

Audit and Corporate Governance Committee Report



Report of Head of Finance

AGENDA ITEM NO 9

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To: Audit and Corporate Governance Committee

DATE: 5 March 2008

Closedown of 2007/08 accounts and preparation of financial statements

Purpose of Report

1. This report sets out the processes proposed for the preparation and review of the 2007/08 financial statements.

Strategic Objectives

2. Sound financial management is central to the ongoing delivery of all the council's functions and therefore underpins the achievement of all of the council's strategic objectives as set out in the corporate plan. The timely production, audit and publication of the financial statements is fundamental to sound financial management.

Background

- At its December meeting the committee received the final Annual Governance Report from the Audit Commission, which set out a summary of their work carried out during their 2006/07 audit of the financial statements. That report made the following recommendations:

“R1 – In the light of the extent of the adjustments to the statements, we recommend that Members review the processes proposed for preparation and review of the statements for 2007/08”.

“R2 – Staffing resources to manage and review the financial statements should be reassessed to ensure that they are adequate, and that the staff involved in accounts preparation have the necessary skills to produce accurate statements”.

- This report sets out the proposed timetable for the closedown of the 2007/08 accounts and preparation of the financial statements, and discusses the staffing, and the review mechanisms that will be in place. In addition, it will identify some of the risks associated with the closedown process.

Proposed closedown timetable

- A summary of the proposed closedown timetable is attached as appendix 1 to this report. This timetable has been prepared based on the timetable that was used last year, and informed by the experience of closing the accounts.
- The timetable details the key stages in the closedown process and the deadlines for those stages to be completed, so that the financial statements can be produced for this committee to approve at its meeting on 26 June. This timetable is draft, and officers will be discussing some of the key dates regarding creditor and debtor payments with Capita to confirm that they are achievable.
- Some of the key dates are shown in table 1 below.

Table 1: Key dates for closedown and preparation of 2007/08 financial statements

Task	Deadline
Issue guidance to heads of service and their staff on the closedown process	14 March
Prepare all final accounts spreadsheets and working papers for accountancy staff	31 March
Treasury management and collection fund accounts closedown completed	9 May
Capital and revenue accounts closedown completed	23 May
Prepare draft balance sheet	30 May
Draft financial statements prepared for management team	5 June
Financial statements approved by committee	26 June

9. Accountancy staff will be closely monitoring progress against this plan to ensure that the financial statements will be delivered in accordance with timescales.

Resourcing accounts closedown and financial statements preparation

10. Paragraph 22 of the Audit Commission's Annual Governance Report made the following observation:

“Staffing pressures within the Finance Department resulted in the financial statements being prepared by an officer who had not done this in any format before, with only minimal support. Review processes by senior accountancy staff were also less robust than planned. As a result, significant errors were contained within the initial statements which have proved time consuming both to audit and correct”.

11. As the committee will be aware, the 2006/07 financial statements were completed during what the Audit Commission acknowledged was a difficult year for the accountancy team. The team was still in the throes of a restructuring process as part of the shared service with Vale of White Horse District Council, and the new Agresso ledger system had just been implemented. The 2006/07 financial statements also contained significant and complex changes to the format as required by the Statement of Recommended Practice (SORP).
12. Since that time the staffing situation has eased. A new chief accountant started in the finance team on 1 October and, following the restructure process, the new structure for the accountancy team came into being from 1 January. In the new structure one post at the council, that of a principal accountant, remained vacant as at 1 January. However, following a successful recruitment campaign, that post was filled and the new principal accountant will be starting on 1 April.
13. With the accountancy team at full establishment, the final accounts process should prove easier to manage. In particular, the new structure of the accountancy team will provide greater scope for peer review of working papers and processes as closedown proceeds, with principal accountants being able to review the working papers of the accountancy assistants, and the chief accountant reviewing the principal accountants' working papers. Such review requirements will be built into the working papers so that this can be evidenced.
14. In addition, whilst there are further changes to the SORP for the 2007/08 financial accounts, these are minor in comparison to the major changes that occurred in the previous year. Nonetheless, accountancy team staff are attending seminars on the forthcoming changes to ensure that they are prepared for the new requirements.

