

UPDATE ON THE ISA 260 RECOMMENDATIONS NOVEMBER 2013

14/11/2013

KPMG			GCC			KPMG			GCC			GCC		
No.	Year	Priority	Risk	Recommendation	Management Response	Status at September 2013	Current Status	RAG	Current	Original Target Date	Revised Target Date	Owner		
Review of Community & Intangible Assets														
23	2013	1	Further work is required by the Authority to consider whether community and intangible assets are categorised correctly within fixed assets in the accounts. From our review of the Authority's fixed asset register a number of assets £7.1m were identified as infrastructure assets but with descriptions that may indicate that they are community assets. From our initial review of intangible asset additions in the year, which amount to £847k, it is not clear from the descriptions whether all the expenditure is capital in nature and meets the definition of an intangible asset under the code.	Undertake a detailed review of the above classes of assets to identify whether they meet the definition of capital expenditure as per the Authority's accounting policy and per the code (for intangibles) and have been correctly classified (for infrastructure . community assets)	The infrastructure assets with a value of £7.1m have been historically been classified as such for several years. Any reclassification of these assets will be of a presentational nature only and will have no impact on the Income and Expenditure account as the depreciation rates will remain unchanged. We are essentially satisfied with the treatment and classification of the intangible assets additions in the current year as the vast majority of this relates to capitalised labour costs, however, we acknowledge the need to carry out a detailed review of these assets and reclassify or expense where considered necessary. The Council is already carrying out a detailed review of the classification of infrastructure and intangible assets in the current financial year. This will be carried out prior to the uploading of the assets register onto the new system which is scheduled to take place prior to 31 March 2014.		The project related to Fixed Assets has no current plan or owner.	A	3	31/03/2014	31/03/2014	TBA (formally KB)		
Historic cost depreciation adjustment														
24	2013	2	As in previous years, the Authority has not made a historic cost depreciation adjustment in 2012/13. The Authority has identified that there are excess balances on the revaluation reserve where the net book value of the asset is nil. These are now being written off to the Capital Adjustment Account but are the result of not making historic cost depreciation adjustments in previous years.	Make an adjustment each year between the Revaluation Reserve and the Capital Adjustment Account to ensure that, where assets are fully written down, there is no residual balance in the Revaluation Reserve.	The way the asset register is currently set up makes it extremely time consuming and impractical to carry out a detailed calculation to make an adjustment in respect of historic cost. We have made significant progress over the last financial year and the current financial year in tidying up and analysing the revaluation reserves and arriving at a detailed and fairly accurate analysis of the revaluation reserve by individual asset, however, the current asset register does not provide sufficient detail to calculate an accurate historical cost adjustment. The Council will, however, in future adjust the revaluation reserve as follows: - When assets are sold any remaining revaluation reserve balance will be eliminated. - When assets are sold any remaining revaluation reserve balance will be eliminated. - As we have done in the 2013 financial year the revaluation reserve balance for individual assets will be compared to the net book value of the asset and, where the reserve exceeds the asset value an adjustment will be made to the revaluation reserve to equal the asset value.		The project related to Fixed Assets has no current plan or owner.	A	2	31/03/2014	31/03/2014	TBA (formally KB/RS)		
Recording of Council Dwelling valuations														
25	2013	2	Following the revaluation exercise for council dwellings, the downward movements on assets have been posted as an overall revaluation reserve adjustment and impairment without reference to movements on individual archetypes. For 2012/13 this is not an issue as the downward revaluation is so large that it wipes out the full revaluation reserve balance, but in future years the valuation movement should be recorded by archetype.	Ensure that the new Fixed Asset Register records the valuation of each archetype to ensure that asset movements can be correctly calculated.	We are grateful to the auditors for demonstrating further issue of good practice for the Council to adopt, although this point has not been raised with the Council until publication of the ISA 260 report. We will aim to analyse dwellings by archetype when setting up the new fixed assets register and all future revaluation adjustments relating to dwellings will, as far as is possible and practical, be analysed by archetype rather than in total as at present.		The project related to Fixed Assets has no current plan or owner.	A	3	31/03/2014	31/03/2014	TBA (formally KB)		
Review of historical ledger codes														
26	2013	3	Individual balances in the financial statements, such as debtors and reserves, are made up of a large number of nominal ledger codes. Some General Ledger codes contain cumulative historical data (e.g. one code for rent due and another code for rent received). An exercise has not been performed to clear these codes down at the year end and to remove the number of nominal ledger codes used for one balance. This could lead to a risk that not all nominal ledger codes are included and the risk of mis-posting transactions.	Review and rationalise the number of nominal ledger codes within the general ledger to ensure that this is more manageable for Finance.	We are fully aware that there are numerous general ledger for items such as reserves and debtors several of which are unnecessary or superfluous as well as those that have cumulative historical data. A full review of the general ledger codes is underway and will be completed in the 2013-14 financial year. Where necessary codes are being consolidated, particularly those relating to reserves, and other balance sheet codes. It is the intention for 2013-14 to create fixed assets additions and disposal codes that represent the additions/disposals within the current year. Therefore, the brought forward balances will represent the closing balances of the previous year.		As Management Response	A	3	31/03/2014	31/03/2014	TBA (formally KB/RS)		
Budgetary Control														
1	2012	1	At our interim visit we highlighted to you as part of our Interim Report 2011/12 that we had concerns over budget monitoring and reporting. We confirmed that detailed reports had not been produced since September 2011 and that we have not been able to reconcile the figures produced back to the finance system. Our audit procedures also identified an error where a missing invoice was found in 2011/12 that related to 2010/11, relating to a significant contract. If there had been effective budgetary control during the year then such an error would have been identified through the budget monitoring process.	Budget monitoring should be completed on a monthly basis. The summary reports presented to Cabinet should reconcile to the detailed monitoring reports produced by Finance.	We are aware that the budget figures in Cedar do not necessarily agree fully with the budget submitted to and agreed with finance. This issue will be addressed with regard to the 2013/14 budget in that the overall process will be driven by finance. Currently discussions and training sessions are being held with budget holders and managers about the budget process and the importance pertaining to accuracy and the monitoring process. Once the budget has been approved by Cabinet finance will ensure that the correct budget figures are entered into the system. The processes being developed and implemented are a work-in-progress and will be adapted and enhanced to satisfy the needs of the business and changing circumstances. The project is considered to continue to be in a status of WIP.		All Service Managers budget submissions are uploaded onto Cedar CP module to enable efficient monitoring during 2013/14. The outstanding items are the 'Project Plans' relating to each budget saving stream, these have to be agreed by the delivery Service Manager and will include a timeplan and actions taken to be delivered together with the monthly cycle achievement basis.	G	1		Dec-13	JT (formally KB)		

