1.0 Objective

This paper summarises the lessons learnt from the recent CCS accounting review undertaken in May 2017 and the improvements we need to make to our processes and procedures.

2.0 Background

On 7 May 2017, the Group Head of Risk, Robin Herzberg was asked to inquire into the circumstances surrounding the creation of a series of “negative accruals” i.e. journals to reduce the amount of cost that had been accrued on certain contracts. A working committee involving Adam Green (CCS Managing Director), David Holmes (CCS Commercial Director), Emma Mercer (CCS Finance Director) and Robin Herzberg was formed to work on this matter and reported its findings to the Board on Tuesday 23 May 2017. This paper summarises the key lessons learnt and the improvements to processes and procedures which are being implemented in order to prevent a recurrence of such issues in the future.

3.0 Key Lessons Learnt / Improvement Points Arising from the Review

- Management need to be aware that high-level instructions such as that to “hold the position” (i.e. maintain the traded margin) may, if crudely implemented, have unintended consequences. Management should therefore follow up such instructions to ensure they have been sensibly understood and implemented.

- Management to reinforce the prohibition on use of “negative accruals” unless such treatment is agreed with external auditors, in specific circumstances which we do not currently foresee, and only with the express approval of the Group Finance Director.

- Senior management should encourage staff to challenge instructions which are either impossible to carry out, which feel ethically unacceptable or which could lead to any embarrassment to the business.

- Plans to carry out a culture audit should be developed, widened to cover a number of aspects of the business and the results reported to the CELT and main Board.

- A review of the values should be carried out and changes made where necessary such that staff fully understand that behaving with transparency, honesty and integrity is as important as achieving, improving and delivering.

- Position papers submitted should give one version of the truth and be reconciled to the site contract reports, Cash and Value reports and the underlying accounting ledgers.
• In future position papers for all significant projects will need to be updated and re-submitted to Group Finance to reflect the actual position at 30 June and 31 December. The position papers will also be required to set out the balance sheet position including details of any negative accruals.

• The Commercial and Project Leads will be required to sign off on all position papers submitted to Group Finance.

• Review of balance sheet positions and discussion on any negative accruals will be added to scope for all future reviews performed by Internal Audit and reviews undertaken under the Peer Review process.

• Working capital reporting at Group to ensure that the net working capital position for all significant contracts is monitored on a monthly basis.

4.0 Recommendation

That the report be noted.

Zafar Khan
Group Finance Director