

**CLOSURE OF ACCOUNTS 2006-08**

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**1.0 INTRODUCTION**

- 1.1 The Council has a statutory requirement to adopt the Statement of Accounts by 30<sup>th</sup> June and for the accounts to be audited and closed by 30 September.
- 1.2 This report explains the problems that have arisen in closing off the 2006/07 Statement of Accounts and in preparing the 2007/08 Accounts. It reports on progress made and includes an action plan to address the outstanding issues.

**2.0 STATEMENT OF ACCOUNTS 2006/07**

- 2.1 The Statement of Accounts for 2006/07 were adopted by the Council by the statutory deadline in 2007. However, they were then subject to an objection when made available for public inspection. The Audit Commission process of addressing the objection is only now being concluded. This has previously been reported to Members of the Audit Committee and to the Executive.
- 2.2 The Interim Head of Finance and Business Development was also advised by the external auditor that the calculation for Adjustment A, in respect of the amount set aside for the future repayment of debt, was in excess of the statutory requirements. This issue was also previously reported to the Audit Committee. The Interim Head of Finance and Business Development arranged for the recalculation of the adjustment by an Audit Commission technical expert but the excess voluntary set aside in the Statement of Accounts has not been amended. This issue remains outstanding and requires a recommendation from the Executive to Full Council as to whether they wish to leave the excess amount as set aside, given that there is no provision in the Medium Term Financial Strategy to set aside further provision in the future.
- 2.3 In preparation for the audit of the 2007/08 Statement of Accounts, the new external audit team leader reviewed the still open 2006/07 Accounts. In February 2008, he compiled a review schedule of 42 points which required amendment or further evidence to support the 2006/07 Accounts.

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- 2.4 The Accountancy section had been reduced to one Accountant, filling the role of Accountancy Services Manager, two experienced Senior Accountancy Officers had left the Council and one was on maternity leave. The Interim Head of Finance and Business Development, therefore, engaged an agency accountant to focus solely on preparing the 2007/08 Statement of Accounts. However, he had to spend most of his contracted time working on the above review points and amending the 2006/07 Accounts before he was in a position to begin work on the 2007/08 Accounts. He was contracted to work until 27<sup>th</sup> June and was to begin a new appointment on 30<sup>th</sup> June.
- 2.5 The revised 2006/07 Statement of Accounts submitted to the Audit Committee on 26<sup>th</sup> June 2008 still gave rise to a number of queries from the external auditor – 39 review points.

**3.0 STATEMENT OF ACCOUNTS 2007/08**

- 3.1 The statutory deadline of 30<sup>th</sup> June meant that there was a severe capacity shortage, given that work was still being undertaken on the 2006/07 Accounts and that this was the first time the Accounts were to be produced from the financial system introduced in April 2007. There were also changes in the Statement of Recommended Practice (SORP) for the 2007/08 Accounts, which meant that the 2006/07 Accounts had to be restated for comparative purposes.
- 3.2 In order to meet the deadline, there was no time for the normal quality checks or the compilation of the required schedule of working papers. An brief initial review by the external auditor gave rise to a review schedule of 27 points which required amendment or further evidence to support the figures.
- 3.3 At this point, the external auditor expressed severe reservations that the Accountancy section would be able to provide auditable Accounts in time to meet the 30<sup>th</sup> September deadline for the Accounts to be audited and signed off.

**4.0 ACTION TAKEN**

- 4.1 Following a meeting with the external auditors, the Chief Executive proposed to request Executive approval to bring in additional resources from one of the "big five" accountancy firms.
- 4.2 Three accountancy firms were contacted, two expressed an interest and were given the following brief:

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### Selection Criteria

The importance of the criteria is in the following order:

- a) Quality: the skills and fit of the team in relation to the issues and services required;
- b) Availability: when a team can start; and
- c) Price: a fixed price for the diagnostic assessment and remedial plan, plus daily rate for outputs (b) & (c) including public sector discount and further discount for volume when appropriate.

### Outputs

The following outputs will be required:

- a) A diagnostic review with remedial plan and costs for (b);
- b) The closure of the accounts for 2006-07 & 2007-08 to the satisfaction of Copeland BC and District Audit;
- c) A review of council finance functions with recommendations and plan with costs for quality service provision; and
- d) A weekly update meeting on progress with the Leader, Chief Executive and Acting Head of Finance & MIS, including 'traffic light' report.

- 4.2 The Executive gave approval on 15<sup>th</sup> July to appoint Deloitte.
- 4.3 Deloitte attended for a briefing meeting on 17<sup>th</sup> July and the accountant was on site on 21<sup>st</sup> and 22<sup>nd</sup> July to carry out the diagnostic review. Feedback on the review and an action plan was discussed with the Chief Executive, the Leader of the Council and the Acting Head of Finance on 28<sup>th</sup> July.
- 4.4 The action plan is attached as Appendix A.

## 5.0 CONCLUSION AND RECOMMENDATION

- 5.1 The 7 week programme in the action plan should enable the 2006/07 Statement of Accounts to be signed off and the 2007/08 Statement of Accounts to be submitted for external audit.
- 5.2 Members are recommended to note this report and the action plan to achieve closure of the Statement of Accounts for 2006-08.

**Appendices:** Appendix A – Action Plan for Closure of the 2006/07 and 2007/08 Statement of Accounts

**Consultees:** Leader of the Council, Chief Executive

**Background Papers:** None

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## APPENDIX A - DELOITTE OUTLINE PROJECT PLAN

Duration	Senior Staff [See footnote 2]	Ledger Work [See footnote 1]	Internal Audit
First week	Briefing of staff completing ledger work, supervision of work and review of findings. Closure of 2006/07 financial statements.	Preparation and reconciliation of control lists. [2007/08]	Testing of Fixed Asset Register [2007/08].
Second week	Briefing of staff completing ledger work, supervision of work and review of findings. Closure of 2006/07 financial statements.	Preparation and reconciliation of control lists. [2007/08]	Testing of control lists as they become available. [2007/08]
Third week	Briefing of staff completing ledger work, supervision of work and review of findings. Judgemental 2007/08 accounts. [Earmarked reserves, provisions etc.]	Support to senior staff in completion of judgemental areas. Preparation and reconciliation of control lists. [2007/08]	Testing of control lists as they become available. [2007/08]
Fourth week	Briefing of staff completing ledger work, supervision of work and review of findings. Judgemental 2007/08 accounts.	Support to senior staff in completion of judgemental areas. Preparation and reconciliation of control lists. [2007/08]	Testing of control lists as they become available. [2007/08]
Fifth week	Compile core statements and complete disclosure checklist. [2007/08]	Support to senior staff.	Testing of control lists as they become available. [2007/08]
Sixth week	Compile core statements and complete disclosure checklist. [2007/08]	Support to senior staff.	Support as required.
Seventh week	Finalise accounts and check for internal consistency. [2007/08]	Focussed involvement ends.	Focussed involvement ends.

Footnote 1: Assumes 8 Accountancy officer man days per week.

Footnote 2: Assumes 1 FTE per week between Deloitte &amp; Accountant.

Appendix A