

DRAFT

To: Audit and Governance Committee

Date: 24 November 2009 **Item No:**

Report of: Interim Executive Finance Director

Title of Report: Review of 2008/09 Accounts Closure and External Audit Processes

Summary and Recommendations

Purpose of report: This report to the Committee summarises the conclusions reached by the Interim Executive Finance Director on his recent review of the 2008/09 closure of accounts and external audit processes.

Report Approved by:

Finance: Jeremy Thomas
Legal: Sarah Fogden/Penny Gardner

Policy Framework:

Recommendation(s): The Committee is asked to note the conclusions reached in this report.

REVIEW OF 2008/09 ACCOUNTS CLOSURE AND EXTERNAL AUDIT PROCESSES

Background

1. The District Auditor presented the Annual Governance Report for 2008/09 at the September meeting of this Committee. Her overall conclusion was that the Council has achieved a great deal with improvements coming through on Use of Resources judgements.
2. However she also said that the Council had again struggled with production of the financial statements and that this is now detracting from the good achievements in other areas. She issued a qualified opinion on the Council's financial statements, as she did the previous year.
3. Also before the Committee at its last meeting was a report of the Heads of Finance giving information on the preparation of the 2008/09 accounts, and a commentary on the issues and problems encountered in the process as a whole.
4. The Committee was informed that the Chief Executive had 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. The Leader and Chief Executive had instructed that, as a first task, the Interim Director carries out a comprehensive review of the closure and external audit processes, with a further report back to this Committee.
5. That review is now complete. This report summarises the conclusions reached, the actions needed and the recommendations to the Leader and the Chief Executive of the City Council.

Review process

6. In the course of his work, the Interim Executive Finance Director has reviewed council documentation, including the reports of internal and external auditors and officer reports to this Committee, met with the auditors, and held discussions with senior councillors and officers.

Conclusions

7. The high level conclusions of this review are as follows:
 - a. Qualification of the 2008/09 accounts should not have happened. With better preparation for the external audit and closure processes, all the issues summarised in the Annual Governance Report could have been avoided.

- b. There are deeper and more long standing internal control and financial administration issues within the Council on which finance needs to give an assertive lead to drive through change.
 - c. Corporately more can be done to secure cross-organisation recognition of the importance of the annual year end processes and the need for change to tackle the deeper underlying issues.
 - d. Urgent action is needed on each of the recommendations. In particular there needs to be a singular focus between now and the end of the calendar year on planning for the next closure and audit process.
8. This review has inevitably been retrospective. There are clear learning points for the Council, and there is now an opportunity to move forward with a strengthened finance function contributing more effectively to City Council decision making and administration.

Actions Points

9. Detailed action points from this review are set out below.
10. Later in the sequence of reports to this meeting is an updated action plan, bringing together the actions suggested in the Interim Director's review with the action planning already under way.

a) Corporate

- i. Secure general internal and financial controls and awareness of their importance across the council.
- ii. Step up the leadership and management of the finance function across the council.
- iii. Strengthen the strategic role and influence of finance, more assertively setting finance requirements and exercising corporate challenge, resolving inter-departmental differences of opinion, driving forward on key processes. All this has added importance at this time of extra financial stringency.
- iv. State clearly the financial responsibilities of departmental managers and staff, hold budget managers accountable for spending against budget and review arrangements for training staff.
- v. Urgently resolve responsibilities for asset management/property recording. Clear council wide professional lead needed on valuation issues with overall finance responsibility for systems and accounting entries.
- vi. Clearly restate the respective responsibilities of the Chief Executive's Office and Finance for external audit relationship management.
- vii. Drive through change in financial systems corporately, not only to improve internal control, but also to release efficiency savings

- viii. Give strong corporate messages about the importance of accounts closure and external audit process (as part of overall internal control) and monitor progress against key milestones as part of the work programme of the Transformation Board.
- ix. Give corporate commitment to the timetable and to the cross-departmental roles and tasks involved.
- x. Review arrangements for the tracking, follow through and scrutiny of recommendations and decisions.

