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**CLOSURE OF ACCOUNTS 2006-08**

**LEAD OFFICER:** Marilyn Robinson, Acting Head of Finance & MIS

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**1.0 INTRODUCTION**

1.1 This report has been prepared in response to the amended motion at Full Council on 29 July 2008, which required that a report be prepared for the appropriate Committee covering:-

- How the situation that the Accounts are so late has arisen and how this can be avoided in future;
- What the total cost of putting this right will be, how this will affect the Council's overall financial situation and whether there will be an impact on services;
- Whether all the published reports from officers to the Executive and Audit Committee about the Accounts in the past six months have been fully accurate and, if not, why not.

1.2 A brief progress report was considered by the Audit Committee on 6 August, together with a letter to the Chairman of the Audit Committee, stating that a full report in response to the amended motion at Full Council would be submitted, in the first instance, to the Audit Committee on 24 September 2008.

**2.0 REASONS FOR THE LATE CLOSURE OF THE STATEMENT OF ACCOUNTS 2006/07 AND THE PROBLEMS IN THE PREPARATION OF THE 2007/08 STATEMENT OF ACCOUNTS**

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 was still underway, when work should have started on the 2007/08 Accounts. The outstanding objection has previously been reported to Members of the Audit Committee, initially by a verbal update on 26 September 2007 (when an Audit Commission opinion report should have been presented following the audit of the Accounts) and at subsequent meetings attended by the external auditor, who updated Members on progress.

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- 2.2 The audit of the 2006/07 Accounts also revealed a number of material errors, detailed below:-
- The Statement of Recognised Gains and Losses (STRGL), a new requirement for 2006/07, had to be amended to ensure it was in accordance with the Statement of Recommended Practice (SORP). Following production of the amended STRGL, this highlighted an error in the previous year's Accounts, requiring a prior period adjustment.
  - The "Adjustment A" calculation [in relation to Minimum Revenue Provision for capital financing] was not correct, requiring a further amendment. [This calculation had been performed by the Council's Treasury Management advisers, based on records provided by the Finance section.]
- 2.3 The above material errors were reported to the Audit Committee on 30 January 2008, as part of the Audit Commission report - Use of Resources Auditor Judgements 2007.
- 2.4 The previous Head of Finance and Business Development (F & BD), whose last working day was 14 August 2007, had been advised by the external auditor that the calculation for Adjustment A was in excess of the statutory requirements and that the amount set aside for future costs was too high. She, therefore, arranged for a review of the calculation of the adjustment by an Audit Commission technical expert but the excess voluntary set aside in the Statement of Accounts had not been amended.
- 2.5 An appropriately qualified and experienced Interim Head of F & BD was appointed at the end of August 2007, pending a permanent appointment. Although the previous Head of F& BD had given 3 months' notice, recruitment of the permanent post was delayed pending a decision on the possible creation of a unitary authority in Cumbria. This decision was not made until July 2007. The interim arrangement was expected to be in place until January 2008, by which time the permanent postholder was expected to be in place.
- 2.6 Upon taking up her appointment, the Interim Head of F&BD was advised by the then external Audit Manager that the Accounts were still open pending resolution of the objection and the amendment to Adjustment A. She has since stated that she raised other issues relating to the Accounts but was told that these were not material.

