

To: Audit & Governance Committee

Date: 24/09/2009

Item No:

Report of: Heads of Finance

Title of Report: Review of the Statement of Accounts Process

Summary and Recommendations

Purpose of report: to give Members information on the preparation of the 2008/09 accounts

Key decision? NO

Executive lead member: Councillor Bob Price

Report approved by:

Finance: Emma Burson

Legal: Jeremy Thomas

Property: Steve Sprason

Policy Framework:

Recommendation(s):

Audit & Governance Committee is recommended to note this report and the action plan that is being implemented. A further review will be presented to this Committee in November.

Review of the Statement of Accounts Process

Overview

1. The Council has achieved a great deal this year with improvements coming through on its use of resources judgements. The transformational change programme is delivering outcomes. The leadership and commitment to continuing to deliver this change is ensuring that the pace of change is impressive. Unfortunately the Council has once again struggled with the production of the financial statements and this is now detracting from the good achievements in other areas.
2. The Use of Resources assessment evaluates how well Councils manage and use their resources. 2007/08 was the last assessment under the Comprehensive Performance Assessment (CPA) framework. For 2008/09 there is a new assessment under Comprehensive Area Assessment (CAA). The Council's scores show the year on year improvements:

2008/09		2007/08	
Element	Score	Element	Score
<u>Managing Finances</u>			
Financial Planning	3	Financial Management	2
Understanding costs and achieving affiances	3	Value for Money	2
		Financial Standing	3
Financial Reporting	2	Financial Reporting	1
Theme Score	3		
<u>Governing the Business</u>			
Commissioning & Procurement	3		
Data quality & Use of Information	2		
Good Governance	2		
Risk Management & Internal control	2	Internal Control	2
Theme Score	2		
<u>Managing Resources</u>			
Workforce	2		

3. The Annual Governance Report from the Audit Commission raises a number of serious concerns over the production of the 2008/9 Statement of Accounts and the management of the audit process by the Council. The Audit Commission has issued a view that the accounts will be qualified on the grounds of uncertainty. The Council accepts the criticisms in the report and fully commits to the Action Plan.

4. The Chief Executive has commissioned an Interim Executive Finance Director to review the processes and procedures leading up to the production of the Statement of Accounts, the management of the audit process and to oversee the implementation of the action plan. There will be a further report to the November Audit & Governance Committee covering the assessment of reasons behind these problems and progress on the action plan.
5. This report details the process followed by the Authority, principally the Finance team, in producing the Statement of Accounts. The Finance team responsible for the Statement of Accounts met on the 30th June to consider the issues and difficulties that occurred during the process. This was prior to the audit. This report therefore includes the action points that the team raised in the reflection meeting and also offers a more detailed action plan for the issues that have arisen during the audit.

Project Planning

6. The annual process of producing the statement of accounts is built round a timetable, information requests to Service Heads and liaison with key staff.
7. Specifically the following takes place:
 - Publish detailed timetable to all finance staff
 - Highlights to Service Heads
 - Weekly meetings Head of Finance / Financial Accountancy Manager / Finance Accountant to monitor progress/issues
 - Fortnightly meetings with Audit Manager to progress issues
 - 2 whole accountancy team meetings during the closedown period

Post Audit Conclusion:

8. The timetable is overly detailed for the first part (February to end of April). The pulling together of the statement (April/May/June) requires more detail with a critical path type timetable.

Risks identified early on

9. Following the qualification of the accounts in 2007/8, a greater emphasis was placed on the Statement for 2008-9. A number of risks to delivery were discussed and mitigating action taken. These are shown below.

Risk	Mitigation
Restructure of whole of Finance during period January to June.	Handover of key tasks from employee to employee
Cash Flow, imbalance identified in 07.08 audit	Temporary resource appointed Nov 08. Ongoing work resulting in changed journal procedures
Member of staff responsible for fixed assets accounting from Finance team left for another authority in Sept 08	Work transferred to another individual. Training Jan 09 + ongoing familiarisation
Member of staff tasked with initial production of the Statement of Accounts left for another authority in March 09	Temporary resource brought in at Financial Accountant level. 1 month handover period

Problems

10. The weekly meetings identified a number of problems that needed to be addressed and were regularly reviewed.

- Progress on cash flow

11. The progress on the direct method was slow due to the number of transactions requiring review and in April, a report to Audit & Governance committee highlighted that the method may need to be switched to the indirect method. This was subsequently done. In addition new journal procedures were issued to finance staff in April so that entries would be more appropriately moved on the ledger and not be double counted in the cashflow.

- Information on the HRA stock valuation was delayed because of a lack of coordination between staff.

12. This was received in Finance on May 11th and work commenced on the figures. Cross reconciliation of the HRA data (from I-world) and the Corporate asset register was difficult as asset references were different on both systems so a considerable amount of manual matching was required. In the period to the end of May, officers in Oxford City Homes and Finance spent a great deal of time resolving differences.

13. Audit Commission testing in August revealed that the May valuation (sent from the valuers by spreadsheet) was wrong and that the correct valuation had been received into Oxford City Homes as a hard copy during March. The valuer's report covers a representative sample of 100 properties (referred to as Beacon properties) that are then mapped to the entire housing stock using an Excel spreadsheet. The mapping formulae in the spreadsheet had been corrupted.

