

**PREPARING FOR THE 2017/18 CLOSEDOWN PROCESS**

*To:* **Audit and Accounts Committee**

*Date:* **21<sup>st</sup> November 2017**

*From:* **Chief Finance Officer**

*Electoral division(s):* **All**

*Forward Plan ref:* **N/a** *Key decision:* **Not applicable**

*Purpose:* **This report introduces the work being undertaken in order to ensure that the 2017/18 accounts are delivered by the new statutory deadline.**

*Recommendation:* **Although this report is brought for information, the Committee is asked to consider and comment on the content.**

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## **1. BACKGROUND**

- 1.1 The deadlines for the delivery, audit and approval of the annual Statement of Accounts have changed and the draft Statement for 2017/18 will be presented for audit before 31 May, with formal approval sought for the final Statement by 31 July. Work is being undertaken with colleagues across all LGSS authorities to identify and deliver the tasks required that would allow these deadlines to be met.
- 1.2 Once delivered, through improving the efficiency of financial systems and processes, this change will benefit both LGSS and the partner authorities. The knock-on benefits will include finance teams that have an increased focus on forward-looking and value-adding activities, such as medium-term financial planning.
- 1.3 The work now being undertaken is based upon an analysis of the lessons learned from the 2016/17 process, identifying any causes of delay, together with an evaluation of the experiences of 'early adopters' - those councils that already produce their accounts early. A series of key principles are evident and they have been used to focus required activities into work streams. These are summarised below.
- 1.4 Work streams:
  - 1.4.1 The Financial System and the quality of data
    - a) The key question for this work stream is: Could the system do more to help minimise the amount of manual work required? The capabilities of the finance system must be better understood, especially as a new system is about to be delivered.
    - b) Early adopters have improved their financial systems and optimised financial reporting processes through reducing the level of manual interventions required to prepare the financial statements.
    - c) The statements produced by LGSS are not delivered directly from the financial system and there is a heavy reliance on spreadsheets. This is inefficient, is prone to error and necessitates additional audit testing.
    - d) Additionally, the auditor's analytical tools assume that the financial system will directly support the production of the statements, without manipulation or filtering. The more that this is the case, the quicker will be the audit process.
  - 1.4.2 Financial Processes – a number of key improvements are sought in this work stream:
    - a) Standardised procedures will enable a smoother consolidation of data, improve the quality of financial information and reduce the dependency on individuals completing non-routine tasks.
    - b) Monthly budget monitoring processes, once aligned with the requirements of the year-end, will help to identify issues and enable the finance team to prepare resolutions and reporting requirements in advance.
    - c) Detailed year-end tasks must be examined in order to identify those that could be completed earlier in the year. For example, the overall asset base is known in April, can be adjusted for any prior year audit amendments and will only change again if there are significant additions, disposals, revaluations or impairments.

- d) The general ledger must be maintained accurately throughout the year, removing the need for any year-end corrections.
- e) A well designed and understood commitment accounting procedure provides details of those invoices expected during the closedown period, enabling the early processing of accruals.
- f) Earlier closure will necessitate a greater use of estimation, as definitive information will sometimes not be available in time. Although this is a valid methodology in certain cases, robust techniques are required and any uncertainty relating to material balances must be adequately disclosed.
- g) Where information is required from third parties, such as consolidated group entities, payroll providers, valuers and actuaries, they must be engaged at an early stage. We are asking them to commit to the new timetable and they may need to change their own approaches and closedown plans. This process must improve and significant problems were experienced during the 2016/17 audit because of delays in receiving information from both external providers and internal colleagues.

#### 1.4.3 Improving the quality of financial reporting

- a) Although local government accounts are necessarily complex, their clarity can be improved and the first step is to declutter disclosures – mindful of the fact that unnecessary disclosures lengthen the closure process, with every disclosure also needing audit review.
- b) Two types of clutter have been identified by the Financial Reporting Council and both are currently present in the Council's accounts:
  - Immaterial or irrelevant disclosures that inhibit the ability to identify and understand relevant information
  - Narrative information that remains unchanged from year to year and is no longer current or relevant.

#### 1.4.4 Engaging the External Auditor

- a) In order for earlier closure to be delivered, the timings for the completion of the audit and the issue of the audit opinion must also be accelerated.
- b) Joint, coordinated plans will ensure that everyone is working to common deadlines - including the timing of the audit fieldwork and key dates for liaison meetings, report clearance meetings and deadlines for audit committees.
- c) Details of the leave commitments of key staff must also be shared so that these can be reflected in the plans.
- d) New joint protocols will provide clear expectations of responsibilities and performance.
- e) The Auditor will assist by identifying tasks that are not critical to the audit opinion.
- f) The Auditor will also identify the work that can be completed earlier in the financial year, which is possible in a number of areas and allows the resulting testing to be completed before the year-end. A good example from 2016/17 was the sampling of legal contracts, where legal colleagues could be allowed more time to access records before their disclosure becomes critical.

- g) Issues arose during 2016/17 because the Finance team's access to the Auditor's information portal was limited. This issue will be resolved for the 2017/18 process.

#### 1.4.5 Conclusion

- a) The earlier delivery of the Council's accounts will depend upon work delivered across a number of areas. The practicalities will require an optimisation of financial management and reporting processes, with a number of key areas of consideration.
- b) The early adopters all identified the same critical success factor that underpinned their work. This is the need for commitment at the highest levels of the council, ensuring that all colleagues are focussed on delivering to the deadlines. The whole leadership team, therefore, must be prime drivers towards early closure if the Council is to deliver with any degree of assurance.

## 2. ALIGNMENT WITH CORPORATE PRIORITIES

### a. Developing the local economy for the benefit of all

There are no significant implications for this priority.

### b. Helping people live healthy and independent lives

There are no significant implications for this priority.

### c. Supporting and protecting vulnerable people

There are no significant implications for this priority.

## 3. SIGNIFICANT IMPLICATIONS

### 5.1 Resource Implications

There are no significant implications within this category.

### 5.2 Statutory, Risk and Legal Implications

There are no significant implications within this category.

### 5.3 Equality and Diversity Implications

There are no significant implications within this category.

### 5.4 Engagement and Consultation Implications

There are no significant implications within this category.

### 5.5 Localism and Local Member Involvement

There are no significant implications within this category.

## 5.6 Public Health Implications

There are no significant implications within this category.

Source Documents	Location
	First floor Octagon (OCT 1114) Shire Hall, Cambridge CB3 0AP