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- 2.7 Both the previous Head of F&BD and the Accountancy Services Manager had left the Council by 31 August 2007. One of the two remaining Accountants in the Accountancy section also left the Council on 20 September. An Interim Accountancy Services Manager was appointed and started work on 24 September but only stayed for 4 weeks. In view of the difficulty found in securing agency staff with local government accountancy experience, the Interim Head of F&BD took the decision that the existing Accountant would be the acting Accountancy Services Manager and honorariums would be given to the Senior Accountancy Officer to act as a team leader. The Senior Auditor, a part qualified Accountant, was also seconded to the Accountancy section to assist with the workload. At the same time, a former Local Authority Head of Finance was contracted to work as a project accountant, for a set number of days between October and the end of March, to fulfil a number of specified tasks – including the review of the Adjustment A calculation previously referred to.
- 2.8 Immediate priority was given to preparation of the 2008/09 budget, to meet statutory deadlines and the provision of strategic financial advice to the Council.
- 2.9 In the meantime, recruitment was underway to first fill the Head of F&BD post. This postholder could then have reviewed the structure in line with the workload in the Accountancy section and been involved in the recruitment of an Accountancy Services Manager and, if deemed necessary, a further Accountant. Interviews for the Head of F&BD were held but the Personnel Panel concluded that none of the candidates had the necessary experience to meet the essential requirements of the post. The contract of the Interim Head of F&BD was, therefore, extended to cover the period of the preparation of the Statement of Accounts.
- 2.10 Given that there were further resignations in the Accountancy section in the last quarter of the financial year [2 Senior Accountancy Officers and the seconded part qualified Accountant], 2 Senior Accountancy Officer was on sick leave and 1 Senior Accountancy Officer was to go on maternity leave, the Interim Head of F&BD appointed an agency Accountant, for the period 25 March to 27 June 2008, to focus purely on the preparation of the 2007/08 Accounts. [The Accounts were to be submitted to the Audit Committee on 26 June]. A Senior Accountancy Officer was also appointed on a 6 months' fixed term contract and an Accounting Technician was appointed on a temporary contract. Given that the agency Accountant had no other duties, 3 months working full time on the Accounts should have been sufficient to prepare the Accounts, together with detailed cross-referenced working papers.

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- 2.11 However, 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.
- 2.12 The agency Accountant, therefore, 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. The remaining Accountancy team, whilst having experience in preparatory work for the Accounts, had no experience of compiling the Statement of Accounts. This task had previously been undertaken by the former Head of F & BD and the former Accountancy Services Manager.
- 2.13 The statutory deadline of 30 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 new financial system introduced on 1 April 2007 [the beginning of the new financial year]. 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.
- 2.14 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. A brief initial review by the external auditor of the 2007/08 Accounts, presented to the Audit Committee on 26 June, gave rise to a review schedule of 27 points which required amendment or further evidence to support the figures. At the same time, the revised 2006/07 Statement of Accounts submitted to the same Audit Committee still gave rise to a number of queries from the external auditor – 39 review points. These included the treatment of Right to Buy receipts and the VAT shelter arrangement following the transfer of the Council's housing stock. The 26 June Audit Committee was adjourned and reconvened on 30 June, to allow further work on the 2007/08 Accounts to enable these to be adopted by the statutory deadline. The updated 2007/08 Accounts were submitted to the external auditor.
- 2.15 At this point, the external auditor pointed out that there were still material errors in the 2007/08 Accounts and, following a meeting with the Chief Executive and the Interim Head of F&BD, expressed severe reservations that the Accountancy section would be able to provide auditable Accounts in time to meet the 30 September deadline for the Accounts to be audited and signed off. In order to address these concerns, the Chief Executive requested the Executive to approve additional expert support from Deloitte. [Details have previously been reported to the Executive].

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**3.0 HOW THIS SITUATION CAN BE AVOIDED IN THE FUTURE**

3.1 The situation arose due to a combination of factors:-

- Material errors, arising from a change in accounting practice, still outstanding from the 2006/07 Accounts and requiring time-consuming investigation and technical resources to correct;
- The raising of further issues on the 2006/07 Accounts, at a late stage, which had not been brought to the Head of F&BD's attention by the original external auditor;
- The capacity issues which the above caused by the necessity to review and restate the 2006/07 Accounts, before work could start on the 2007/08 Accounts, compounded by the loss of so many experienced Accountancy staff;
- The loss of technical knowledge possessed only by the former Head of F & BD and the former Accountancy Services Manager;
- Technical difficulties in carrying out year end procedures for the first time on a new software system.

