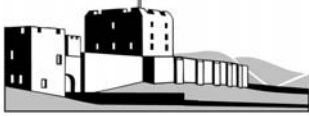


CARLISLE
CITY COUNCIL



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AUDIT COMMITTEE

Committee Report

Public

Date of Meeting: 2nd August 2006

Title: STATEMENT OF ACCOUNTS 2005/06 - PROGRESS AND ACTION PLAN

Report of: The Director of Corporate Services

Report reference: FS39/06

Summary:

This report outlines progress against the Statement of Accounts Action Plan approved by Council in April and progress made to date on the 2005/06 Audit process.

Recommendations:

Members are asked to:

- (i) note and comment on the progress against the Statement of Accounts Action Plan, and that any remaining actions will be dealt with as part of the 2005/06 Audit process and longer term Improvement Plan;
- (ii) note and comment on the progress against the 2005/06 Statement of Accounts Audit; and
- (iii) consider whether they wish to schedule a further meeting in early September in addition to the proposed date of 27 September to cover the eventuality of any significant issues arising during the course of the audit that need to be brought to Members' attention.

Contact Officer: Angela Brown

Ext: 7299

CITY OF CARLISLE

To: The Audit Committee
2nd August 2006

FS39/06

STATEMENT OF ACCOUNTS 2005/06
PROGRESS AND ACTION PLAN

1. BACKGROUND

- 1.1 An unqualified audit opinion was received on the Statement of Accounts for 2004/05, which were presented to full Council on 29th June. The receipt of the audit opinion formally concludes the 2004/05 audit and the Statements are in the process of being published on the Council's website, with hard copies available to members of the public who wish to inspect and make copies of the Statements. This report outlines progress against the Statement of Accounts Action Plan approved by Council on 27th April.
- 1.2 The Statement of Accounts for 2005/06 were also approved by Council on 29th June, which are now subject to the formal audit process. This process commenced on 3rd July and must be completed by 30th September. This report outlines progress on the 2005/06 Audit to date.

2. STATEMENT OF ACCOUNTS ACTION PLAN

- 2.1 The full Action Plan is attached at **Appendix A**.
- 2.2 Of the 25 recommendations, 23 are now complete in so far as the 2004/05 Accounts are concerned, as the Accounts have now been formally concluded. The two outstanding items which do not directly affect the statement of accounts themselves are:
- No 11 - Update of the systems documentation and procedure manuals for the new financial management system – partially completed.
 - No 16 - The extension of budget monitoring reports to include all revenue and balance sheet accounts as well as forecast outturn.
- 2.3 Some of the recommendations have an ongoing impact into 2005/06 and these will be addressed during the current financial year as part of the 2005/06 Audit process and others as part of the longer term Improvement Plan which will be prepared following the receipt of the IPF review into the Financial Management arrangements of the authority.

- 2.4 The main outstanding issues for 2005/06 to be brought to Members' attention are are:
- No 5 – Property database development (to be progressed via the Information Systems Group)
 - No 7 – Training Programme (to be included in the authority's training programme)
 - No 10 – Financial Resources – (The longer term impact of the improved reporting required will be assessed following the receipt of the IPF report)

3. STATEMENT OF ACCOUNTS 2005/06 - PROGRESS

- 3.1 The statutory completion date for the Audit is 30th September and an Audit Committee will need to be convened for late September to consider any issues arising from the Audit and from the Audit Commission ISA+260 report (previously known as the SAS610 Statement). The suggested date for that meeting is 27th September. If significant issues arise during the course of the Audit then another meeting may be required, and Members may wish to consider also scheduling a meeting for early September to cover for this eventuality.
- 3.2 To date, the Audit Commission have spent a week auditing the 2005/06 Accounts. They will return 31 July to complete the main audit work. The initial week concentrated on a review of the working papers and supporting evidence and some initial comments and queries were made by the Audit Team.
- 3.3 During the Audit, regular meetings are held between the Council's Head of Financial Services and Chief Accountant and the External Audit Manager and minuted notes are produced to record any issues and actions arising. The Head of Financial Services reports on significant issues arising to SMT. The District Auditor (DA), Chief Executive and Director of Corporate Services also discuss any issues arising as appropriate at the Chief Executive's monthly meeting with the District Auditor. The District Auditor and Relationship Manager (DA&RM), Fiona Daley, has recently announced that she is leaving for a new job on 14th August and that Mark Heap is taking over as DA & RM – Members will be aware that Mark Heap was responsible for undertaking the 2004/05 Audit whilst Fiona Daley was on sabbatical and so is familiar with the work of the authority. In the timescale it has not been possible to discuss the changeover with the Audit Commission and what impact this may have on the Audit and any verbal update will be given at the meeting.
- 3.4 The main risk to the 2005/06 Audit process is considered to be the position on the bank reconciliation. An update on the position is given below:

- 2004/05 – The Bank Reconciliation for 2004/05 was accepted for the purpose of the audit. The Audit Commission gained the assurance they required to compensate from not having the system fully balanced in a traditional format from additional audit testing undertaken.
- 2005/06 – A full reconciliation has been produced reconciling the movement on the system. However, the reconciliation in the traditional format required has not been fully reconciled to the end of March (although it has been balanced to December 2005). A full file and supporting evidence has been produced for the Audit Commission and they have provided a list of queries, which the authority is currently working through.
- 2006/07 – The 2006/07 Bank Reconciliation is continuing to be balanced on a daily basis. The system is now working satisfactorily and there are no system problems remaining.

3.5 The Audit Commission have been consulted and have nothing they wish to bring to Members' attention on the 2005/06 Audit progress at this time.

4. RECOMMENDATION

4.1 Members are asked to :

- (i) Note and comment on the progress against the Statement of Accounts Action Plan and that any remaining actions will be dealt with as part of the 2005/06 Audit process and longer term Improvement Plan;
- (ii) Note and comment on the progress against the 2005/06 Statement of Accounts Audit; and
- (iii) Consider whether they wish to schedule a further meeting in early September in addition to the proposed date of 27 September to cover the eventuality of any significant issues arising during the course of the audit that need to be brought to Members' attention.

ANGELA BROWN
Director of Corporate Services

Contact Officer: Angela Brown

Ext: 7299

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Ref	Issue	Audit Commission Recommendation	Action	Risk (H/M/L)	Progress/ Timescale
2	Draft Adjusted material misstatements:- (See Appendix 3 to Audit Commission Report No 1)	To make the adjustments in the 2004/05 Accounts.	The material misstatements have now been adjusted and the amended statements have been submitted to the Audit Commission to the same timescales identified above.	Low	Complete
3	Flooding (See Report No. 1 page 6)	Flood costs to be amended to reflect the actual income due to the Authority in 2004/05 and to ensure that the accounts are prepared on an accruals basis as required by accounting standards. The amendment required is in the region of £1m.	The adjustments for 2004/05 have been made as included in 2 above. The Flood and Insurance claim has now been settled and a report went to Executive on 12/06/06. The 2005/06 Accounts have been prepared adjusting for capital and revenue expenditure.	Low High	2004/05 Complete 2005/06 Complete subject to audit.
4	Cashflow Statement – as set out in the Audit Commission Report No 1, adjustments of £4m have been required to the 2004/05 statement. The nature of the adjustment has been a recurring issue (see recommendation 50 of Report No 3).		The adjustments have been made in the 2004/05 accounts as set out in 2 above. The completion of this statement was given increased priority for 2005/06. It was not however possible to obtain system reports, which would have reduced the considerable manual effort involved in this task.	Low High	2004/05 Complete 2005/06 Complete Subject to Audit

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Ref	Issue	Audit Commission Recommendation	Action	Risk (H/M/L)	Progress/ Timescale
5	Fixed Asset Valuations – as set out in the Audit Commission Report No 1, adjustments of £2m have been required to the 2004/05 statement. The nature of the adjustment has been a recurring issue (see recommendation 14 of Report No 3).		<p>The adjustments have been made in the 2004/05 accounts.</p> <p>The Interim Accountant from IPF has led on this aspect for 2005/06 Accounts and has worked with the Principal Accountant to produce and quality check these Working Papers.</p> <p>Detailed requirements incorporated to the Final Accounts Timetable. Improvements have been made and incorporated to the 2005/06 Accounts.</p> <p>Work will continue to improve the accurate and timely maintenance of the Fixed Asset Register. A Property database is under development. A specific action plan for this area of work is being developed and led by the Head of Property Services.</p>	<p>Low</p> <p>Med</p>	<p>2004/05 Complete</p> <p>July to December 2006 via ISG</p>

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Ref	Issue	Audit Commission Recommendation	Action	Risk (H/M/L)	Progress/ Timescale
6	Bank reconciliation – as set out in the Audit Commission Report No 1, para 10, No 2, para R6 & R7, and No. 3 para 26.	To complete the reconciliation on a monthly basis. Also see recommendation R6 and R7 of Report No 2.	<p>2004/05 - The 2004/05 reconciliation is completed and has been accepted by the Audit Commission for the purpose of signing off the Accounts.</p> <p>2005/06 - The bank reconciliation to December 2005 is complete. Work has continued on the position to 31 March 2006. A full reconciliation has been produced reconciling the movement on the system. A summary Bank Reconciliation summary statement and back up working papers were provided to the Audit Commission 22/06/06. Meeting took place AC Chief Exec and Director of Corporate Services on the 29/06. The AC agreed to provide some early feedback to the papers given to them. The AC provided a paper setting out some of their initial queries 06 July 2006. The response to the issues raised in the document is being worked on. This work is continuing to be given top priority within the workload of the section. Additional resources (1FTE) have been employed to focus on this.</p> <p>2006/07 - Daily reconciliation is continuing to be carried out. The system reconciliation now balances. Further work to improve the 06/07 will be carried out.</p>	<p>Low</p> <p>High</p> <p>Low</p>	<p>2004/05 Complete</p> <p>2005/06 Will be considered as part of the 2005/06 Audit process.</p> <p>Complete</p>

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Ref	Issue	Audit Commission Recommendation	Action	Risk (H/M/L)	Progress/ Timescale
7	<p>Quality of supporting working papers – as set out in the Audit Commission Report No 1 para 12 & 13 , No. 2 para R5, R8, R14 and No. 3 page 3.</p> <p>Delays in receiving some information – as set out in the Audit Commission Report No 2, recommendation R14 and 16.</p>	<p>A senior member of the finance team, unconnected with the preparation of final accounts working papers should undertake and evidence a quality review before the information is presented for audit. This review should also be undertaken for other financial information to ensure errors such as that found in opening balances are identified and corrected.</p>	<p>The working papers identified during the previous year's audit to be improved have been improved.</p> <p>The temporary IPF Interim Accountant is reviewing final accounts working papers. The Head of FS and other qualified accountants have carried out a quality check of the working papers. The working paper files were handed across to the AC upon their commencement of the Audit on the 3 July 2006.</p> <p>It is intended that additional training will be provided to assist with the improvement of the standard of working papers and supporting evidence across the Council. However pressure of work has meant that this has not been achieved as yet. This training will become an integral element of the Management Development Training programme which is currently being developed in conjunction with the Head of Personnel and Development Services. A meeting to progress the Training has been arranged for the 2 August.</p> <p>The Audit Committee Members have so far received presentations in:</p> <ol style="list-style-type: none"> 1) Statement of Accounts 12/06/06 2) Financial Procedure Rules 21/06/06 <p>Further sessions are in the process of being planned for eg the role and terms of reference of the Audit Committee on the 2 August.</p> <p>The draft programme will include sessions for employees and members and will be consulted on prior to implementation.</p>	<p>Low</p> <p>Med</p> <p>High</p>	<p>2004/05 Complete</p> <p>2005/06 Complete subject to Audit</p> <p>Ongoing from August 2006 via authority training programme</p>

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8	Priority given to preparing the financial statements by senior management – as set out in Audit Commission Report No 1 para 15, 16 & 17 and No. 2 para R5 & R14.	Higher priority to final accounts work should be given.	<p>The closedown process and timetables were reviewed to enable earlier closedown to free up more time to focus on the technical requirements.</p> <p>Service managers were made aware that the year end timetables would be more strictly adhered to – and all adjustments must be submitted on time. The 2005/06 Timetable was issued on 10/03/06.</p> <p>The Statement of Accounts Action Plan is being monitored weekly by SMT, and will be a regular item until the improvements are delivered.</p>	<p>Medium</p> <p>High</p>	<p>2004/05 Complete</p> <p>2005/06 Will be monitored by SMT until Audit is completed.</p>
9	Late closure of accounts Audit Commission Report No 1 para 13, 15, 16 & 17, No. 2 R15 & R21 and 3 page 3.		<p>For the 2005/06 Accounts, SMT are monitoring the progress made weekly. Members of the Audit Committee informed of progress 12/06/06 & 21/06/06.</p> <p>Additional resources are in place to assist with the closure process.</p> <p>Special Council approved the 2005/06 Accounts on 29/07/06. Working papers supporting the Accounts were handed to the AC on the 3 July 2006, the commencement date of the External Audit. The statutory date for the completion of the Audit for 2005/06 is 30/09/06.</p>	<p>Low</p> <p>High</p>	<p>2004/05 Complete</p> <p>2005/06 30/09/06 statutory deadline</p>

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10	Resources allocated to financial reporting. AC Report No 1 para 17, & No 2 para R5, R14, R15, R21.		Additional temporary resources have been recruited to help finance staff improve the financial reporting position. In addition support from IPF has been commissioned to provide an independent inspection and assurance of the Council's processes. The Report is due in July 2006 and any recommendations concerning the level of resources will be considered at this stage.	Med	Complete The longer term impact will be assessed
11	Management and update of the Financial Guide needs to be reviewed to ensure that it reflects current financial and accounting and budgetary arrangements, and the Financial Services duties and responsibilities list should be brought up to date to reflect revised/new changes brought about by the new ledger system, staff changes and team structures. AC Report No.2 R3.	Full systems documentation and procedure manuals for the new financial management system to be prepared as set out in Audit Commission Report No 2, recommendation R3.	Work on these has taken place during the year. Debtors and creditors systems are complete. Additional temp resources appointed from mid March to assist with this task. However priority is currently being given to the 2005/06 Bank Reconciliation and so the additional resources are likely to be effective only after the Bank Rec improvements have been delivered. Training on the Financial Guide will be provided as an integral part of the training programme currently being developed.	Medium	Outstanding September 2006
12	Weakness was found with the quality of supporting documentation and review for journal entries. Reports 1 para 11-17 , No 2 R8, R14 , R16 & No. 3 page 3.	Journal authorisation, documentation and evidence of review needs to be improved.	Procedures have been reviewed and implemented April 2006. For 2005/06 the journals will be reviewed independently.	Low	Complete
13	System amendment controls. AC Report 2 R9.	Exception reports should be run detailing all unusual attempts to access IT systems.	Where systems permit such functionality, system administrators have been reminded of this requirement. This functionality is now a mandatory requirement for all new systems. A monitoring system will be implemented. Head of CIS is leading.	Medium	Complete September

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14	Internal Audit recommendations concerning virements have not been implemented. AC Report 2 R11.	Internal Audit recommendations on virements to be implemented as soon as possible.	Revised procedures have been implemented April 2006.	Low	Complete
15	Not all budget monitoring reports show gross income and expenditure they show net expenditure. AC Report 2 R12.	Budget monitoring reports to the Executive should show gross income and expenditure, as showing only the net position can mask variances.	Both FIS Reports and the Financial Plan have been developed to reflect the requirement to show gross income and expenditure as per the Best Value Accounting Code of Practice. Further work is being carried out to improve the layout of the FIS reports and the distribution list changes arising from the implementation of the revised structure which has also been implemented.	Low	Complete July 2006
16	2003/04 interim report recommendations relating to budgetary control have not yet been fully implemented, inc the extension of budget monitoring reports to cover all revenue and balance sheet accounts as well as forecast outturn. Report 2 R13.	Audit recommendations should be regularly reviewed to ensure that all areas are addressed.	A list of reports which are required from the Financial System is being finalised. A meeting took place 16/06/06 to agree which areas of development and which reports the supplier can help with. The evidence presented in support of the accounts will include an analysis of expenditure compared to budgets. Regular reporting of Balance Sheet accounts will require significant resources to implement.	Medium	Outstanding December 2006
17	Absence in the closedown plan of a risk assessment to identify high risk tasks. Start dates, lead times or timescale requirement not set out. No provision for a review of progress by Head of Finance included. Report 2 R15.	Improvements should be made to the closedown process to include a risk assessment, time allocations for tasks, and a review of working papers by the Head of Finance. Overall responsibility for each task should be clearly allocated to one member of staff.	Closedown plan has been sent out 23/03/06 and revised to identify high risk areas. These may change as time passes and is being considered as part of the Monitoring process. Head of Financial Services, Chief Accountant and Principal Accountants are involved in monitoring actions against timetable. Review of performance against the plan will take place after the Working Papers are completed. This will be fed back to SMT and next years process adjusted to gain improvements where necessary.	Medium	Complete 2005/06 In progress

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18	<p>Delays in receiving some of the information needed for the interim visit – specifically:</p> <p>Most recent monitoring reports and control accounts reconciliations</p> <p>Notes detailing any changes to key personnel, control and systems.</p> <p>Closedown documentation.</p> <p>AC Report 1 para 11-17 , No.2 R16, & 3 page 3.</p>	<p>Future interim visits should begin with the receipt of the working papers detailed.</p>	<p>The delays last year were caused by the impact of the flood.</p> <p>There has been no interim audit undertaken for 2005/06.</p>	Low	Complete
19	<p>The links between the quality of the final accounts and working papers and the judgements necessary for our Use of Resources work should be considered by the authority.</p> <p>AC Report 2 R20.</p>	<p>The authority should consider the links between the quality of the final accounts and working papers and our Use of Resources work later in the year.</p>	<p>The authority scored a 2 with the evidence and information provided in December 2005. The Use of Resources Improvement Plan is being completed.</p> <p>The aim of a score of 3 via a revised Improvement Plan is now being led by the Head of RBS assisted by a 0.5FTE Project Manager and 0.5 FTE Internal Auditor.</p> <p>HofFS will continue to manage delivering the improvements linking the Uof R with the Final Accounts and Budget process.</p>	<p>Low</p> <p>High</p>	<p>2004/05 Complete</p> <p>2005/06 Outstanding (In progress)</p>

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20	<p>The control value for the customer advice centre is £940k. The project consists of a mix of consultancy services alongside the provision of software and IT hardware products. However, the contract documentation whilst listing in detail the key outputs of the project does not assign financial values to the various elements of the contract. In order to facilitate the subsequent capitalisation and disclosure of project costs within the financial statements and asset records, as well as the calculation of capital charges (depreciation and interest), arrangements will therefore need to be established to assign valuations/fair values to individual assets or groups of similar assets and other elements of the project in accordance with the requirements of the SORP and capital accounting guidelines.</p> <p>AC Reports 1 Appendix 2&3 & Report 3 14 & 22 Report 2 R18.</p>	<p>Establish arrangements to facilitate assignment of valuations/fair values to assets and other elements of the project in accordance with the requirements of the SORP and capital accounting guidelines.</p>	<p>This ties in to recommendation 5 above and was a significant issue in the 2004/05 accounts and contributed to the delay. Information has been passed to the Audit Commission. Item 1 above reports how the 2005/06 Accounts have been produced to include requirements here.</p>	<p>Low</p>	<p>2004/05 Complete</p> <p>2005/06 Part of the 2005/06 Audit</p>