Bank Reconciliation

2	2012	1	Our work and that of Internal Audit has identified that bank reconciliations are not being performed correctly. There are a number of balancing figures that appear on the monthly reconciliation. Although these amounts are not significant they are in effect 'balancing figures' meaning that the bank accounts do not reconcile to the general ledger. Our work on cash at year end also identified that a bank account had been missed out of the reconciliation process which resulted in cash in the financial statements being understated.	Identify what is causing the unreconciled amounts. Future bank reconciliations should be performed on a zero variance basis. All bank accounts should be reviewed by a senior member of the Finance team to ensure that they are all reconciled at month end correctly and all accounts are being captured.	All bank reconciliations are now being performed on a monthly basis and balanced correctly with no balancing entries. All reconciliations are being reviewed by the interim finance change manager who also ensures that all bank accounts are being reconciled.	Our review of the year end bank reconciliation identified that a £9k manual journal was required to balance the reconciliation. This journal was noted in 2011/12 and had not been cleared. Internal Audit's follow up of progress during 2012/13 and up to July 2013 identified that there were a series of unreconciled credits and debits dating back to March 2008 on the bank reconciliations.	The accounts for the current year transactions are in balance. However, there are two balancing entries that relate to prior years. These will be resolved before the year end and not carried forward to 2013/14.	B	1		Delivered	KB
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Resources Within Finance

