

Annual governance report - update October 2012

Adur District Council

Audit 2011/12

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Introduction

- 1 My 2011/12 Annual Governance Report (AGR) was considered by the Joint Governance & Audit Committee at its meeting on 20 September 2012 and highlighted that some work was outstanding.
- 2 Following completion of this work, I issued my financial statements' opinion and an unqualified conclusion on your use of resources on 28 September 2012. The Whole of Government Accounts return and my certificate confirming the completion of the audit were issued on 1 October 2012.
- 3 This report summarises the findings from my outstanding work. Appendices 2 and 3 in my AGR referred to corrected and uncorrected accounting errors respectively and updates of these are attached.
- 4 An updated appendix 6 - action plan is also attached.

Findings

5 The completed work to report to the Committee is set out below.

Audit area	Findings
Housing revenue account (HRA)	One immaterial error was found and has been included in the appendix 2.
Property, plant and equipment valuation report	The District Valuer's report was received and reviewed with no matters arising.
Related party transactions returns	The AGR stated that better arrangements are needed for obtaining returns and explained why some returns received should be updated. Some of the updated returns requested were not received but I was able to obtain enough audit evidence to give an unqualified opinion on the financial statements. Recommendation 4 in the attached action plan refers and is unchanged from the initial wording.
Cash and bank reconciliation	A full reconciliation has not been achieved because debit and credit card receipts are accounted for in the Council's cash and bank balances before the monies are received by the Council. Because of the timing difference, the year-end cash and bank balance is overstated and debtors understated by a maximum of £30,128. System changes are needed to provide timely information for a complete and accurate reconciliation. This difference did not stop me issuing an unqualified opinion on your financial statements. Recommendation 1 in the attached action plan refers and has been updated since being included in my AGR presented to the Committee in September 2012.
Cash flow statement	The entries were audited with no significant matters arising.
Agreement of entries in the final version of the financial statements	<p>Errors in the explanatory foreword, main statements and disclosure notes were found at first review of the statements in July 2012. Broadly these were in two categories: numerical errors; and presentational changes to help the reader of the statements. These were reported to officers in July 2012.</p> <p>A few numerical corrections were made in line with the Council's policy to amend where the errors were material or the Joint Governance and Audit Committee requested them. While some presentation changes were made during the audit, others remained outstanding in late September.</p> <p>These included roundings within the main statements to ensure they added up, ensuring consistency of information through the statements and aligning figures correctly in some tables.</p>

Audit area	Findings
	<p>Recommendation 3 in the action plan states the Council should continue to improve the quality of the statements. This should include a robust quality control check on the final version of the statements prior to them being presented for auditor certification.</p>

- 6 Appendices 2 and 3 have been updated as follows.
- The last three items on appendix 2 are new.
 - The last item on appendix 3 is new and the four above it have been moved from Appendix 2 following the Committee's agreement to amend for them at its September 2012 meeting.

Updated annual governance report 2011/12, appendices 2, 3 and 6

Please see overleaf.

Appendix 2 – Uncorrected errors

I identified the following errors during the audit which management has not addressed in the revised financial statements.

Item of account	Nature of error
Explanatory foreword –local taxpayers	The figures disclosed for the amounts billed on behalf of the national pool and the amounts distributed from the pool to the Council do not agree. Further narrative to explain the difference should be included.
Comprehensive income and expenditure statement – Service head analysis	The amounts for 2010/11 within the service head had been reallocated and therefore did not agree with 2010/11 published accounts. The 2010/11 figures in the 2011/12 financial statements should be shown as 'restated'.
Note 1 – Accounting policies	Cash and cash equivalents – classification of short and long term investments should be further explained for clarity. Property, plant and equipment valuation – additional narrative required to explain valuation methods of council dwellings and other land and buildings. Employee benefits – the policy relates to accumulated absences only.
Note 7 - Adjustments between accounting basis and funding basis under regulations	Movements in market value of investments property are shown as £116,000 in 'movement in usable reserve' column. This figure should agree to the capital adjustment account. However, the amount shown there is £80,000.
Note 10 - Financing and investment income and expenditure – other investment income	Other investment income included £370,000. This amount relates to pension costs and should be included within the pension cost line.

