

# **Audit of the Financial Statements**

**Plymouth City Council**

**Audit 2004-2005**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our reports to the Trust**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director or officer in their individual capacity; or
- any third party.

### **Copies of this report**

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

© Audit Commission 2006

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

# Contents

Introduction	4
Objectives	4
Audit approach	4
Main conclusions	5
Acknowledgements	17
The way forward	17
<b>Appendix 1 – Action plan</b>	<b>18</b>

## Introduction

- 1 This report summarises the key issues arising from the audit of the Council's statement of accounts for the year ended 31 March 2005.
- 2 Our work has been completed and we issued an unqualified opinion on 31 October 2005.

## Objectives

- 3 The prime objective of our opinion work is to provide the following:
  - an independent assessment of the Council's accounts, to ensure that they reflect a true and fair view of the financial position and results of operation of the Council; and
  - an assessment of whether the statement of accounts has been prepared in accordance with the accounting practices relevant to local government.
- 4 The objective of this report is to communicate those matters arising from our audit of the annual accounts that we feel give rise to action points for the Council.

## Audit approach

- 5 Our audit approach is designed to enable us to give our independent assessment of the Council's accounts in the most effective and efficient manner. This is achieved through the 'Managed Audit' approach which consists of five key elements:
  - establishing joint working arrangements with the Council's staff;
  - an initial risk assessment focused on the control environment;
  - an assessment of the operation of the Council's core processes; namely the main accounting system, the budgetary control system and closedown procedures;
  - a detailed risk assessment including specific testing to address high and medium-risk areas; and
  - an overall review of the Council's financial statements and detailed testing on individual final accounts balances.

## Main conclusions

- 6 Our audit of the Council's statement of accounts was facilitated by good co-operation from its finance staff. The Council submitted draft financial statements to us by the agreed deadline of 27 July 2005. The working papers produced to support the accounts were of a good standard, with the majority of detailed working papers being available at the commencement of our audit.
- 7 Following some amendments to the draft statements, our opinion is that the accounts are free from material misstatement and have been prepared in accordance with proper professional practice. We, therefore, issued an unqualified opinion on 31 October 2005.
- 8 We also issued a SAS 610 report to leading members on 31 October 2005. This reported one unamended non-trifling misstatement relating to the treatment of interest on LOBO loans. The Council has responded to this report.
- 9 Although an unqualified opinion was issued on the accounts, a significant number of issues arose during the audit which are set out below and in the attached action plan. A large number of these arose in previous years. The Council should ensure that these matters are addressed prior to the preparation of the 2005/06 accounts.

## Statement of accounts

- 10 Our initial review of the statements, which checks the foreword, accounting policies and tests opening balances, additions, comparatives and cross references, found some minor presentation issues. These were discussed and agreed and the draft accounts were amended to address the issues.
- 11 Our review also highlighted some minor issues relating to the disclosure of accounting policies, where they did not fully comply with the accounting 'Statement of Recommended Practice' (SORP).
- 12 The accounting policies did not state that an external fund manager is used to manage a substantial portion of external investments or how value added tax (VAT) is treated in the accounts. These were discussed and agreed and the draft accounts appropriately amended to address them.
- 13 In addition, the accounting policies do not state the basis of valuation for vehicles, plant and equipment and the stock and work in progress note does not state that it is a deviation from the SORP.

<b>Recommendations</b>
<i>R1 The basis of valuation for vehicles, plant and equipment should be disclosed in the accounting policies.</i>
<i>R2 The stock and work in progress accounting policy should state that the treatment is a departure from the SORP.</i>

- 14 Using a checklist designed to assess compliance with the SORP, we identified some issues that had not been correctly disclosed in the accounts.

<b><i>Recommendations</i></b>
-------------------------------

<i>R3 Operating leases should be disclosed by asset category.</i>
---

<i>R4 The accounts should contain a brief note of the Council's current borrowing facilities and capital borrowing outlining; the purpose and impact of financing transactions entered into during the year and major fixed asset acquisitions and disposals.</i>
---

## Fixed assets

- 15 Council dwelling disposals shown in the Note 2 to the balance sheet are understated as it only included disposals up to 31 December 2004. The net book value (NBV) of sales in the final quarter was £1,154. In addition, testing identified that other dwelling sales within the HRA, with a NBV of £184,000, had also been excluded from this note. Fixed assets disposals in Note 2 to the balance sheet are understated by £1,340 as a result. This also impacts Note 13 to the housing revenue account.

<b><i>Recommendation</i></b>
------------------------------

<i>R5 The statement of accounts should be amended for these errors.</i>
---

- 16 Our 2003/04 recommendation relating to the need for a fixed asset identification exercise to be carried out has started as part of the valuation exercise. The Council must continue to progress this work. The Council should ensure that this includes:
- community assets, such as those held in museums. Insurance inventories should be utilised for this area; and
  - assets relevant to joint undertakings, so that the correct values are disclosed in the balance sheet.
- 17 In addition, the 12 church and foundation schools currently included on the balance sheet should be reviewed under FRS5 (reporting the substance of transactions) to determine whether they are properly included on the Council's balance sheet (reported in 2003/04).

<b>Recommendations</b>
<i>R6 The Council must progress the asset identification exercise to ensure as far as possible that all fixed assets are identified. This should include community assets, such as those in museums, which are not currently on the fixed asset register.</i>
<i>R7 The asset identification exercise should also include assets relevant to joint undertakings. This will enable a review against FRS5 to be undertaken to ensure that the appropriate values are recognised on individual bodies' balance sheets.</i>
<i>R8 Each of the church and foundation schools should be subject to a review under FRS5 to assess whether they should be included in the Council's balance sheet.</i>

- 18 The uplift in valuation of the HRA stock was not calculated in line with the methodology set out in the DETR's 'Guidance on Stock Valuation'. This was identified as a problem in previous audits, and we agreed an approach with the Council during 2004/05 to ensure that this is rectified for the 2005/06 final accounts. The Council's RICS qualified valuer provided a certificate that gave us assurance over the valuation of the HRA stock as at 31 March 2005.

<b>Recommendation</b>
<i>R9 The Council must ensure that the methodology set out in the DETR's Guidance on Stock Valuation is followed when valuing or revaluing HRA dwelling stock for the 2005/06 accounts.</i>

- 19 There were three recommendations in 2003/04 concerning fixed assets that have not been actioned. These should be addressed for the 2005/06 accounts.

<b>Recommendations</b>
<i>R10 Note 2 to the balance sheet should disclose the historical cost or revalued amount, or the cumulative amount of provisions for depreciation or impairment, at the beginning of the financial period and at the balance sheet date.</i>
<i>R11 When assets are disposed of, the gross cost/valuation and depreciation should be written out of the fixed asset register and the balance sheet.</i>
<i>R12 An error was identified in the housing capital receipts spreadsheet in 2003/04, with the wrong figure being picked up for the regulation 98 deduction from capital receipts. This resulted in the usable capital receipts being understated by £203,000. This error does not appear to have been corrected. This should be investigated and corrected as appropriate.</i>

## External borrowing and capital financing

- 20 The Council has not included a note to the balance sheet showing the opening and closing capital requirement and reconciling the two, as required in the SORP.

### **Recommendation**

*R13 The notes to the consolidated balance sheet should include a note reconciling the opening and closing capital financing requirement to show how capital expenditure is financed.*

- 21 Based on guidance provided by the Audit Commission, we re-performed the capital financing requirement and minimum revenue provision (MRP), calculations. This included the Item A adjustment. The capital financing requirement was calculated incorrectly as the final 2003/04 balance sheet figures were used rather than the re-stated 2003/04 figures shown in the 2004/05 balance sheet (a difference of £75,000). The Item A adjustment also included an error in the calculation. The net effect on the MRP is a reduction of £27,000.

### **Recommendation**

*R14 The Item A adjustment must be corrected as this is a one-off calculation that continues to be used in future years.*

- 22 The treasury management strategy for 2005/06 sets out the operational boundary for 2005/06 but not for future financial years. Councils must set an operational boundary for their total external debt for the forthcoming year and the following two financial years, gross of investments and separately distinguishing borrowing from other long term liabilities.

### **Recommendation**

*R15 The Council should set the operational boundary for the forthcoming year and the following two financial years.*

## Consolidated revenue account (CRA)

- 23 The fund management expenses of £31,000 paid to the external fund managers have been netted off the interest disclosed in the CRA.
- 24 The methodologies used when apportioning overheads generally appear to comply with the best value accounting code of practice (BVACOP). However, as previously reported in the last three years, some smaller apportionments are based on management perception and are less robust as a result. The Council has agreed to carry out a full review of the support service system in 2005/06.



**Recommendations**

*R16 Interest received on investments and fund management expenses should be shown gross in the CRA.*

*R17 The methodologies used to apportion overheads should be reconsidered where they are based on criterion such as management perception, estimates/guesstimates etc.*

- 25** The Council is host to a pooled budget agreement and included a pooled budget disclosure note to the CRA. The following points should be included for the 2005/06 accounts:
- the note should include the gross income and expenditure of the pool and contributions/payments to/from other parties so that the net balance reconciles to the amounts charged to the host authority's accounts;
  - the Council should account for their share of assets and liabilities and the partnership percentages under FRS9;
  - balances held in the pooled budget should be allocated to partners;
  - the memorandum account should include a signed certificate bearing the original signature of the Chief Financial Officer;
  - there should be an analysis of year end income and expenditure, assets, liabilities and cash flows drawn from the memorandum account and consolidation schedules prepared which analyse all financial transactions between partners in accordance with FRS9; and
  - under FRS9 any deficit needs to be allocated out to partners. In the absence of an agreement this should be pro rata to contributions.

**Recommendation**

*R18 The Council should include a more detailed disclosure of the pooled budget agreement for the 2005/06 accounts.*

- 26** The surplus on Plymouth Leisure shown in Note 2(a) to the CRA is £75,000. The supporting working paper shows a surplus of £110,000.

**Recommendation**

*R19 The difference between the surplus on Plymouth Leisure disclosed in the note to the CRA and the amount in the supporting working papers should be investigated and corrected as appropriate.*

## Investments in companies

- 27 No 2004/05 accounts were available for one subsidiary and three associated companies, these were as follows.
- The Green House Visitors Centre (Plymouth) Ltd – Subsidiary.
  - Business Advice Centre (South West) Ltd.
  - Enterprise Plymouth Ltd.
  - South West Public Transport Ltd.
- 28 As a result, only 2003/04 accounts information was disclosed.
- 29 The only joint venture disclosed in the accounts is the Tamar Bridge and Torpoint Ferry Joint Committee. There is no disclosure of the other joint ventures identified by the Council:
- SureStart Keystone;
  - SureStart Plus;
  - Childrens Fund;
  - Westcountry Education Business Services;
  - National College of School Leadership; and
  - Youth Offending Team.

<b><i>Recommendations</i></b>
<i>R20 The Council must ensure that accounts for the relevant financial year are obtained and disclosed for subsidiary and associate companies.</i>
<i>R21 The Council should carry out an exercise to ensure that all relevant joint ventures are disclosed in the 2005/06 accounts.</i>

## Group accounts

- 30 Audited accounts are not available for the significant subsidiaries which have been consolidated into the group accounts. The group revenue account and balance sheet have therefore been prepared on draft figures. In particular the Plymouth Citybus draft excludes the taxation figure and the Managing Director's report. These issues are of concern due to the requirement in the SORP for full Group Accounts to be prepared in 2005/06.

### **Recommendation**

*R22 The Council must give urgent attention to ensuring that they achieve compliance with the SORP requirement for full Group Accounts in the 2005/06 accounts. This should include:*

- *a detailed timetable should be agreed early in the financial year, in writing, for the timely production of audited accounts in line with the shortened deadlines for the production and audit of the accounts;*
- *a control schedule should be set up to monitor the receipt of accounts with appropriate action taken to chase up items; and*
- *a file should be set up for each subsidiary and associate containing their accounts and correspondence for all years.*

## Short and long-term investments

- 31 The balance sheet contains £58,000 of 'other' long-term investments. The Council were unable to provide evidence to support the existence of this balance.

### **Recommendation**

*R23 The Council should trace the source documentation of these investments to support their existence.*

## Creditors

- 32 Debtors testing identified an invoice that had been raised to recover £51,000 that had been paid twice to a building contractor. The original creditor invoice had been paid by a school, which had sent the invoice to the Education Department for reimbursement. The Education Department paid the invoice again as the memorandum from the school was not clear. This highlights a system weakness.

### **Recommendation**

*R24 The Council must review the controls in place for the reimbursement to schools for amounts they have paid to ensure that creditors cannot be paid twice.*

- 33 A balance of £35,000 was identified on the creditors control account. Testing found that this balance relates to amounts raised on the old creditors system that were paid on the new system. Creditors are overstated by £35,000 as a result.

### **Recommendation**

*R25 Control accounts should be subject to regular review to ensure that balances that have been cleared are no longer shown on the system.*

## Debtors

- 34 The VAT debtor included two invoices, with VAT totalling £79,000, which should have been included in the April reconciliation. Debtors are, therefore, overstated by £79,000.
- 35 A member of staff was employed for an exercise to reduce the HRA arrears. Testing of the HRA bad debt provision found that his salary costs (£10,000) were netted against the bad debt provision. This expense should be shown gross in the revenue account.
- 36 Following our recommendations in previous years, the Council have included an amount in debtors for housing benefit overpayments that are being recovered from ongoing benefit. The amount is an estimate as the system does not specifically calculate this figure.

**Recommendations**

*R26 Cut off procedures should ensure that the VAT debtor only includes invoices relating to the relevant period of account.*

*R27 Expenses should be disclosed gross within the revenue accounts, rather than being netted off.*

*R28 The Council should investigate ways to calculate accurately the amount of housing benefit overpayments being recovered from ongoing benefit. The introduction of a new housing benefits system may provide an opportunity to resolve this issue.*

**Collection fund**

- 37 The council tax bad debt provision is based on an exercise carried out in November 2004, four months before the year-end. The debts go back to 1993 and large numbers of old accounts remain on the system. This was reported in 2003/04, but some elements of our recommendations have not yet been addressed.

**Recommendation**

*R29 The council tax bad debt provision should be prepared as at the year-end date with the following being considered:*

- *review of uncollectible balances remaining in older years;*
- *develop procedures to identify write-offs at an early stage;*
- *the provision should be built up in detail based on each financial year;*
- *the number of accounts remaining should be shown by year;*
- *the estimated cash collectible by year should reflect the collections being achieved;*
- *the reductions previously recorded against current year provisions should be re-evaluated to avoid this situation in future; and*
- *the detailed year-end write off report should be produced.*

- 38 The system being used for NNDR changed in 2004/05 and our audit was delayed as the claim was compiled using a combination of the old and new system data. This meant that there was not a full audit trail and the claim had to be recalculated using the current system (Academy).
- 39 A detailed review of the NNDR bad debt provision found weaknesses in the methodology meaning that the bad debt provision was potentially understated. Further work carried out resulted in the bad debt provision being increased by £341,000. This has been amended in the revised accounts.

- 40 System weaknesses were found relating to NNDR discounts. The Council does not obtain confirmation of ratepayers continuing entitlement to discounts. The risk is that discounts may continue to those who are no longer eligible.

<b><i>Recommendations</i></b>
<i>R30 The Council should ensure that a full audit trail is retained to support the entries in the NNDR3 claim.</i>
<i>R31 The Council must continue to develop the methodology for the calculation of the NNDR bad debt provision.</i>
<i>R32 The Council must put in place systems to ensure that ratepayers' continuing entitlement to mandatory and discretionary relief is confirmed.</i>

### **Cash and bank**

- 41 Our testing identified some issues with the bank reconciliation statements for LPS schools.
- With the exception of Lipson, all LPS school bank reconciliations contain differences between SIMS and the Cash Account balance. The largest difference is £63,000 on St Boniface. These balances are largely carried forward from 2003/04.
  - The bank reconciliations statements use 'unreconciled items' as terminology for unpresented cheques and outstanding lodgements. The reconciliations should show clearly what makes up this balance and label them accordingly.
  - Small unreconciled differences were noted on three of the bank reconciliations. These should be investigated and cleared:
    - Egguckland £1,642;
    - Lipson £104; and
    - Stoke Damerell £1,324.
- 42 The decriminalised parking account has a difference of £5,000 between the general ledger and the bank statement. Our testing identified that no bank reconciliation has been prepared for this account.

**Recommendations**

*R33 Differences between SIMS and the cash account balance on LPS school bank reconciliations should be investigated and cleared.*

*R34 The terminology used on the LPS school bank reconciliation should be revised so that items are correctly labelled, rather than being termed 'unreconciled'.*

*R35 Actual unreconciled differences on LPS school bank reconciliations should be investigated and cleared.*

**Provisions**

- 43 A review of all of the provisions balances using the SORP guidance notes for practitioners suggest that some of the small balances do not comply with FRS12 and should, therefore, be reserves. As provisions were not overstated by a material amount, no amendment was proposed to the 2004/05 accounts. This issue has been raised in the past three years.

**Recommendation**

*R36 All provisions should be reviewed to ensure that FRS12 is complied with, both in terms of correct classification and disclosure requirements. Where it is not, the provision should be reclassified as a reserve. Material provisions should have further disclosures in terms of the nature of the obligation, timing, estimation techniques etc.*

**Trust funds**

- 44 There are three recommendations around trust funds that have been outstanding for the last two years. These cover:
- additional disclosure requirements;
  - trust funds and special balances of £143,000 that are not recorded in the nominal ledger (including the Lord Mayor's Special Fund); and
  - lack of a review to assess whether funds are dormant or not.
- 45 Although the Council has acknowledged the need to action these points, each year the work has been deferred.

**Recommendations**

*R37 Additional disclosures are required to ensure that the trust fund's note is compliant with the SORP. The note should disclose the status of each fund (eg those where the Council is the trustee, where it appoints trustees and those where it is the custodian trustee). The note should also disclose the value of investments held, if any.*

*R38 All Trust funds and special balances should be included in the nominal ledger.*

*R39 A review of whether funds are dormant should be carried out.*

**Housing revenue account (HRA)**

- 46** The disclosure notes to the HRA do not include an explanation of the HRA share of contributions to the Pension Reserve where FRS17 charges are included within the HRA. The accounting policy note states that current cost only is included in the HRA.
- 47** The capital financing charge for assets permitted to be recorded at historical cost should be 4.8 per cent. For the HRA 4.625 per cent was used. This was the rate in the 2003 SORP.

**Recommendations**

*R40 The disclosure notes to the HRA should include an explanation of the HRA share of contributions to the Pension Reserve.*

*R41 The Council must ensure that the correct rates are used when calculating the capital financing charges.*

**Statement on Internal Control**

- 48** The Statement on Internal Control did not contain wording that reflected the final paragraph of the pro-forma Section 4: Review of effectiveness. After discussion with the Council's officers, a form of wording was agreed and included in the revised accounts.



## Acknowledgements

- 49 We would like to take this opportunity to thank the Council's staff for their assistance during the audit.

## The way forward

- 50 Where a matter has arisen during the course of the audit, we have included the details in the action plan at Appendix 1. This will serve to monitor the Council's actions on the issues raised, aided by your assignment of a responsible officer and a target date for implementation.

## Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Statement of accounts</b>						
5	R1 The basis of valuation for vehicles, plant and equipment should be disclosed in the accounting policies.	2	Corporate Accountants	Yes	Accounting policies will be amended to reflect this omission.	2005/06 statement of accounts.
5	R2 The stock and work in progress accounting policy should state that the treatment is a departure from the SORP.	2	Corporate Accountants	Yes	Accounting policies will be amended to reflect this omission.	2005/06 statement of accounts.
6	R3 Operating leases should be disclosed by asset category.	1	Corporate Accountants	Yes		2005/06 statement of accounts.
6	R4 The accounts should contain a brief note of the Council's current borrowing facilities and capital borrowing outlining; the purpose and impact of financing transactions entered into during the year and major fixed asset acquisitions and disposals.	1	Corporate Accountants	Yes		2005/06 statement of accounts.

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Fixed assets</b>						
6	R5 The statement of accounts should be amended for these errors.	3	Corporate Accountants	Yes	Draft accounts amended.	N/A
7	R6 The Council must progress the asset identification exercise to ensure as far as possible that all fixed assets are identified. This should include community assets, such as those in museums, which are not currently on the fixed asset register.	3	Corporate Accountants/ Asset Management	Yes	The asset management department are in the process of undertaking a three-year exercise to ensure all the land and property that we own is properly registered with the Land Registry. Any assets that are identified as not being in the current asset register will be added as appropriate. In terms of other assets, such as those held in museums, these will be added to the asset register if appropriate.	2005/06 statement of accounts.

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R7 The asset identification exercise should also include assets relevant to joint undertakings. This will enable a review against FRS5 to be undertaken to ensure that the appropriate values are recognised on individual bodies' balance sheets.	3	Corporate Accountants/ Asset Management	Yes		2005/06 statement of accounts.
7	R8 Each of the church and foundation schools should be subject to a review under FRS5 to assess whether they should be included in the Council's balance sheet.	3	Corporate Accountants/ Asset Management	Yes		2005/06 statement of accounts.
7	R9 The Council must ensure that the methodology set out in the DETR's Guidance on Stock Valuation is followed when valuing or revaluing HRA dwelling stock for the 2005/06 accounts.	3	Corporate Accountants / Community Services Accountants / Asset Management	Yes	The stock revaluation exercise is being undertaken by Savilles who are due to complete the exercise by 31 March 2006. The terms of reference they have been given will ensure that the DETR guidance is followed both for this year and future interim 'desktop' revaluations.	2005/06 statement of accounts.

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R10 Note 2 to the balance sheet should disclose the historical cost or revalued amount, or the cumulative amount of provisions for depreciation or impairment, at the beginning of the financial period and at the balance sheet date.	1	Corporate Accountants	Yes	This will be done as far as prime records allow. Where it is not possible to identify the historical cost, accumulated depreciation, etc, the net book value will continue to be disclosed in the note to the balance sheet and this will be disclosed within the accounts. It is not envisaged, however, that there will be a significant number of assets which will fall into this category.	2005/06 statement of accounts.
7	R11 When assets are disposed of, the gross cost/valuation and depreciation should be written out of the fixed asset register and the balance sheet.	1	Corporate Accountants	Yes	As R10.	2005/06 statement of accounts.

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R12 An error was identified in the housing capital receipts spreadsheet in 2003/04, with the wrong figure being picked up for the regulation 98 deduction from capital receipts. This resulted in the usable capital receipts being understated by £203,000. This error does not appear to have been corrected. This should be investigated and corrected as appropriate.	2	Community Services Accountants	Yes	Having checked our records we can confirm that the accounts have not yet been adjusted for his error. This will be rectified in the 2005/06 accounts.	2005/06 statement of accounts.
<b>External borrowing and capital financing</b>						
7	R13 The notes to the consolidated balance sheet should include a note reconciling the opening and closing capital financing requirement to show how capital expenditure is financed.	3	Corporate Accountants	Yes	This was identified late on during the audit and there was insufficient time to incorporate this note into the 2004/05 statement of accounts. A note will be included in 2005/06 as required by the SORP.	2005/06 statement of accounts.

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R14 The Item A adjustment must be corrected as this is a one-off calculation that continues to be used in future years.	3	Corporate Accountants	Yes		2005/06 statement of accounts.
8	R15 The Council should set the operational boundary for the forthcoming year and the following two financial years.	2	Corporate Accountants	Yes	The operational boundary for future years is included in an appendix to the treasury management strategy report. However, the recommendations within the report do not specifically ask for the future years' limits to be approved. This has been rectified for the 2006/07 strategy.	2006/07 Treasury Management Strategy was approved at 21 February 2006 Cabinet meeting.
<b>Consolidated revenue account (CRA)</b>						
8	R16 Interest received on investments and fund management expenses should be shown gross in the CRA.	3	Corporate Accountants	Yes	Amended in draft accounts.	Not applicable

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R17 The methodologies used to apportion overheads should be reconsidered where they are based on criterion such as management perception, estimates/guesstimates etc.	2	Head of Finance	Yes	The Project Accountant who was taken on to lead on an exercise to implement a new support service process for the authority left a number of months ago and has not been replaced due to the pending restructure of the Finance Department. This has meant that there has been insufficient capacity within the accountancy section to undertake this work in 2005/06. There will be a 'high-level' review of charges for the 2005/06 accounts and a full review will be undertaken during 2006/07 as part of the budgetary control project currently being drawn up.	2006/07 statement of accounts
9	R18 The Council should include a more detailed disclosure of the pooled budget agreement for the 2005/06 accounts.	2	Community Services Accountants/ Corporate Accountants	Yes		2005/06 statement of accounts.



Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	R19 The difference between the surplus on Plymouth Leisure disclosed in the note to the CRA and the amount in the supporting working papers should be investigated and corrected as appropriate.	2	Corporate Accountants	N/A	Correct working paper now supplied to substantiate figures within the statement of accounts.	Not applicable
<b>Investments in companies</b>						
9	R20 The Council must ensure that accounts for the relevant financial year are obtained and disclosed for subsidiary and associate companies.	3	Corporate Accountants/ All relevant Finance Teams	Yes	This will be incorporated into the exercise to identify all related bodies as part of the work for on group accounts.	2005/06 statement of accounts.
10	R21 The Council should carry out an exercise to ensure that all relevant joint ventures are disclosed in the 2005/06 accounts.	3	Corporate Accountants/ All Finance Teams	Yes	This will be incorporated into the exercise to identify all related bodies as part of the work for the revised SORP requirements relating to group accounts.	2005/06 statement of accounts.

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Group accounts</b>						
10	<p>R22 The Council must give urgent attention to ensuring that they achieve compliance with the SORP requirement for full group accounts in the 2005/06 accounts. This should include:</p> <ul style="list-style-type: none"> <li>• a detailed timetable should be agreed early in the financial year, in writing, for the timely production of audited accounts in line with the shortened deadlines for the production and audit of the accounts;</li> <li>• a control schedule should be set up to monitor the receipt of accounts with appropriate action taken to chase up items; and</li> <li>• a file should be set up for each subsidiary and associate containing their accounts and correspondence for all years.</li> <li>•</li> </ul>	3	Corporate Accountants	Yes	<p>The exercise to produce full group accounts in line with the revised SORP requirements is underway and is being undertaken in partnership with PwC. We are, however, concerned about the practicalities of obtaining all the required information from the arms length companies within the timescale necessary for us to produce approved accounts by 30 June given that companies don't have to file their accounts until 9 months after the year-end. We are currently investigating the possibility of using estimates for the group accounts and will do this in consultation with the auditor to ensure that a satisfactory process for all parties is agreed.</p>	2005/06 statement of accounts.

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Short and long-term investments</b>						
10	R23 The Council should trace the source documentation of these investments to support their existence.	2	Corporate Accountants	Yes	Work will be undertaken to try to trace these documents within the authority. Should this not be successful then evidence to support the existence of these investments will be sought from the bodies with which the investments are held.	By 31 July 2006 in order that the documents are available for the start of the 2005/06 audit.
<b>Creditors</b>						
10	R24 The Council must review the controls in place for the reimbursement to schools for amounts they have paid to ensure that creditors cannot be paid twice.	3	Childrens' Services Accountants/ Head of Finance	Yes	The controls in place for all creditor payments will be reviewed as part of a current exercise to identify duplicate payments within our accounts.	N/A

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
11	R25 Control accounts should be subject to regular review to ensure that balances that have been cleared are no longer shown on the system.	3	Corporate Accountants	Yes	This point related to a residual balance on the control accounts for the old creditors system and this has now been reviewed and cleared. All control accounts relating to the main accounting systems (payroll, debtors and creditors) are now reconciled on a monthly basis and any differences investigated in a timely manner.	Ongoing
<b>Debtors</b>						
11	R26 Cut off procedures should ensure that the VAT debtor only includes invoices relating to the relevant period of account.	2	Corporate Accountants	Yes	A process to check larger payments around the year-end period will be put in place to ensure that, as far as possible, VAT is accounted for in the correct financial year.	2005/06 closedown – April 2006

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
11	R27 Expenses should be disclosed gross within the revenue accounts, rather than being netted off.	2	Corporate Accountants	Yes	This related to one expense for £10,000 that was charged to the HRA bad debt provision rather than direct to the HRA revenue account. We will ensure, wherever possible, costs are correctly coded to the accounts in future.	2005/06 statement of accounts.
11	R28 The Council should investigate ways to calculate accurately the amount of housing benefit overpayments being recovered from ongoing benefit. The introduction of a new housing benefits system may provide an opportunity to resolve this issue.	1	Central Services Accountants	Yes	The new housing benefits system, which is due to be implemented in July 2006, will enable an accurate calculation of housing benefit overpayments being recovered from ongoing benefit to be made as it produces better management information than the current system. An estimate will be provided for in the 2005/06 accounts using the same technique as used for 2004/05.	2006/07 statement of accounts.

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Collection fund</b>						
12	R29 The council tax bad debt provision should be prepared as at the year-end date with the following being considered: <ul style="list-style-type: none"> <li>• Rreview of uncollectible balances remaining in older years;</li> <li>• develop procedures to identify write-offs at an early stage;</li> <li>• the provision should be built up in detail based on each financial year;</li> <li>• the number of accounts remaining should be shown by year;</li> <li>• the estimated cash collectible by year should reflect the collections being achieved;</li> </ul>	2	Corporate Accountants/ Revenues and Benefits	Yes	The bad debt provision will be prepared at year-end in consideration of the points raised. Arrears analysis and write-off reports will be run and estimates will be made with reference to the information provided in these reports.	2005/06 statement of accounts.

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<ul style="list-style-type: none"> <li>• the reductions previously recorded against current year provisions should be re-evaluated to avoid this situation in future; and</li> <li>• the detailed year-end write off report should be produced.</li> </ul>					
12	R30 The Council should ensure that a full audit trail is retained to support the entries in the NNDR3 claim.	3	Corporate Accountants/ Revenues and Benefits	Yes	The relevant reports and background papers which support the entries in the NNDR3 claim will be retained for scrutiny.	2005/06 statement of accounts.
12	R31 The Council must continue to develop the methodology for the calculation of the NNDR bad debt provision.	2	Corporate Accountants/ Revenues and Benefits	Yes	The change in methodology that resulted to an adjustment to the NNDR BDP and NNDR3 in 2004/05 will be continued in 2005/06 and beyond.	2005/06 statement of accounts.

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
12	R32 The Council must put in place systems to ensure that ratepayers' continuing entitlement to mandatory and discretionary relief is confirmed.	3	Corporate Accountants/ Revenues and Benefits	Yes	The whole process for the grant of mandatory and discretionary relief is currently under review. It is the intention that all relief granted will be subject to a regular review of entitlement, probably on a 12 monthly basis. This regular review will start to be undertaken in the financial year beginning on 1 April 2006.	2005/06 statement of accounts
<b>Cash and Bank</b>						
13	R33 Differences between SIMS and the cash account balance on LPS school bank reconciliations should be investigated and cleared.	2	Childrens' Services Accountants	Yes	Reconciliations are now undertaken three times a year, on a termly basis.	Ongoing



Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
13	R34 The terminology used on the LPS school bank reconciliation should be revised so that items are correctly labelled, rather than being termed 'unreconciled'.	2	Childrens' Services Accountants	Partly	There are a number of stakeholders that use the information contained within these reconciliations. The terminology 'unreconciled' matches that of the schools IT systems, is recognised by them and understood. Propose that we leave the terminology as it is in order to avoid confusion for the schools, but add additional explanations for the copy to be reviewed by the auditor to explain each element of the reconciliation fully.	2005/06 reconciliations
13	R35 Actual unreconciled differences on LPS school bank reconciliations should be investigated and cleared.	3	Childrens' Services Accountants	Yes		Ongoing

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Provisions</b>						
13	R36 All provisions should be reviewed to ensure that FRS12 is complied with, both in terms of correct classification and disclosure requirements. Where it is not, the provision should be reclassified as a reserve. Material provisions should have further disclosures in terms of the nature of the obligation, timing, estimation techniques etc.	2	Corporate Accountants	Yes		2005/06 statement of accounts.

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Trust funds</b>						
14	R37 Additional disclosures are required to ensure that the trust fund's note is compliant with the SORP. The note should disclose the status of each fund (eg those where the Council is the trustee, where it appoints Trustees and those where it is the custodian trustee). The note should also disclose the value of investments held, if any.	2	Corporate Accountants	Yes	We recognise that we need to address this issue. However, we have to be realistic with what we are able to achieve in the short-term given that it is a relatively minor issue when compared with other issues we need to address for the 2005/06 accounts, the least of which will be reducing our closedown timetable by a month. This will be reviewed as part of the Budgetary Control project currently being drawn up, covering the next three years.	To be advised once the Budgetary Control project plan has been finalised.
14	R38 All Trust funds and special balances should be included in the nominal ledger.	2	Corporate Accountants/ Relevant Finance Teams	Yes	As R37	As R37
14	R39 A review of whether funds are dormant should be carried out.	2	Head of Finance	Yes	As R37	As R37

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Housing revenue account (HRA)</b>						
14	R40 The disclosure notes to the HRA should include an explanation of the HRA share of contributions to the Pension Reserve.	2	Corporate Accountants/ Community Services Accountants	Yes	This note was not included within the 2004/05 statement of accounts as the HRA FRS17 adjustment was only 27,000 and did not seem to warrant a separate disclosure. This will be included in the 2005/06 statement of accounts to ensure full compliance with the SORP.	2005/06 statement of accounts.
14	R41 The Council must ensure that the correct rates are used when calculating the capital financing charges.	2	Corporate Accountants/ Community Services Accountants	Yes		2005/06 statement of accounts.