4	2012	1	The Councils accounts and accounting treatments are complex. It is paramount within a finance department that you have suitable qualified staff who have the technical ability in local government accounting to deal and account for these transactions.	We recommend that a permanent finance structure is put in place urgently.	The finance team is currently undergoing a period of transition with existing procedures being strengthened or adapted with new procedures being introduced where considered appropriate with a view to achieve efficiencies and maximise existing capacity. Existing staff structures and staff requirements, taking into account experience and qualifications, are to be reviewed to determine the ideal structure. Where considered necessary recruitment of additional staff will be made. In the short-term the interim team, who are considered to have the required technical expertise, will remain in place to develop and implement the new and improved procedures and ensure a smooth transition to the new team.	Changes have been implemented to the Finance team structure in order to focus upon the separate elements of the service delivery, with further work being undertaken to define the roles of individual officers. New appointments to Finance are being made but have not yet concluded.	Recruitment to the permanent posts is currently underway. In addition to establishing the permanent professional team, it has been agreed that the interim team will provide an overlap with the new appointments. Three key areas of business are being focussed on for delivery: (1) Closure of accounts and production of the annual financial statements for 2012/13 (2) implementing this improvement plan and other improvements/actions identified by the Director and the Internal Audit Service (3) Supporting the Councils budget savings targets for 2013/14. These priorities for financial services require ongoing interim resource to ensure successful delivery. June 2013 - Permanent positions to advert, Management Accountant & Systems Accountant. Head of Financial Services under offer. September 2013, Head of Financial Services & Management Accountant roles - recruited.	G	1		01/12/13	PG
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Coding of Invoices

5	2012	1	It is paramount that Finance staff code transactions to the correct general ledger codes within Cedar. If this does not occur then balances will be posted to incorrect codes and budget holders will not know the true cost of a service or contract. Our review of post balance sheet invoices identified that there are a number of invoices that had been mis-posted. The mis-posting related to payments on the Enterprise contract which should have gone against this contract, instead they have been posted to Mobile Phones code. This had not been identified by finance or the budget holders. Even though the value in monetary terms for the invoices we have identified is immaterial for audit purposes, this could lead to incorrect decisions by budget holders and provides Committees and Cabinet with the incorrect information. This also reinforces the issue noted above regarding the effectiveness of budgetary control processes.	Care should be taken by Finance staff to ensure correct general ledger codes are used.	As commented in point 1 the Council is currently implementing procedures to strengthen budgetary controls and monitoring as well as the budget process. It is expected that this will mitigate the risk of such errors in coding going undetected in future.	Not considered an issue	A paper has been prepared for approval by GLT to recommend changes to the e-procurement system that formalises the approval level of managers and officers in the business. This process effectively limits the financial commitment that can be incurred by an officer without the knowledge of their line manager. There are six levels of approval where a Service Manager can approve expenditure up to £5k to a purchase in excess of £7.5m requiring Cabinet sanction. The raising of a purchase requisition and order will drive the coding of invoices removing the reliance for accurate coding on finance and placing it with those who are requesting/approving the spend.	B	2		P7 13/14	Finance / JT
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Revenue Reconciliations

6	2012	1	Each month the revenues department provides finance with a reconciliation of all transactions on council tax and NNDR movements. The reconciliation enables finance to post monthly journals to the general ledger to account for the council tax and NNDR transactions. At the year end, the finance team use these reconciliations to support any council tax and NNDR debtors and creditor balances. It was identified by the interim finance team that the monthly reconciliations provided by the revenues department are not accurate and do not reconcile to the revenue systems at month end. The difference between the reconciliation and the revenue system is due to cash receipts that come in on the last few days of the month. For example, cash will be received and banked on the 31 March 2012 and included in the revenue system but revenues do not include this cash in their reconciliation to finance, they will include it in the following month. This means that even though the cash has been banked and included in the general ledger the receipt has not been taken off the individual debtor balance correctly.	The Revenues department must ensure that they provide finance with accurate information. Reconciliations should provide details of all transactions up to the month end date which agree back their systems. Revenue must report to finance any amounts which are received or paid at month end but are booked on their system post month end to ensure that finance account for transaction correctly.	Cash is received, banked and recorded in the general ledger but not in the Open Revenues System. The reconciliation provided to finance notes that the cash has been received but does not record that there is a timing mismatch in the Open Revenues System. The accounting treatment agreed with the audit team takes a prudent approach to the treatment of the unreconciled balance on the Collection Fund holding account. The accounting treatment adopted will be reviewed to ensure that the debtor and creditor balances are correctly stated at 31 March 2013. A reconciliation that does identify the cash timing mismatch between the General Ledger and the Open Revenues System is produced and will in future be provided to the Finance Team.	Not considered an issue	The situation identified at audit has not been satisfactorily resolved. The Revenues manager has assured the Finance Team that a complete month-end reconciliation is being performed and this will be tested by Finance at P11. Any remaining issues identified will be resolved by an external project team which has been identified as a resource capable of delivering a resolution. June 2013 - Workshops held to improve process and control of the relationship with Civa. October 2013 process notes passed to JT.	A	1		P7 13/14	JT
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Fixed Asset Register

