENGAGEMENT/CONSULTATION

- 8.1 Grant Thornton have been consulted in producing this report.

9.0 EQUALITY IMPLICATIONS

- 9.1 There are none arising directly from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

- 10.1 There are none arising directly from this report.

REPORT AUTHOR: Shaer Halewood
Director of Finance and Investment (S151)
telephone: 0151 691 8688
email: shaerhalewood@wirral.gov.uk

APPENDICES

BACKGROUND DOCUMENTS

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Audit & Risk Management Committee	22 July 2019