Risks

15. The closedown process does face a number of risks, some of which are outlined in the following paragraphs.
16. As identified above, the accountancy team is now at full establishment. However it should be borne in mind that, whilst the team is now at full establishment, as a result of the recruitment and restructuring a number of the accountancy team staff are new, and many of the existing staff will be undertaking duties that are new to them. This will need to be carefully monitored during closedown to ensure that staff are able to comply with the new duties required of them.
17. In addition, whilst the accountancy team is at full establishment, an experienced senior officer, the principal technical accountant, has been on long-term sick leave since early January. It is not known at this stage when this officer will be able to return to work. This officer has particular expertise in the fields of capital accounting and treasury management, both of which are vital to a successful closedown process.
18. To assist in the short-term, the council is, through its shared service arrangement with Vale of White Horse District Council, able to call on the expertise of an officer at Vale of White Horse to assist with these technical areas. However, the principal technical accountant's continued absence, or similar periods of absence affecting further staff, represent significant risks to this process.
19. An additional risk to the process this year is that it will be the first time that the accounts have been closed, and financial statements prepared, using the Agresso ledger system. This will be a new experience for all staff. In addition, as was reported to this committee in December, there have been a number of issues associated with the implementation of Agresso. A number of these, if not resolved in advance of the closedown process, could have an adverse impact on the council's ability to close the accounts successfully. This therefore represents a further risk to the process.
20. The Agresso issues are being managed through a "recovery plan". Progress against this plan, which is due to be completed by early April, is being monitored closely by staff. This is particularly so regarding those parts of the plan critical to a successful closedown process.
21. A final risk relates to the changes to the SORP. Whilst accountancy staff are seeking to familiarise themselves with the new requirements in advance of the closedown process commencing, experience from last year does indicate that initial guidance may need to be supplemented by further guidance which, as happened last year, evolved even as the closedown process was nearing its conclusion. This may mean that, as was the case last year, further changes are required to the final financial statements to comply correctly with the new requirements, based on latest guidance as it is delivered.

Financial Implications

22. There are no direct financial implications arising from this report.

Legal Implications

23. None.

Human Resource Implications

24. None.

Sustainability Implications

25. None.

Conclusion

26. Officers have taken on board the comments made by the Audit Commission in its Annual Governance Report 2006/07, and have taken steps to ensure that the closedown of 2007/08 accounts and preparation of financial statements takes place much more smoothly than in the previous year. However, in spite of this, a number of significant risks do remain that could impact on the process. These have been identified, and officers will work to ensure that these risks are minimised as much as possible.

Appendix 1: Proposed accounts closedown timetable 2007/08

Task	Deadline
Issue guidance notes to service based finance officers and accountants	14 March
Issue guidance notes to heads of service on their submission requirements	14 March
Review Statement of Recommended Practice (SORP) for changes	20 March
Prepare final accounts spreadsheets / working papers – including changes required by the SORP - for accountancy staff	31 March
Accountancy final accounts team meeting	31 March
Final old year debtors run completed	31 March
Final old year creditors run completed	11 April
Feeder system reconciliations completed	18 April
Bank reconciliations completed	18 April
Heads of service complete all year-end revenue and capital submissions, including carry-forward requests	18 April
All suspense accounts cleared	25 April
Support service recharge allocations completed	25 April
Accountants circulate final outturn reports to heads of service	2 May
Heads of service confirm year-end outturn reports	9 May
Completion of treasury management closedown	9 May
Completion of collection fund closedown	9 May
Final closure of revenue and capital accounts including all required	23 May

adjustments	
Prepare draft balance sheet	30 May
Draft financial statements prepared for management team, including all core statements and notes	5 June
Financial statements despatch date for committee	17 June
Committee approval of financial statements	26 June