Post Audit Conclusion:

14. A unique property reference is required in both systems. More frequent crosschecking of the HRA asset register and the Corporate Asset register is required. The information sharing process works well for disposals as there is a monetary transaction in the accounts. Decisions on redevelopment, decanting, leaving property vacant is less well communicated and a formal process is required.

- Fixed assets impairment due to National Property trends.

15. The valuation report was expected in early May. The weekly meeting discussed drafting the accounts without the assets but as the valuation report was imminent, this was not done. The initial version of the National Property downturn survey was received in mid May but not finalised until early June due to the ongoing checking for errors. In late May/ early June, draft accounts were finally prepared without the asset figures and initial checking of the accounts was undertaken.

- Logotech

16. The Council uses a system called Logotech to record Fixed Asset information and calculate fixed asset accountancy entries. During the period January to May 09, Logotech had software issues. During this period, the Council sent files backwards and forwards to Logotech in an attempt to solve the software issues and to work on the assets. The bug was fixed with an upgrade in May. The support received from Logotech is based on one key individual. At a late stage, Finance staff realised that the revaluation reserve on Logotech did not match the figures on Agresso (the finance system) and separately from this the calculations in another area did not look correct. Finance staff lost confidence in Logotech and manually checked the figures. This resulted in a decision to switch all calculations to Excel.

Post Audit Conclusion:

17. Ensure that Logotech and Agresso replicate each other.

18. Reduce operational risk by considering whether to persist with Logotech, use Excel (potentially not sufficiently robust given the Council's large asset base) or consider an alternative solution.

Control Mechanics / Quality Review

19. A key change for the 2008/9 accounts was a more senior review of working papers following criticism from the 2007/08 audit. Working papers, as in previous years, were reviewed and signed off by Line Managers. For

2008-9 a further review by the Head of Finance and the Financial Accounting Manager was undertaken.

20. The review identified a number of issues and amendments to the accounts were made to correct errors. These were all corrected for the accounts presented to Audit & Governance on 30th June.

21. The accounts were changed in respect of the following issues:

- Inappropriate accruals
- Errors in debts written off
- Adjustments required in respect of Westgate assets i.e. Albion/Abbey swap and valuation of Albert House

Post Audit Conclusion:

22. The accounts working papers could be improved and a training session on both the SORP and quality of working papers was booked for September 18th through PwC. Part of the day is to focus on capital accounting and assets.

Review of Accounts by PwC

23. In order to improve the quality of the accounts, PwC had been booked to review the accounts in early June. The delay around fixed assets meant that there was not a complete set of accounts for PwC to review at that point. Instead PwC were asked to review the accounting entries in respect of pensions & the Icelandic bank impairment. In addition, they gave specific advice on some fixed asset transactions and the cashflow.

24. PwC identified that the Council had a unique policy for the treatment of capital spend on Council Houses. The Council departs from the SORP in treating capital spend, where the spend on an individual asset is less than 15% of the value of the asset as impairment i.e. it is not added to the value of the asset. This departure from SORP was discussed with the Audit Commission and as all dwellings have been revalued as at 31st March, there is no ultimate impact on the accounts for 2008/09.

25. The discussion on this issue opened up a wider discussion about the Council's capitalisation policy and the impact of component accounting under the new IFRS.

Post Audit Conclusion:

26. The Council should review the capitalisation policy and how the implementation of IFRS will impact on the Council's accounts. A discussion on this was programmed for September 18th.

27. Before submission to Audit & Governance, the accounts were subject to a number of reviews by the Financial Accounting Manager and Service Heads and were crosschecked to the SORP checklist.

Responses to Audit

28. A key criticism raised at Finance by the Audit Commission is the responsiveness of the team to Audit queries.

29. The Council has a relatively small Finance team – around 25 FTE with 2 posts working directly on the Statement plus line management from the Financial Accounting Manager and Heads of Service. The delays and adjustments to fixed assets meant that the team were still working through fixed assets as at end of June / early July. We were thus unable to provide working papers in this area and therefore delayed the audit. The knock on impact of Fixed Assets meant that working papers in other areas were not presented comprehensively to Audit Commission on day 1 of audit. The production of the Statement of Accounts is a highly technical area requiring a detailed knowledge of the guidelines (SORP, LAAP bulletins) that govern accounting entries. This makes it difficult for staff who are not involved in this work on a day to day basis to cover.

30. There was a problem with the availability of key staff in the initial weeks of the audit and as the audit lengthened, throughout the process. The restructure of Accountancy during 2009 meant that the availability of key personnel had been determined by decisions on annual leave when those individuals were holding different posts. This was clearly a significant problem which made the work of the auditors more difficult than it should have been.

Statement versions

31. The Statement of Accounts was amended initially between circulation of papers and the committee meeting. This was due to lack of time to review asset entries prior to submission to Audit & Governance Committee. The table below sets out the reasons for version updates to the Statement of Accounts.