3.2 This can only be prevented in the future by:-

- 3.2.1 Reviewing the Accountancy staffing resources and training in line with the workload and engaging extra support as needed;
- 3.2.2 Ensuring that all preparatory work is undertaken throughout the year e.g. the timely reconciliation of control accounts, recharges not left until the year end.
- 3.2.3 Establishing a structured approach and detailed procedures for the production of the Accounts and working papers [Deloitte have provided a structured approach, based on their action plan for closure of the 2007/08 Accounts, and have directed the Accountancy staff to enable them to adopt this methodology now and in the future];
- 3.2.4 Ensuring that the timetable for the production of the Statement of Accounts allows sufficient time for the preparation of good working papers and robust quality checks, to include the involvement of departmental managers;

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- 3.2.5 Monitoring performance against the timetable to identify any problems arising and to allow corrective action to be taken where necessary;
- 3.2.6 Maintaining a continuous dialogue with the external auditor to ensure that issues of concern are addressed promptly;
- 3.2.7 All of the above should ensure that Accounts presented to the external auditor are free from material and non trivial errors, allowing them to be audited and closed down in line with the statutory deadlines and avoiding the “knock-on” impact on workload experienced in March 2008.

**4.0 COST OF RESOLVING THE ISSUES AND CLOSING THE ACCOUNTS FOR 2006/07 AND 2007/08**

- 4.1 The Executive, on 15 July 2008, noted the appointment of Deloitte to carry out a diagnostic check and to produce an action plan to enable closure of the Accounts. The cost of this could be met from unused funds set aside originally to respond to the County’s Unitary Authority bid in 2007.
- 4.2 The diagnostic check resulted in an action plan proposing a 7 week programme, designed to enable the 2006/07 Statement of Accounts to be signed off and the 2007/08 Statement of Accounts to be submitted for external audit. The Executive, on 12 August, agreed that the cost of this could be funded – up to a specified limit - from the underspend on salaries in 2007/08, due to vacant posts.
- 4.3 Costs are deemed to be commercially sensitive and are detailed in the Part II Addendum to this report.
- 4.4 As this can be funded from the underspend arising from vacancies in the previous year, there will be no financial impact on the 2008/09 budgets or the delivery of services in 2008/09.

**5.0 ACCURACY OF REPORTS TO THE EXECUTIVE AND AUDIT COMMITTEE ABOUT THE ACCOUNTS IN THE PERIOD 1 JANUARY TO 31 JULY 2008**

- 5.1 The contents of all reports relevant to the Accounts for the period above have been reviewed for accuracy. Reports were found to be accurate with the exceptions given below:-

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**EXE 17 06 08 Provisional 2007/08 Revenue and Capital Outturns –**

As stated in the report, the report was based on provisional figures. Subsequent adjustments were made and the reported underspend was slightly increased, as reported to the Executive on 12 08 08 as part of the report on requests for carry forward of underspends.

**AUDIT 26 06 08 Audited Final Accounts 2006/07 -**

States that the annual audit was carried out and that any material changes were reported back to Members in September 2007. In fact, the only update given was a verbal update by the external auditor as to the objection to the Accounts – not to any changes made. The reporting of material errors was as part of the Use of Resources report – Audit Committee 30 01 08.

**EXE 15 07 08 Closure of Accounts 2006- 2008 –**

Reported that the objection to the Accounts had been investigated by the Audit Commission and “has now worked in our favour in that the objection is no longer cause to keep our accounts open.” This was inaccurate in that, whilst the Audit Commission had indicated that the investigation was reaching its final stages, they had not reached a view about the objection. When this was pointed out, the published report was immediately removed from the Council’s website and a verbal correction was given to the Executive at their meeting.

**6 RECOMMENDATION**

- 6.1 That Members note this report and that management will address the actions outlined at 3.2 above. Regular progress monitoring reports on closure of the Accounts will continue to be submitted to the Audit Committee.

**Consultees:** Cllr. A. Holliday, Corporate Team

**Background Papers:** None