b) *Closure of accounts/annual audit planning*

- i. Ensure there is a detailed project plan showing milestones, responsibilities and dependencies, with more detail of the cross-council steps needed to achieve Statement of Accounts ready at the start of the audit process.
- ii. Share the draft plan with external audit, so that there is a joint approach to the management of tasks, annual leave and key dates involved.
- iii. Introduce more formal project management discipline with regular reviews against milestones and individual tasks.
- iv. Ensure full planning in place by mid November at the latest.
- v. Carry out the planned trial closure at end of December 2009. This is an important step which it is essential to see as a key milestone in the overall process.
- vi. Pay particular attention to issues arising from this year's external audit, e.g. fixed asset reconciliations, to issues arising from the internal audit plan and to issues known to be current in the lead in to next year's process, e.g. International Financial Reporting Standards (IFRS).
- vii. Consider whether to increase frequency of fixed asset valuations.
- viii. Bring in key additional resources during closure preparation period (e.g. from Internal Audit) – drawing on specialist technical and closure management expertise.

c) *Finance resources*

- i. Complete restructuring and fill vacant posts, thereby eliminating the need for temporary/interim staff and ensuring in-house capacity with appropriate skills and experience.
- ii. Check out any remaining gaps in skills, knowledge etc and link to personal development plans.
- iii. Take immediate steps to learn best practice from high performing finance teams/officers in other similar councils.

d) *Communications*

- i. Regularly brief senior members, the Chair/Vice Chair of Audit and Governance and the Audit and Governance Sub Group.

- ii. Improve internal communication so everyone knows state of progress/readiness and is committed to achieving outcomes.

e) Quality Assurance

- i. Urgently introduce QA processes for whole finance function – written procedures, clear systems, clarity of responsibilities, policy and practice on QA checking of work. Priorities for this work to be risk led.
- ii. Ensure full understanding of the work undertaken on Statement of Accounts for 2008/09 was by temporary accountant. Must ensure full understanding of his work and year end process and that this is quickly picked up by newly appointed accountant taking up post in November 2009.
- iii. Set a clear objective to get it right first time. Must give priority to the quality of the Statement of Accounts going to Audit and Governance Committee and on to external audit.

Recommendations

- 11. These are the Interim Director's recommendations to the Leader of the Council and the Chief Executive. The next report on this agenda is from the Chief Executive responding to these recommendations and giving the Committee an update on progress already achieved.

Corporate leadership of finance

- 12. Create a post of Director of Finance and begin the recruitment process as soon as possible:
 - a. Core role and priority for this post has to be the finance function. However a wider corporate role is also important and there are options for some non-finance service areas to be included in the remit for this post (Note, wider structural issues are outside the remit for this report, but this recommendation does give the Chief Executive options to reduce the number of direct lines of report).
 - b. Strong immediate focus for this post-holder on strengthening internal control across the council, and preparations for the 2009/10 closure of accounts and external audit. Post-holder also to drive change in financial systems and processes, and set clear quality standards for the function across the council.
- 13. Continue interim appointment to drive process and change in the short-term with handover to an incoming permanent appointee.

S151

14. Formally designate the Director of Finance as the Council's s151 officer. Once appointed, he/she will need formally to designate a deputy for s151 purposes.

Head of Service, Finance

15. Retain this post in revised structure.
16. Clearly allocate responsibilities between the two post holders with clear and measurable objectives.

Accounts closure and external audit

17. Take immediate action to address all the action points identified in my review, and especially prioritise those around programming of work, management of the audit, internal quality assurance and communication.
18. Ensure appropriate external technical and project management expertise used throughout the forthcoming process to validate actions being taken thereby giving added assurance to the council.

Inter-departmental relationships

19. As soon as possible, clarify responsibilities in areas which are currently blurred, particularly for asset management and recording, relationship with external audit, departmental finance teams.

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Background papers:

District Auditor's Annual Governance Report 2008/09.
Officer reports to Audit and Governance Committee on the Statement of Accounts process and the progress of action planning

Version number: