



2007/08 External Audit Action Plan Progress

RECOMMENDATION

- 1.1 To note the progress made against the agreed action plan following last year's external audit report.

SUPPORTING INFORMATION

- 2.1 This report provides an update on progress made against the agreed action plans following both the Interim and Final Accounts audits in 2007/08. The action plan was reported to this Committee in September 2008.
- 2.2 Details of progress made is provided at Appendix 2.
- 2.3 Considerable process improvements have been made in preparation for the 2008/09 audit, mainly to working papers to provide external audit with the required information in the most efficient way. In addition, for the first time a closure launch took place on 25 March 2009 to Accountants and other key officers involved to deliver the key messages and requirements of the closure process. The Council has worked closely with External Audit to agree these changes.

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Background papers:

List of appendices:

None
Appendix 1 – Implications
Appendix 2 – Action Plan

IMPLICATIONS

Financial

1. None directly arising.

Legal

2. None directly arising.

Personnel

3. None directly arising.

Equalities impact

4. None directly arising.

Corporate objectives and priorities for change

5. Supports the commitment to providing excellent services and value for money. It is also a key aspect of the Use of Resources.

Interim Audit 2007/08

	Recommendations	Priority	Management Responses	Progress
10	The Council should consider preventing users from raising and posting their own journal entries or should establish additional controls, such as management review of journals over a set de minimus, to mitigate the risk.	Medium	We have previously tried to introduce this control within Oracle, however this was not technically possible. We can provide evidence of manual controls in the majority of accountancy teams, where printed copies of all journals are authorised. These will be extended to the remaining teams.	Control report now in place.
11	If the current temporary arrangements for interdepartmental recharges are likely to continue for a significant period of time, controls should be established to prevent users outside the Corporate Finance Team from making unauthorised amendments to the master document.	Medium	Agreed. However, we do not expect this arrangement to continue beyond January 2009. Only accountants have access to this facility, and excludes service staff.	The temporary arrangement is in place for 2008/09 with tighter control. Use of Oracle system to replace manual process to be implemented May 2009.
12	The Council should consider establishing a formal consolidation schedule with Derby Homes each year to ensure that dates for submission and audit, reporting requirements and arrangements for liaison between external auditors are agreed.	Low	Agreed.	In place as part of closures of accounts process.

Final Accounts Audit 2007/08

Finding	Actions required	Agreed Action Implementation details	Progress update March 2009
<p>Accounting Policies</p> <p>The Council does not have formal written policies in place in relation to reserves or revenue recognition</p>	<p>The Council should consider Formally documenting policies in these areas.</p>	<p>Agreed to review and formalise in the 2008/09 accounts</p>	<p>Reserves Policy</p> <ul style="list-style-type: none"> • The 2009/10 Revenue Budget and Council Tax Cabinet report updated the corporate reserves policy • The annual revenue outturn report updates the policy and usage on service reserves • A combined policy will be drawn up by June 2009, for inclusion in the 2008/9 accounts <p>Revenue Recognition</p> <ul style="list-style-type: none"> • A policy in place in relation to expenditure that can be treated as capital expenditure, and therefore does not need charging to revenue • The 2008/9 Accounts closure guidance to be issued by 31 March 2009 will cover revenue recognition and accounting for the use of reserves

Finding	Actions required	Management response	Implementation details
<p>Statement of Accounting Policies</p> <p>In our opinion, the Council's Statement of Accounting Policies is somewhat descriptive, explaining the terms used within the accounts, rather than necessarily providing the user with an understanding of the accounting treatment adopted, with reference being made to treatments being in accordance with the relevant accounting standard.</p>	<p>The Council should review its Statement of Accounting Policies to consider whether they provide the user of the accounts with sufficient information on the accounting policies adopted by the Council.</p>	<p>Agreed and propose to establish working group to improve presentation.</p>	<p>The Accounting Policies have been re-drafted ready for the 2008/9 Annual Accounts.</p>
<p>Fixed Asset Register</p> <p>The Council does not identify grant-funded assets within its fixed asset register. There is therefore an increased risk that assets may be disposed of without a corresponding write off of the associated grant.</p>	<p>The Council should review the controls in place to identify grant funded assets to ensure that the appropriate accounting entries are made on disposal.</p>	<p>We will amend the fixed asset register with an extra column, which will highlight government grant funded items. This will flag up which items need to be written out of deferred government grant.</p>	<p>Actioned with immediate effect</p>

Finding	Actions required	Management response	Implementation details
<p>Impairment The 2007 SoRP introduced a revaluation reserve against which increased asset values are taken until realised. In future years, in certain circumstances, the Council will be able to charge impairments on revalued assets (where the increase was taken to the revaluation reserve) against this reserve rather than taking the charge to the Income and Expenditure account. We noted that the Council has yet to introduce processes to ensure that the revaluation reserve is reviewed prior to any impairment charge being made.</p>	<p>The Council should introduce processes and controls to ensure that proper consideration is given to the reversal of impairments recognised in prior years.</p>	<p>We intend to prepare a separate revaluation reserve to ensure all opening impairment values will be recorded. This will create rolling balances for assets, which could then be identified easily in case reversal is required.</p>	<p>In progress. To be in place in time for the 2008/9 Annual Accounts preparation.</p>
<p>Review of aged debtors</p> <p>Our review of a sample of aged debtors identified two larger balances for which adequate explanations were not readily available:</p> <p>1. debt of £0.3m that had remained unpaid for over a year, with no recent recovery action; and</p> <p>2. debt of £0.9m for which we were informed an off-setting credit balance exists, but could not be located by finance staff in the accounts.</p>	<p>The Council should undertake a detailed review of all large overdue debts to ensure that appropriate recover action is being taken and that an adequate audit trail exists.</p> <p>Officers should establish whether the credit balance exists and, if not, take appropriate recovery action with this debt.</p>	<p>Agreed</p> <p>The Council has subsequently investigated this balance and has confirmed the actual balance to be £0.131m which related to VAT. This balance is correctly stated and no recovery action is required.</p>	<p>All aged debts currently being reviewed , in conjunction with Accountants and Service managers. Review will be completed by 31 March 2009 and ongoing process in place for timely recovery action for any new outstanding debts.</p>

Finding	Actions required	Management response	Implementation details
<p>Unpresented cheques</p> <p>Our testing identified a significant number of cheques included in the bank reconciliation which were technically unpresentable as they were over six months old, in some instances these were well in excess of a year old.</p>	<p>The Council's bank reconciliation process should include actioning out of date cheques, with amounts being written back to the ledger as liabilities due to third parties.</p>	<p>Agreed to action monthly reconciliations</p>	<p>Actioned with immediate effect</p>
<p>Actuarial valuation Whilst, in practice the Council relies on an actuarial firm, appointed by the Derbyshire Pension Fund, Mercer Human Resource Consultants, to produce the FRS17 valuation for inclusion in the financial statements, it is still responsible for the figures reported. As such, we would expect the Council to consider (in broad terms) the reasonableness of the key assumptions used in preparing the FRS 17 calculations and their appropriateness in the context of the Council activities and members. We noted that a formal review of the assumptions applied at 31 March 2008 was not undertaken.</p>	<p>The Council should undertake procedures to satisfy itself that the underlying information and assumptions are appropriate.</p>	<p>Agreed and will action for 2008/09 final accounts.</p>	<p>Review process in place .Early review of assumptions and base data currently in progress. The FRS17 data for 2008/9 will be formally reviewed and signed off by the AD Corporate Finance and Performance.</p>