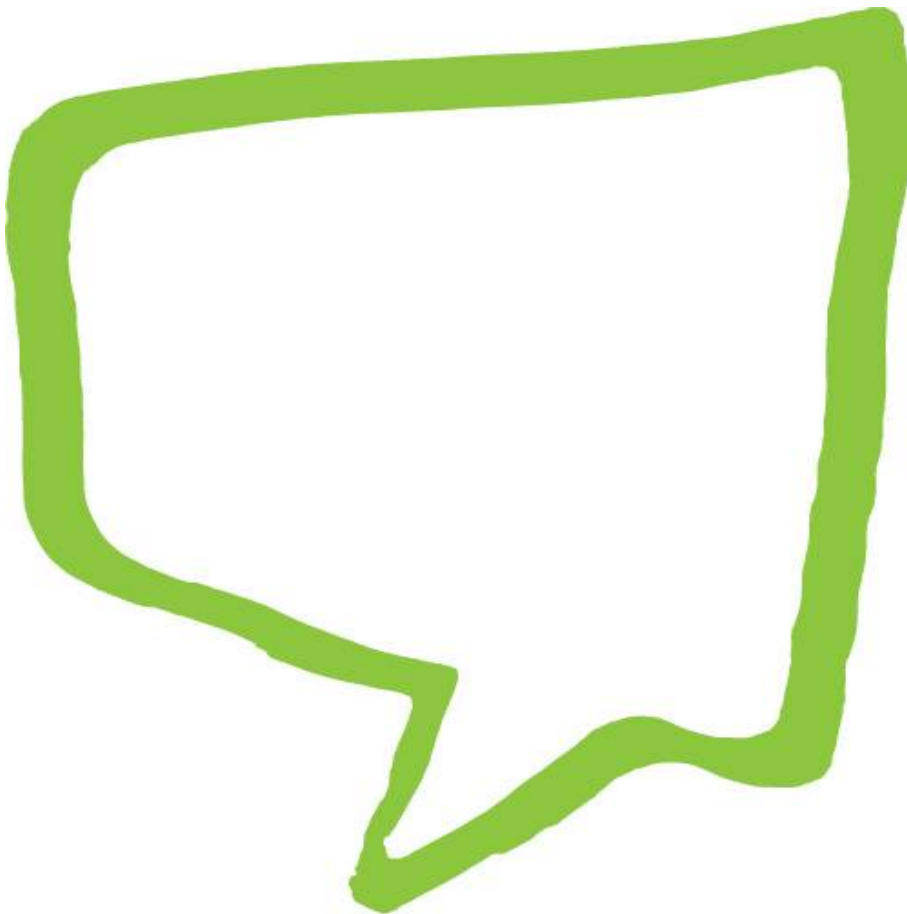


Final Accounts Memorandum

Taunton Deane Borough Council

Audit 2007-2008

December 2008



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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 2008. We presented our Annual Governance Report to the Corporate Governance Committee on 30 September 2008. This report sets in more detail our findings from our audit of the Council's accounts.

Background

- 2 The prime objective of our opinion work is to provide the following:
- an independent assessment of your accounts, to ensure that they present fairly the financial position and results of the operation of the Council;
 - an assessment of whether the statement of accounts have been prepared in accordance with the CIPFA Statement of Recommended Practice (SORP) and Best Value Accounting Code of Practice (BVACOP); and
 - an assessment as to whether the statement of internal control reflects the Council's compliance with the CIPFA guidance and is consistent with our own audit knowledge.

Audit approach

- 3 Our audit approach is based on the Internal Auditing Standards (ISAs), which require us to identify the material financial systems used by the council to produce the financial statements
- 4 We are then required to document our understanding of the systems and identify and test the key controls within the system designed to minimise the risk of material misstatement in the financial statements.
- 5 Our audit approach for 2007/8 was to revisit systems documentation prepared previously and carry out walkthrough testing to confirm the correct operation of the systems and identify any changes. Key system controls testing is carried out on a cyclical basis over a three year period. In 2007/8 more systems were tested than usual because of:
 - weaknesses found in previous years;
 - new systems being introduced; and
 - to even out the workload with 2008/09, when the Council plans to introduce a range of new systems with the migration to SAP.
- 6 Key controls on the following systems were tested:
 - Sales Ledger
 - Council Tax
 - National Non-domestic Rates
 - Car Parking
 - Treasury Management
 - Housing Benefit
 - Payroll
 - Rent
 - Client Team.
- 7 We have also considered other risks of material misstatement and key business risks from other internal and external sources.
- 8 Where possible we placed reliance on the work of internal audit for our testing of the key system controls.

Main conclusions

- 9 The statement of accounts was approved by the Corporate Governance Committee on 26 June 2008, before the statutory deadline of 30 June 2008. Our audit opinion was issued following the Corporate Governance Committee's consideration of our Annual Governance Report at its meeting on 30 September 2008, which provided a summary of the key issues from our opinion work.
- 10 The Corporate Governance Committee was also asked to approve a revised set of accounts at its September meeting. These revised accounts had been amended for all material or non-trivial errors identified at audit. In our opinion, the revised accounts are free from material misstatement and have been prepared in accordance with proper professional practice.
- 11 From our system testing, we were able to conclude that most of the key controls in the financial systems, which provide the material balances in the financial statements, were working effectively for the financial year ended 31 March 2008. This enabled us to place reliance on the information provided by the systems in our audit of the financial statements.
- 12 Where key controls were not found to be operating effectively, additional audit tests were performed on specific balances in the financial statements.
- 13 Control weaknesses identified during the system audit included the following:
 - Fixed asset register. This is updated at the year-end as part of the closedown process, which makes it difficult to regularly report progress against capital projects to management and members throughout the year.
 - Payroll. There was no establishment list in existence for either retained or seconded staff. This made it difficult for departmental managers confirm that staff costs were as expected as there is no budgeted list of personnel employed to compare to actual costs.
 - Payroll. Reconciliations are prepared on a monthly basis in the finance department to confirm that total payroll costs are correctly posted from the information supplied by SCC, but copies of these reconciliations are not kept as evidence of the control.
 - Benefits team. Weaknesses in reconciliations between IBS Sundry Debts and FMS.
 - Council tax. There was substantial slippage on the planned programme of inspections of council tax exemptions.
 - Council tax. The number of bills posted had not been reconciled fully to the number of bills printed.

Main conclusions

- 14 A summary of the recommendations arising from these weaknesses is shown below in the 'Detailed Report'.
- 15 Additional testing carried out at the post statement audit confirmed that key controls as tested had operated effectively for the whole of the financial year.
- 16 During the audit of the financial statements, we found a number of errors in the draft statement of accounts. The key errors, which were all corrected in the revised statements, were as follows;
 - A loss on disposal of fixed assets of £743k was shown in the consolidated Income and Expenditure account as a profit and so the deficit on the I&E account was understated by £1.486 million.
 - The accounts recorded a capital grant payment and a matching capital receipt for £115,000 - the valuation figure - in respect of the transfer of land to a housing association, when the land had in fact been transferred for the nominal sum of £1.
 - Costs of £365,000 in respect of payments to Southwest One for the development of the SAP project (£114,000) and construction costs at two sports pavilions (£60,000) and the Highfields Nursery (£191,000) were incorrectly charged to work in progress rather than being shown within fixed assets.
 - A liability included in creditors for £192k in respect of collections made from taxpayers for waste collection was found to have been collected in advance of 2008/09. A balance was also included in debtors. Both of these balances were removed from the accounts.
 - Short term investments for £30k were included in long term investments.
 - A Road Sweeping machine costing £79k was incorrectly included in debtors. This was due to a sale and leaseback arrangement failing because the supplier went into liquidation. This asset should have been capitalised as it was in use before the year end.

Detailed Report

Asset Register & Capital Programme

- 17** We have recommended previously that capital expenditure should be monitored and reported on a regular basis. This did not happen consistently throughout the year. Effective monitoring would have identified the omission of the Road Sweeping machine from the Fixed Asset Register.
- 18** Regular updating of the asset register would help the Council to monitor expenditure against capital projects, and would support regular capital budget monitoring, as well as asset management planning.
- 19** Finance need to be kept better informed by the legal team regarding property sales and acquisitions. In 2006/07, finance staff were not informed fully about the acquisition date of land purchased for £1m around the year end and the sale was posted in the wrong accounting period. In 2007/08, car parking was sold to a housing association for £1 but finance had been informally notified that the property had been sold for £115k, resulting in false entries in the accounts.
- 20** While reviewing the Fixed Asset Register, it was noted that the amounts by which asset have been revalued have been recorded in an additional column. However, these figures have not been transferred into a working paper to support the Revaluation Reserve.

Recommendation
<p>R1 Members should receive regular monitoring reports showing actual spending to date and a forecast final outturn against approved estimates for all current capital projects. Updating the asset register throughout the year would facilitate this regular reporting.</p> <p>R2 The legal department should ensure that the finance team are given all relevant information about property acquisitions and disposals to ensure that the nature of these transactions is fully and accurately recorded in the accounts.</p> <p>R3 A schedule detailing the assets and the related revalued amount should be prepared to support the Revaluation Reserve figure in the accounts.</p>

Treasury management

- 21 In order to gain evidence of investments, we requested a copy of the investment register. This could not be supplied and we had to examine each of the investment files to compile a list. The files we were given were incomplete as one investment was omitted.
- 22 Our audit also identified that investments with less than 12 months until maturity were included in long term investments. Keeping this schedule up to date would differentiate between long and short term investments.

Recommendation

- R4** A schedule of investments should be kept detailing the address of the Bank/ Building Society invested in and the broker's details. This should be updated each time an investment is made or matures.

National Non Domestic Rates

- 23 During the systems audit we discovered that the property charge total produced as part of the NNDR collection statistics for 2007/08 and prior years did not agree to the gross amount reported on the NNDR3 claim by £265,891 although both reports are generated from the IBS system. The figure on the claim form was audited and confirmed as correct.

Recommendation

- R5** The NNDR team should ensure that the property charge total report is reconciled to the NNDR3 claim.

Council Tax

- 24 There was substantial slippage on the planned programme of inspections of council tax exemptions.
- 25 No evidence was available to prove that the Council had carried out sample checks on council tax bills before they were issued.
- 26 The number of bills posted had not been reconciled fully to the number of bills printed.

Recommendation

- R6** The council should ensure that the control weaknesses we have noted in the Council Tax system are addressed.

Working Papers

- 27** The standard of this year's working papers was not of the same standard as supplied in previous years, for example:
- Several of what were intended to be supporting schedules did not appear to agree to the figures in the accounts. In some cases the totals on various schedules had to be added together to come to the figure in the accounts. In other cases new working papers had to be prepared.
 - Evidence supplied to us to support accruals such as fixed asset additions did not agree to the working papers provided to us.
 - The supporting schedule to confirm balances such as the collection fund receipts in advance included in creditors was not available since this had not been copied for the finance department as evidence. When the Benefits department were asked to reproduce the schedule, they were unable to.
- 28** Better liaison between Finance, Control Team and Benefit staffs may help to reduce duplication of work. For example, during our testing we discovered that Benefit overpayment of debts is reconciled monthly by the Revenue and Benefits Team, but the control account did not balance due to a journal which had been posted by Finance of which the Revenue and Benefits Team were not aware.

Recommendation

- R7** Working papers should be checked prior to audit to ensure that they are complete clearly support the relevant figures in the statements.
- R8** Evidence supplied to support accruals figures in summary working papers should be given to the finance department and filed electronically, or paper copies should be kept where this is not possible. The method of calculating the accrual should be clear from the working paper.
- R9** Where reports need to be run off from systems such as collection fund receipts in advance, a copy of the report should be supplied to and kept by Finance to support the figure in the accounts. The finance department should not accept figures from other departments to be included in the accounts without checking that supporting evidence is available for audit purposes.
- R10** Finance, Control Team and the Revs and Bens departments need to liaise closely to see if there are controls carried out by two teams which could be assigned to one team.
- R11** The working papers should include comprehensive analytical review which provides explanations for all significant movements in figures from the previous year.

Errors in Financial Statements

- 29 We identified one material and three non-trivial errors in the financial statements. These are summarised above in paragraph 15. Officers adjusted the accounts for these errors.

Recommendation

R12 The Council should review its accounting closure processes to reduce the risk of material and other errors appearing within the statements presented for audit.

Issues arising from the audit of the Pooling Grant Claim

- 30 While auditing the pooling grant claim, we found that errors had occurred in the calculation of the figures in cell 9 (Capital receipts received in the year less reductions), and so the calculation of the poolable amount in cell 10 was incorrect.
- 31 There was no evidence supplied to confirm the amount of capital receipt extinguished by capital allowances of dwellings in cell 8e. Therefore we could not verify that the amount shown in the cell was correctly stated.
- 32 From a review of the working papers for the reserves, it was not clear that the receipts set aside to pay for affordable housing, and therefore excluded from the pooled receipts on the grant claim, had been clearly earmarked in the accounts for this purpose, to prevent them being inadvertently used for other purposes in future.

Recommendation

R13 The pooling grant claim calculation, as this is a manual claim, should be checked to ensure the form correctly adds up in agreement with the guidance supplied by the granting authority.

R14 When funds are received from the sale of properties where they are to be set aside for affordable housing, and therefore not subject to being pooled, a committee minute is needed to confirm that this is the Council's intention for the funds.

R15 A separate ledger account should be set up for amounts included in Unapplied Capital Receipts which must be used for a specific purpose ie affordable housing and amounts and those for general capital projects.

Issues arising from the audit of the Disabled Facilities Grant claim

- 33** The working papers for the DFG claim did not distinguish between amounts spent in respect of Prior Year carry over projects and those relating to New Year projects. This resulted in an overstatement of the figure included in cell F003DF and therefore an understatement of the amount to be returned to the Department shown in cell F008DF.

Recommendation

R16 The working paper provided to support the Disabled Facilities Grant claim should distinguish between the grants awarded and payments made to complete Prior Year grants and those in respect of current year grants.

Issues arising from the audit of the Base Date Return HOU02

- 34** Errors were identified on nine cells on this form, mainly relating to three problem areas:
- The Academy system did not show the correct number of bed spaces for all multi-occupied dwellings. An example would be cell F001DP.
 - Cells were not completed in accordance with the guidance notes so multi occupied dwellings had been omitted. An example would be cell F037MM and guidance note 47.
 - Working papers were provided where the figure on the claim was not the same as that on the working paper. An example would be F008CC where the £000s was omitted.

Recommendation

R17 The Council should introduce a process to review all of the multi-occupied dwellings included in academy on an annual basis, to confirm it still reflects the correct number of bed spaces. The number of equivalent dwellings should also be checked or recalculated as a result of this review.

R18 Guidance should be carefully read prior to the preparation of the base data return form each year to check if there have been any changes to the legislation or to check disclosures have not been made incorrectly in previous years so that disclosure errors in the current year are not made because of following prior years disclosure errors.

Detailed Report

Recommendation

R19 The base data return form should be checked back to the working papers by a reviewer as a double check to help ensure that the form agrees to the working papers.

R20 An analytical review working paper should be prepared comparing the figures on the base data return for the past 3 years. This will help to highlight any changes that have taken place in the form and will help to identify obvious errors which can be easily checked and areas where explanations will be needed for audit purposes.

Appendix 1 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Asset Register/Capital Programme						
8	R1 Members should receive regular monitoring reports showing actual spending to date and a forecast final outturn against approved estimates for all current capital projects. Updating the asset register throughout the year would facilitate this regular reporting.	1	Paul Carter	No	<p>The relevant member panel already receives budget monitoring reports each quarter – this includes any identified slippage against the capital programme. This does not show spend to date but like all TDBC budget monitoring focuses on variances against budget.</p> <p>Updating the register throughout the year does not aid budget monitoring nor capital financing and merely increases work during the year which is of no relevance until the year end when it then has to be completed for closedown purposes. The new financial system (SAP) will allow real time updating of the Councils asset register.</p>	N/A
8	R2 The legal department should ensure that the finance team are given all relevant information about property acquisitions and disposals to ensure that the nature of these transactions is fully and accurately recorded in the accounts.	3	Paul Carter	Yes	PC to arrange a meeting with the Legal Manager to ensure that a process is put in place to improve communication between the services.	31 December 2008

Appendix 1 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R3 A schedule detailing the assets and the related revalued amount should be prepared to support the Revaluation Reserve figure in the accounts.	2	Paul Carter	Yes	Agreed – this will be included in the working papers for the 2008/09 closedown	Prior to 08/09 audit
Treasury Management						
9	R4 A schedule of investments should be kept detailing the address of the Bank/ Building Society invested in and the broker's details. This should be updated each time an investment is made or matures	1	P Carter	No	The address of the bank and broker is not required for day-to-day treasury management, especially given that the council both receives and repays investments electronically and receives confirmations either by fax or email. This information is also held on the file created for each individual investment. The treasury management spreadsheet contains details of where each investment is placed and the detailed investment file contains details of the broker involved.	N/A
NNDR and Council Tax						
9	R5 The NNDR team should ensure that the property charge total report is reconciled to the NNDR3 claim.	3	Simon Doyle	Partially	The figures entered on the NNDR3 for 2007/08 in year are correct. There will always be a discrepancy on previous year's figures because on a very small number of properties, the IBS system is calculating some charges differently to our old in-house system. As a consequence, guidance from IBS advises we amend the figure in line 11ii (previous year).	As preparation for the NNDR3 2008/09

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	R6 The Council should ensure that the control weaknesses we have noted in the Council Tax system are addressed.	3	H Tiso	Partially	<p>Agreed -Inspections did slip during 2007/08. This was almost exclusively due to the inspection service running at 50% under staffed for much of the year due to the long term ill health of one of our inspectors. That member of staff has subsequently retired on ill health and a permanent replacement has been employed. Inspections are currently back on track and should continue to be so going forward.</p> <p>Not Agreed -Exhaustive checks of annual 2007/08 Council Tax bills were made prior to their issue. 2007/08 was our first year billing through our new IBS computer system and consequently an even more robust checking regime was employed that year for this very reason.</p> <p>Evidence of this is available and can be provided on request.</p> <p>Agreed -There was a slight discrepancy between the number of bills produced and the postal docketts (caused by overseas and TDBC items not being included within the walksort post book). We will endeavour to ensure our contractor provides a full reconciliation for 2008/09.</p>	H Tiso

Appendix 1 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Working Papers						
10	R7 Working papers should be checked prior to audit to ensure that they are complete clearly support the relevant figures in the statements.	3	P Carter	Yes	It would be appreciated if the AC could provide a list of WPs which did not support the statements both for 2007/08 and during the progress of the 2008/09 audit. This will enable managers to ensure that WPs are of the required standard. It may also be beneficial for Paul and Terry to spend some time with more junior audit staff and finance staff prior to the audit so they understand more fully the nature of the authority's accounts and the linkages between the various statements and WPs.	31 December 2008
10	R8 Evidence supplied to support accruals figures in summary working papers should be given to the finance department and filed electronically, or paper copies should be kept where this is not possible. The method of calculating the accrual should be clear from the working paper.	3	P Carter	Yes	Agreed – again it would be beneficial if a schedule of accruals which were not supported by a WP from the 2007/08 audit could be produced by the AC – this can then help the accountants improve problem areas.	31 January 2009
10	R9 Where reports need to be run off from systems such as collection fund receipts in advance, a copy of the report should be supplied to and kept by Finance to support the figure in the accounts. The finance department should not accept figures from other departments to be included in the accounts without checking that supporting evidence is available for audit purposes.	2	P Carter	Yes in part	Agreed that reports should be retained where available. For some year end entries i.e. accruals then the responsibility for calculating rests with the manager (with finance guidance) and finance is not able to verify each entry on an individual level only on a general overall level of assurance	To be included in the training for the 08/09 closedown and in improved 2008/09 accrual forms.

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
10	R10 Finance, Control Team and the Revs and Bens departments need to liaise closely to see if there are controls carried out by two teams which could be assigned to one team.	1	P Carter/Simon Doyle	Yes	We will review this after the completion of Southwest One's organisation redesign and the implementation of SAP.	August 2009
10	R11 The working papers should include comprehensive analytical review which provides explanations for all significant movements in figures from the previous year.	2	P Carter	Yes	Agreed – however AR WPs were supplied in accordance with the schedule of required WPs. If additional WPs are required then these should be included in the WP schedule in advance of its submission to the finance team for completion.	As part of 2008/09 WP schedule
Errors in the Financial statements						
11	R12 The Council should review its accounting closure processes to reduce the risk of material and other errors appearing within the statements presented for audit.	3	P Carter	Yes	Particular focus will be paid to the balance sheet lead schedule in 2008/09 as this was the area that created most problems for the 2007/08 accounts In addition a number of further reconciliations will be brought about to improve overall balance sheet control i.e. MRA, Capital receipts and profit/loss on fixed assets. The year end timetable will be reviewed to allow extra time for review of the completed statements.	As part of the 2008/09 closedown timetable

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Pooling Grant Claim						
11	R13 The pooling grant claim calculation, as this is a manual claim, should be checked to ensure the form correctly adds up in agreement with the guidance supplied by the granting authority.	3	Principal Accountant/Certifier of return.	Yes	All working paper's checked twice by Housing Accountant against return then given to certifier to random check working papers with return.	31 January 2009
11	R14 When funds are received from the sale of properties where they are to be set aside for affordable housing, and therefore not subject to being pooled, a committee minute is needed to confirm that this is the Council's intention for the funds.	3	Property services manager	Yes	Property services to notify Finance on a quarterly basis in order that it can be included in quarterly budget report to the Executive via Overview and Scrutiny.	wef Q3 2008 09
11	R15 A separate ledger account should be set up for amounts included in Unapplied Capital Receipts which must be used for a specific purpose i.e. affordable housing and amounts and those for general capital projects.	3	Housing Accountant	Yes	Reconciliation quarterly to agree FMS with Housing Enabling Manager.	Immediate
Disabled Facilities Grant						
11	R16 The working paper provided to support the Disabled Facilities Grant claim should distinguish between the grants awarded and payments made to complete Prior Year grants and those in respect of current year grants.	1	Grant Administrator and Housing Accountant.	Yes	Existing spreadsheet to be amended to be split the grants between prior and current year.	June 2009 (in advance for 08/09 closedown)

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Base Data Return HOU02						
12	R17 The Council should introduce a process to review all of the multi-occupied dwellings included in academy on an annual basis, to confirm it still reflects the correct number of bed spaces. The number of equivalent dwellings should also be checked or recalculated as a result of this review.	2	Housing Information Assistant, IT and Housing Accountant.	Yes	Housing Information Assistant to agree stock by archetype, shared ownership and multi occupancy units with Academy and Housing Accountant.	End of March 2009
12	R18 Guidance should be carefully read prior to the preparation of the base data return form each year to check if there have been any changes to the legislation or to check disclosures have not been made incorrectly in previous years so that disclosure errors in the current year are not made because of following prior years disclosure errors.	3	Housing Accountant	Yes	Set aside reading time and review previous years audited returns.	Immediate
12	R19 The base data return form should be checked back to the working papers by a reviewer as a double check to help ensure that the form agrees to the working papers.	2	Principal Accountant/Certifier	Yes	All working paper's checked twice by Housing Accountant against return then given to certifier to random check working papers with return.	As preparation of 2009/10 return

Appendix 1 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
12	R20 An analytical review working paper should be prepared comparing the figures on the base data return for the past 3 years. This will help to highlight any changes that have taken place in the form and will help to identify obvious errors which can be easily checked and areas where explanations will be needed for audit purposes.	3	Housing Accountant	Yes	Create analytical review working paper after base return has been checked.	As preparation of 2009/10 return

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