

To: Audit & Governance Committee

Date: 25th November 2008

Item No:

Report of: Heads of Finance

Title of Report: Update on Progress with Statement of Accounts 2007/08

Summary and Recommendations

Purpose of report: To report the final position on the Statement of Accounts for 2007/08

Report Approved by: Councillor Ed Turner

Finance: Penny Gardner/Sarah Fogden
Legal: Lindsay Cane

Policy Framework: Financial Stability

Recommendation(s):

Note that the Statement of Accounts has been qualified for 2007/08.
Note the action plan for avoiding this in future years.

Background

1. The Statement of Accounts was presented to Audit & Governance Committee on September 23rd2008. The covering report explained that a number of issues were outstanding on the accounts. The remaining issue following that meeting was the Reconciliation of the Cashflow Statement and this is explained further below.
2. Audit & Governance Committee agreed to recommend the statement of accounts to Council and authorised the Chair of the Committee to sign the final version of the Statement of Accounts 2007/08.
3. The accounts as approved by the Audit and Governance have been published on the Internet and have been available in the Members Room.

Reconciliation of the Cashflow Statement

4. As part of the audit, the auditors picked up an error in paragraph 6.42, a note to the Cashflow. This note should provide a reconciliation between the 'Net Cash flow from Revenue Activities' line shown in the Cash Flow Statement (5.6) and the deficit shown on the Income & Expenditure Account (5.1) plus movement on the Collection Fund (7.4).
5. Some background to the compilation of the Cash Flow Statement and the reconciliation note may help in understanding the problem of achieving a reconciliation. There are two basic options for the preparation of the Cash Flow Statement :-
 - build up from cash transaction records and reconcile to the final accounts (direct method) ,or
 - work back from the final accounts making appropriate adjustments (indirect method).
6. The decision was made in 2005/6 to use the direct method and automate the process for compiling the Cash Flow Statement by using an Agresso report specifically developed to prepare the Cash Flow Statement directly from transactions in Agresso. The reconciliation note however was not automated and was compiled by using figures derived from other parts of the statement and included a balancing figure. In 2006/7 this balancing figure was £599k and initially for 2007/08 was £262k.
7. This was further complicated because the 'Net Cash flow from Revenue Activities' line in the Cash Flow Statement to which the note should reconcile was not certain.
8. Although the Cash Flow Statement reconciles to the movement in cash balances the categorisation of transactions within the statement is dependent on relevant journals being picked up. Generally journals are regarded as internal and therefore not reflected in the Cash Flow Statement. There are many journal transactions during the year (2815 in 2007/08) with minimum of 2 lines and no maximum. These may often be correcting mispostings and may result in something being shown correctly in the Income & Expenditure Account, but this may not be picked up in the Cash Flow Statement. Some journals do need to be included in the Cash Flow Statement because they move cash but these are only picked up if they have been entered in a particular way. This results in some uncertainty between the separation of revenue and capital transactions within the Cash Flow Statement and hence the 'Net Cash flow from Revenue Activities' line which the note is attempting to reconcile to.

9. The auditors picked up an error in the reconciliation note in early September which meant this balancing figure would have had to increase to £5,387k. As a result increasing resources were devoted to the problem and the balancing figure was reduced significantly. Initially recognition that it would not be resolved fully led to replacing the full table 6.42 with a note but the auditors subsequently advised that a note would lead to qualification so resources were again directed to the problem. The balancing figure was eventually reduced to £993k out of £542m that flows in and out by the time the decision was made to cease work on the problem.
10. The volume of transactions meant it was not possible in the time available to check all journals and understand why they were made and then determine whether they should be included in the Cash Flow Statement. Large journals may contain lots of different types of adjustments or correction of mispostings. For example a large journal may contain creditor payments that may need to be included in the Cash Flow Statement and internal income that may not. Therefore particular areas were selected for scrutiny and resulted in changes being made between the revenue and capital activities in the Cash Flow Statement.
11. The reconciliation note did not initially differentiate between revenue and capital accruals. This is necessary for the reconciliation and was particularly apparent in 2007/08 because of the significant transactions relating to the sale of Mascall Avenue.
12. There were options for the team to spend longer on the reconciliation. The Heads of Finance however took the view that it was better to draw a line under the issue & allow the staffing resources to revert back to the Leisure transfer project and Budget work. This decision had no impact on the Council's Use of Resources score in this area as the fact that the cashflow could not be resolved prior to the final date for the approval of the Statement meant that the score in this area would be 1.
13. The final statement therefore omits table 6.42, and defaults to a qualification as by omitting this table the Statement does not comply with SORP (Statement of Recommended Practice).

Planning for the future

14. It is unfortunate that the cashflow statement has been so difficult this year. Great improvements have been made in the Statement of Accounts since 2002/03 when the Statement was regularly qualified.

15. To avoid a repetition of the problem for 2008/9 accounts the following actions are proposed:

Action	Deadline & Responsible Officer
Employ a year end specialist accountant to review cash flow	End Nov 08, Chief Management Accountant
Issue guidance to Finance staff	End Nov 08, Chief Technical Accountant
Investigate and analyse cash transactions in 2008/9 to match these between cash flow and Income & Expenditure A/c.	End Dec 08, Chief Management Acc & Chief Technical Acc
Prepare trial cash flow & note	End of Dec 08, Chief Management Acc.
Review all current cash flow entries & reinstate where appropriate	End Dec 08 Chief Technical Acc
Review coding of revenue and capital accruals	End Dec 08, Chief Management Acc & Chief Technical Acc
Introduce monthly review of journals	End Jan 08, Chief Management Acc & Chief Technical Acc

Impact of Qualification

16. The changes in no way affect the Council's reported revenue outturn and balances.

Name and contact details of author:

Sarah Fogden/Penny Gardner

Heads of Finance

Telephone: (01865) 252708

sfogden@oxford.gov.uk or pgardner@oxford.gov.uk

Background papers: None

Version number: 1.0