Version Number	Date	Distributed to..	Amended because...
1	Fri 26 th June	A&G Committee	
2	Tues 30 th June	Statement represented to A&G committee	OCC staff identified that changes needed to be made due to the identification of a duplicated disposal of £900k.
3	Wed 1 st July	Emailed to HO/JB	Amended with presentational changes. On reflection no need to have issued this version, this could have waited for the final version.
4	31 st July	Emailed to HO	<p>OCC staff identified £3.1m of changes to Fixed Assets, these were in relation to Albert House not treated as an addition and Abbey Place not impaired, and also some double counted capital expenditure.</p> <p>The version e-mailed to Audit was not cleared to be sent as it was the incorrect version. Staff were under clear instructions not to distribute information unless checked by Financial Accounting Manager or Head of Service.</p>
5	11 th Aug	Emailed to HO/JB	Corrected version of statement including the £3.1m changes as above
6	28 th Aug	Emailed to HO/JB	Audit Commission testing revealed that there were two versions of the Knight Frank HRA valuation in the authority, one hard copy and one soft and they differed considerably. This update amended asset

			values to the correct version.
7	14 th Sept	E-mailed to HO/Alan Witty	Updated version of Accounts with all changes as agreed between the Finance team and the Audit Commission
8.	17 th Sept	E-mailed to HO/Alan Witty	Final version with correction to the cashflow that resolves issue of balancing item

32. On reflection it may have been more appropriate to log all adjustments and only reissue the Statement of Accounts following the audit once the list of changes had been agreed and finalised.

33. The overall impact of all the changes was to change Net Assets by £ 3.7m, from £ 664.2m to £ 667.9m, less than 1%, principally from the first adjustment.

34. It should be noted that no material issues were raised relating to revenue accounting and the General Fund. However, the auditor clearly lacks reassurance that she can rely on the evidence in working papers to support the accounts and the overall credibility of the accounts production process has been undermined in the auditors eyes.

Next Steps and Action Plan

35. Earlier in this report we have noted actions for improvement, however the issues with this year's Statement of Accounts means that the Council need a comprehensive improvement plan to ensure that the 2009-10 close of accounts is problem free. We fully accept and will implement the recommendations in the Audit Commission's Annual Governance Report. The Chief Executive has appointed an experienced Interim Director of Finance to oversee the improvement process and provide assurance.

Action	Timing
<u>Resourcing</u>	
Additional support has been secured through the secondment of a technical expert from PwC for a minimum of 4 months. David Patterson will set up fit for purpose procedures for fixed asset accounting, giving training and support to permanent staff members.	Sept-Dec 2009
Preparation for IFRS in particular Leases Component accounting	
Recruitment of permanent Financial Accountant to replace the staff member who left in Mar 2009 – an appointment has now been made of a suitably experienced qualified candidate	Nov 2009
Training the whole Finance team to strengthen technical understanding, thus preventing in-year accounting errors at an earlier stage.	Initial training day Sept 18 th from PwC
Consideration of replacement Asset Register software to replace Logotech	Oct 2009-Jan 2010
<u>Planning/ Review</u>	
Comprehensive review of accounts closure process, preparation of Statement of Accounts and responses to audit	Oct 2009. Report to Audit & Governance Committee Nov 09
Review of closedown timetable with greater focus on statement preparation as noted in para 8	Nov 09
Trial closedown to check procedures working and identify any problem areas	Dec 2009-Jan 2010
Protocol for staff leave updated and critical dates for key staff identified	Oct 2009
Agreement of updated plans with Audit Commission	Ongoing through fortnightly meetings
Internal Audit reviews planned to support the improvement process. Timing and scope of programme already in place to be reviewed to meet this brief	
<u>Fixed Assets</u>	
Agree who owns and maintains the Corporate Asset Register and how it interacts with records held in OCH and the Terrier records held in Property.	
Training for those involved in asset transactions i.e. acquisitions, disposals, transfers etc so that all assets are correctly identified and recorded first time.	
Ownership of asset register	

36. We will provide an update on progress to each meeting of Audit & Governance Committee up to and including the presentation on 2009-10 Statement of Accounts.

Wider Implications

37. The Council's performance in terms of financial management as reflected in the Use of Resources statement has improved in some important regards over the last year with scores for financial planning and value for money improving. However the Council is still assessed as inadequate on financial reporting – as reflected in the processes leading up to the Statement of Accounts – and the Council has already taken urgent measures to ensure that performance in this area improves.
38. The Chief Executive has commissioned an Interim Executive Finance Director to undertake a high level review to identify the steps the Council needs to take to improve the Finance service capability and capacity.
39. The Leader and the Chief Executive have instructed that, as a first task, the Interim director carries out a comprehensive review of the closure processes, including the external audit and preparation of the Statement of Accounts. The detail in the report will feed into this more comprehensive review, due for completion in the middle of October, and further reports to the Committee will be made.

Recommendation

40. Audit & Governance is recommended to note this report and the action plan that has been implemented. A further review will be presented to this Committee in November.

Version control:

V1: SF first draft

V2: SF/PG/NP

V3: SF/PG/PS/BP

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List of background papers: None

Version number: 3