



S.R. 2000/4

**COMMENTS ON INVERCLYDE COUNCIL'S
FORMAL RESPONSE TO STATUTORY REPORT
2000/2**

**A REPORT BY THE CONTROLLER OF AUDIT TO THE ACCOUNTS COMMISSION
UNDER SECTION 102(1) OF THE LOCAL GOVERNMENT (SCOTLAND) ACT 1973**

**COMMENTS ON INVERCLYDE COUNCIL'S FORMAL RESPONSE TO STATUTORY
REPORT 2000/2**

1. INTRODUCTION

- 1.1 At their meeting on 12 April 2000 the Commission considered the formal response of Inverclyde Council to a statutory report which I had submitted in respect of the Council's 1997/98 accounts. Following consideration of the Council's comments the Commission requested me to make a further report on the current position regarding the matters covered in my statutory report.
- 1.2 This report is in response to the Commission's request. It is based on recent audit work carried out by the auditors (PricewaterhouseCoopers) and on their assessment of the progress achieved to date and of the matters which still require to be addressed. Audit work on the 1998/99 accounts is incomplete and the auditors' assessment is based on their current level of knowledge of the position.
- 1.3 I submitted a draft of my report to the Chief Executive of the Council for his comments on the factual content but at the date of finalisation I had not received his response.

2. ASSESSMENT OF CURRENT POSITION

- 2.1 This section of my report gives an assessment of the current position in respect of individual matters referred to in my original report. To facilitate cross referral to the Council's response I have retained the paragraph numbering used in their letter of 30 March 2000.

Delay in the production of accounts

- 3.2(a)&(b) The auditors have indicated that the Council is making significant efforts to have the 1999/2000 accounts available by 30 June 2000. If, as seems likely, the audit of the 1998/99 accounts is not completed until the end of June or early July this could delay production of the 1999/2000 accounts. In that event the Council is likely to seek a short extension beyond 30 June, from the Scottish Executive.

The auditors anticipate that the quality of the 1999/2000 accounts will be substantially improved as regards compliance with ACOP.

Staffing Changes

- 3.2(c) Within the Finance Department the post of Technical Accountant has been filled on a temporary six month contract basis, pending a more permanent solution. Certain other existing officers have been given additional or alternative tasks. Most of the additional posts which have been created are at a relatively junior level and the auditors, as yet, are unable to assess whether the staffing changes will achieve the degree of improvement in performance which is required.

Accounting Systems and Controls

- 3.3 The auditors have reported that they are aware of a number of continuing and new control problems which still require to be addressed. The former relate to bank reconciliations while the latter are associated with the creditors control account. At present this account shows an unreconciled difference of £500,000 for 1998/99 which remains unexplained.

The auditors have also reported imbalances in the newly implemented financial ledger in 1999/2000. To date a single sided journal entry of £500,000 has been necessary to bring the ledger into balance and further unexplained differences have necessitated a subsequent adjusting entry of

£80,000 and a possible further entry of £18,000. There remains a serious backlog of control account reconciliations within the Exchequer Services section.

Fixed Assets

- 3.4(b)(i)&(ii) The Council's fixed assets are presently undergoing revaluation. Assets with a valuation over £1m have been valued for 1999/2000 and those with a value between £125,000 and £1m will be valued during 2000/2001. The results of these exercises are still subject to audit. A number of fixed assets appear in the fixed assets register (including certain visitor centres and halls) but because they are in dispute, have been disposed of, or no longer exist no title deeds exist. The auditors have been unable to confirm the accuracy of the fixed assets register in respect of these properties.

Closing Debtors

- 3.4(c) The auditors have been advised that a debtors' balances printout was produced at the end of the 1999/2000 financial year. However no debtors listing was produced at the end of March 1999 and, as the system cannot produce this information retrospectively, the 1998/99 accounts are likely to be qualified on this issue.

Central Support Service Allocation

- 3.4(d) Central Support Service allocation problems have not been fully resolved for 1998/99 and the allocation for that year does not meet recognised practice but efforts are being made to improve the position for the purpose of the 1999/2000 accounts.