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21	<p>Leisure services were transferred to Carlisle Leisure Limited in 2002/03 however no adjustments have been made to the carrying value of leisure assets in 2002/03 or 2003/04. This includes both property assets and equipment.</p> <p>AC Report 3 para 22.</p>	<p>Evidence compliance with FRS5 and SORP requirements regarding asset recognition and carrying value of leisure assets.</p>	<p>Entries in the 2005/06 accounts and supporting working papers have been drawn up. This issue has been raised in the amended report of the Audit Commission to the Audit Committee on 12th June.</p>	Medium	<p>2004/05 Complete 2005/06 Part of the 2005/06 Audit</p>
22	<p>Adjustments are required to debtors and creditor balances included in the balance sheets and supporting notes in order to address errors identified during the course of our audit.</p> <p>AC Reports 3 para 27</p>	<p>WGA will add to the importance of disclosures made in respect of inter authority debtor and creditor balances. This is likely to include the requirement to agree invoiced and accrued balances with other relevant bodies. In the run up to implementation of WGA the Authority should therefore ensure that appropriate arrangements are in place to ensure efficient access to the information required to both meet existing disclosure the requirements and the requirements of the WGA process.</p>	<p>Arrangements were put in place for 2004/05 to identify Whole of Government Accounts (WGA) counter parties and year-end balances.</p> <p>Further work has been carried out as part of the 2005/06 closedown process to identify in year transactions as well as year-end balances with counter parties. Assistance is being sought from our financial information supplier to provide relevant reports, which will assist in the analysis, and reporting of this area of work.</p> <p>The ODPM consolidation pack was received 16 June 2006. The formal deadline for the return is 6 October.</p> <p>The AC have requested that this be completed as part of the 2005/06 process and made available for the 30 June.</p> <p>Draft Working Papers have been produced and reviewed and handed to the AC 3 July 2006.</p>	High	<p>2004/05 Complete 2005/06 Part of the 2005/06 Audit</p>

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23	PRTB receipts will be 100% useable although there is an expectation that the PRTB receipts would be spent in ways that helps deliver the Authority's housing strategy. AC Report 3 para 26.	Confirm the existence of a clear strategy for the use of PRTB receipts consistent with the expectations of the ODPM.	The use of the PRTB receipts is applied towards the achievement of sustainable communities. Officers from Housing Policy and Finance have developed a draft strategy for clarification in the 2006/07 Capital Strategy, which will be submitted for approval by full Council in August 2006, following consideration by the Executive and CRO&S.	Medium	Complete August 2006
24	Annual commitment under operating leases. No working papers were included in closedown file to support the SSAP 21/SORP disclosures made in respect of annual commitments under (non-cancellable) operating leases. AC Reports 1, Appendix 3 & No 3 para 47.	Complete analysis of operating lease commitments in support of disclosures made in note 3. Complete note 3 to reflect number of asset acquired through operating leases in 2003/2004.	This was actioned in the 2003/04's accounts. There was a further issue on the Refuse Collection vehicles, which were procured during 2003/04 raised during 2004/05. Meeting took place with AC 160606, note now received on their exact requirements. The major issues have been addressed. Some further info. may be required if the AC request details about the smaller value leases most of which are due to expire shortly.	Medium	2004/05 Complete 2005/06 Part of 2005/06 Audit process.
25	Full systems documentation for core systems (14 in total)		11 systems have been documented 2005/06 as agreed with AC, rising to 14 2006/07. 40 additional days has been built into the Internal Audit Strategic Plan for 2006/07 as agreed by CROS on 23 rd February. All material audits including the new ones will be undertaken in the 3 rd quarter to get all final reports issued by the 31/03/07.	Low Med	2004/05 Complete 31 December 2006