9	2012	2	The Council has been using an excel spreadsheet created from a download from the general ledger to account and record the movements on its fixed assets. This means that for many years the Council has been unable to identify what the historic cost of its assets are. Under the Code there is requirement for councils to keep this information. In addition, by using simple downloads of the ledgers this does not have the sophistication required to account for the Council's complex asset base or to cope with component accounting.	The Council should consider investing in and maintaining a fixed asset register which is independent of the general ledger so that it is able to record assets more easily and be able to identify asset components, as required under the Code. The register should be reconciled to the general ledger each month.	Prior to the current financial year the fixed assets register was on the Cedar fixed assets module which did record the historical cost of the assets. Due to problems encountered with the Cedar fixed assets module in the current year the assets register was prepared using Excel spreadsheets. It is, therefore, not factually correct to state that the Council has been able to identify the historical cost of its assets for many years. The use of Excel spreadsheets for maintaining the assets register is an interim measure while looking at suitable alternatives. A new assets module is expected to be implemented with effect from the beginning of the next financial year (2013/14). In the interim period the assets register will be maintained on Excel spreadsheets and will be reconciled to the general ledger each month.	See 2013 points 23,24, & 25	The business continues to use a spreadsheet to manage its fixed assets. This method provides acceptable controls when reconciled to the General Ledger. Currently this process is completed on a quarterly basis. At which time a high level assessment of the asset categorisation is undertaken. The upgrade to cedar 4.4 (under initial testing) is targeted for P7 2013/14. It is at this time that the controlled migration from spreadsheet to integrated system will be implemented. November 2013 - no resources have been allocated to deliver the project which is estimated to take 3 months.	A	2		Q4 2013/14 - Parallel run	TBA (formally KB)
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Journals

11	2012	2	<p>Only one member of staff within Finance has the required knowledge of how to produce journal reports. During our audit this member of staff was on sick leave and the journal list could not be produced.</p> <p>Upon our request of this report, the interim Finance team had to go back to their Cedar supplier to obtain the report.</p> <p>We also identified that a material error was made by a member of Finance where a journal was posted the wrong way round. This journal had not been reviewed prior to being posted.</p>	<p>Process notes for key finance processes should be maintained to ensure that knowledge is not lost when there is a turnover or unavailability of key staff.</p> <p>Material journals should be reviewed and approved by a senior member of the Finance team either prior to being posted or retrospectively.</p>	<p>The journal report was run at the final audit visit by the financial planning accountant and it is not correct that the Council had to go back to the Cedar supplier to obtain this report although we did encounter some difficulty in getting the report in the required format.</p> <p>Procedures are being drafted with regard to the posting of journals, including the authorisation process, as well as the running of journal reports. This will be completed and implemented before the end of the current financial year.</p> <p>The details of the material journal posted the wrong way round have not been discussed or brought to our attention.</p>	<p>Internal Audit's follow up of progress for 2012/13 identified that the process for raising journal reports has been transferred from an Accountancy Assistant to an Accountancy Technician, providing additional team knowledge to produce the reports.</p> <p>The Finance Change Manager confirmed that a senior consultant raises all journal requests for revenue, capital and the HRA and that these requests are reviewed by Finance prior to processing.</p> <p>Management accounts are reviewed by the Finance Change Manager and a senior member of the Finance team on a monthly basis and any issues would be identified at this point.</p> <p>However, process and guidance notes on how to run the reports are still being drafted and finalised.</p>	<p>A detailed process note is being written to ensure the situation experienced in 2011/12 is repeated.</p>	G	2	14/03/13	March 2014	Finance
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