Bank Reconciliations

- 3.6 The auditors have advised that bank reconciliations of an acceptable quality and format were only provided in support of the 1998/99 accounts in the

week commencing 1 May 2000. The authority is devoting considerable resources to this area but for the year to 31 March 1999 it is transactions, rather than balances, which have been reconciled. While the authority is striving to produce full reconciliations to support the 1999/2000 accounts a backlog currently remains and reconciliations have not been produced regularly throughout 1998/99 and 1999/2000.

Housing Benefits

- 3.8 There has been a number of improvements in the administration of Housing Benefits. A policy for the recovery of overpaid benefits has been prepared and issued for consultation following which it will be subject to committee approval. A designated fraud officer is in post and rent arrears and overpayment of rent rebates are capable of being separately identified in 1999/2000. Progress has been made in clearing the backlog of claims and additional reporting arrangements have been introduced to facilitate the monitoring of progress.

Following the Public Pound

- 3.9 The auditors have confirmed that a revised assessment worksheet is now in place for the award of funding to external organisations and guidance has been issued to assessing officers. In addition, recipients of funding must sign a form confirming that they will adhere to the conditions imposed. The auditors have recommended that the Council should introduce formal arrangements for monitoring compliance with the conditions.

Internal Audit

- 3.10 The Chief Internal Auditor reports to the Director of Resources but I understand that she has direct access to the Chief Executive if she considers that circumstances make that necessary, although this is not formally recorded. The auditors have indicated that they were able to place no reliance on internal audit work in 1998/99 and expect that, given the present

deficiencies in the Council's systems, the reliance which they will be able to place on internal audit work in 1999/2000 may be limited.

The Council's Finance Sub-committee has recently been re-designated as the Finance and Audit Sub-committee and the Director of Resources has been given the task of the further development of audit committee principles.

Grant Claims

- 3.11 Responsibility for monitoring grant claims has been assigned to the new Technical Accountant. The auditors consider that timeous production of grant claims for audit has not yet been achieved. They have confirmed that the authority's wider accounting problems continue to have an adverse impact on the audit of grant claims citing, as an example, their inability to sign off the 1998/99 housing subsidy claim and the NNDR return.

DLOs/DSOs

- 3.12 The auditors have confirmed that management action claimed to have been taken in 1998/99 in relation to its DLOs/DSOs, including the introduction of a revised management structure, the preparation of business plans for individual activities, the monitoring of the performance and the oversight of the DLO/DSO finance function by the Director of Resources, has been implemented.

The unaudited accounts for 1998/99 show that all DLOs/DSOs achieved their financial objective. The financial out-turn figures for 1999/2000 are not yet available. Consequently, the auditors are unable to comment on financial performance for that year or on whether separate accounts were maintained for statutory work undertaken by the Roads and Catering DLOs.

Performance Indicators

4.1 - 4.3 The auditors have not yet commenced their audit of performance indicators and are unable, therefore, to comment on the performance achieved by the Council in 1999/2000.

3. CONCLUSION

- 3.1 As a result of their most recent work the auditors have been able to report progress in relation to the administration of housing benefits, compliance with ACOP and in certain other areas. While there have been changes in staffing levels and responsibilities these have been at relatively junior levels and it is not possible to gauge, at this time, whether these are likely to be effective in bring the Council's financial administration and management up to an acceptable standard.
- 3.2 The problems reported in respect of 1997/98 are likely to be substantially repeated in 1998/99 given the late completion and reporting of the 1997/98 audit. The major difficulties still facing the authority relate to the backlog and quality of bank reconciliations and other control account reconciliations. The auditors estimate that it is likely to be well through the 2000/2001 financial year before these matters are fully addressed.
- 3.3 In view of the remedial action which still requires to be taken and the resources which will be required to finalise the 1998/99 and 1999/2000 accounts it is likely to be the end of the current financial year before a substantial and sustained improvement can be achieved.



Harris Wells
Controller of Audit
30 May 2000