Item of account	Nature of error
Note 12 - Property, plant and equipment	One of the year end dates shown is wrong. It is shown as 'at 31 March 2011' but should be 'at 31 March 2012'.
Note 19 - Debtors – overall aged debt analysis	The aged debt analysis does not agree to the supporting documentation. The amounts shown on the disclosure note are £88,000 higher than the financial system figure. Officers were unable to explain the difference.
Note 34 - Joint budgets	This note was not updated when changes were made to the 2011/12 Adur and Worthing Joint Committee financial statements. The deficit for year should be £319,000 and not £447,000.
Note 36 – Officers' remuneration	The two columns showing 'Net cost borne by Adur DC and Worthing BC' do not equal the total remuneration costs. The difference is £1000 for each column.
Collection fund – Note 2 – Non-domestic rates	The business rate multiplier should be 42.6p but is disclosed is 43.3p.
Explanatory foreword (page 7) – Total income from Central Government & Local Taxpayer	Council tax income in Note 11 is (£6,448,000) and does not agree to the pie chart on page 7 which shows (£6,459,510).
Note 20 – Cash and cash equivalents	The total includes around £30,000 of debit and credit card receipts due to the Council not all of which had been received as at 31 March 2012. This means that cash is overstated and debtors understated up to this amount at most.
Housing revenue account (HRA)	Pension interest cost and expected return on income is incorrectly stated as (£12,000). The correct figure is £4,000. This means the HRA's comprehensive income and expenditure statement understated by (£16,000) and that the presentation is not fully compliant with the Accounting Code of Practice.

Appendix 3 – Corrected errors

I identified the following errors during the audit which management has addressed in the revised financial statements.

Item of account	Nature of error
Movement in Reserves Statement – unusable reserves	The column did not cast. The total shown of £59,792,000 was understated by £19,000.
Note 7 - Adjustments between accounting basis and funding basis under regulations – adjustment line within 10/11 table	<p>The note for 2010/11 had a line ‘not material’ shown at the bottom showing:</p> <ul style="list-style-type: none"> - General fund £16,000 - HRA £1,000 - Capital receipts reserves £6,000 <p>As a result, the adjustments total for 2010/11 did not agree with the relevant line on the Movement in Reserves Statement.</p>
Note 14 - Investment properties – fair values	The net loss/gain from fair value adjustments did not include an amount relating to housing revenue account £36,000
Note 14 - Investment properties – rental income	The rental income from investment properties was understated by £21,000.
Table of contents	The page numbers shown are incorrect.
Explanatory foreword – summary of revenue spend	The figure shown for council tax income of £6,172,080 on the pie chart does not agree with the amount of £6,448,000 shown on the collection fund statement.
Comprehensive income and expenditure statement – service head analysis	The heading of ‘Cultural Environmental and Regulatory Services’ is incorrect. The heading should be ‘Cultural Services’.
Comprehensive income and expenditure statement – exceptional item	There is no description to support the entry of £51,185,000.
Note 29 – Amounts reported for resource	On page 67 of the statements (£25,974,000) is shown as income from council tax. This is incorrect as it

allocation decisions

should be shown as Government grants and contributions on the line below.

Appendix 6 – Action plan

Recommendations

Recommendation 1

A fully reconciled cash and bank balance should be achieved and third party cash holdings should be accounted for accurately.

Responsibility

Priority

High

Date

Comments

Recommendation 2

The annual governance statement should be effectively scrutinised by the Joint Governance & Audit Committee before approval.

Responsibility

Priority

Medium

Date

Comments

Recommendation 3

Continue to improve the quality of the financial statements.

Responsibility

Priority

High

Date

Comments

Recommendation 4

Improve the arrangements for evidencing related party transactions.

Responsibility

Priority

Medium

Date

Comments

Recommendation 5

The Joint Governance & Audit Committee should see regular financial performance information to help it in approving the financial statements

Responsibility

Priority

High

Date

Comments

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