

# Public Document Pack

**Argyll and Bute Council**  
Comhairle Earra Ghaidheal agus Bhoid

Corporate Services  
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17 September 2009

## **SUPPLEMENTARY PACK**

### **AUDIT COMMITTEE – 18 SEPTEMBER 2009 AT 11.00 AM**

I enclose herewith item 16 (**REPORT ON THE 2008 – 2009 ACCOUNTS AUDIT**) which was marked to follow on the above agenda.

Nigel Stewart  
Director of Corporate Services

## **BUSINESS**

- 16. REPORT ON THE 2008 - 2009 ACCOUNTS AUDIT**  
Report by Grant Thornton, UK LLP, External Auditors (Pages 1 - 24)

## **AUDIT COMMITTEE**

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Councillor David Kinniburgh  
Councillor James Robb  
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Councillor Mary-Jean Devon  
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Grant Thornton

## Argyll and Bute Council

Report on the 2008-09 Accounts Audit

16 September 2009

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- A Summary of Accounting Adjustments**
- B Action Plan**
- C Follow up of prior year recommendations**

# 1 Executive Summary

## 1.1 Purpose of the Report

1.1.1 We have audited the financial statements of Argyll and Bute Council (the Council) for the 2008-09 financial year. This report sets out the key findings emerging from our audit, and meets the requirement to communicate audit matters to those charged with governance under International Standard on Auditing (UK & Ireland) (ISAUK) 260.

## 1.2 Financial statements

1.2.1 We expect to give an unqualified opinion on the Council's 2008-09 financial statements and conclude that the financial statements are prepared in accordance with Part VII of the Local Government (Scotland) Act 1973 and the 2008 SORP.

1.2.2 The Council prepared well for the financial statements audit and the draft accounts and supporting working papers were of a good standard. This enabled our audit to progress smoothly with a relatively small number of audit findings to report.

1.2.3 The Council's catering and cleaning trading operation achieved a £0.97 million surplus for the year, but has recorded deficits exceeding £1 million in each of the previous 2 years. As a result, this trading account has not met its statutory financial target to break even over a rolling 3 year period for the third successive year. This matter will be referred to in an explanatory paragraph in the audit report.

1.2.4 The Council's draft accounts have been adjusted to record a provision of £0.8 million for the additional costs associated with the implementation of single status arrangements. This increased provision reflects the outcomes of the recent appeals process. The Council has also updated its accounts to reflect a potential contingent liability in relation to single status appeals currently in progress.

1.2.5 The Council's group accounts include the consolidation of the Council's interest in Strathclyde Police Joint Board and Strathclyde Fire and Rescue Joint Board. All local authorities were notified in August 2009 that the new police and fire pension schemes are not covered by the Local Government Pension Reserve Fund (Scotland) Regulation 2003. As a result, Councils are unable to reverse out the pension costs applicable under FRS 17, Retirement Benefits, and replace them with the actual pension contributions paid out of the general fund.

1.2.6 The Council has received confirmation that Strathclyde Police Joint Board will not be processing an adjustment to their accounts to comply with the 2003 Regulations and the Council has estimated that this omission will impact on their group accounts by decreasing their share of the general fund of the Strathclyde Police Joint Board by £447,000 and increasing their share in the pension reserve by £447,000. The Council has not adjusted the accounts to reflect this decrease on the grounds of materiality. Strathclyde Fire and Rescue Joint Board have adjusted their accounts to comply with the 2003 Regulations and the Council have processed their share of the adjustment (£93,000).

- 1.2.7 Our audit included a review of fixed asset transactions during the year. The Council sold assets with a combined value of £0.3 million in the year that were not recorded on the fixed asset register. In addition, £0.4 million of assets are included on the fixed asset register but have been disposed of in a prior year, or do not belong to the Council. We have recommended that the Council undertakes a fixed asset verification exercise to ensure the completeness of the fixed asset register.
- 1.2.8 A small number of adjustments have been processed to the financial statements following our audit and these are summarised at Appendix A. The impact of these adjustments reduces the reported surplus for the year by £0.8 million and reduces the general fund balance by £1.2 million.
- 1.2.9 Our accounts audit identified a small number of control weaknesses which are summarised in an action plan at Appendix B, together with the Council's response to our recommendations.

### **1.3 Financial results**

- 1.3.1 The Council reported a surplus on the Income and Expenditure account for 2008-09 of £8.3 million (2008: £5 million). The net increase on the general fund was £1.6 million (2008: £5.9 million).
- 1.3.2 The total net worth of the Council has decreased by £19.1 million over the course of the year, mainly due to actuarial losses on the Strathclyde Pension Fund offset by small revaluation gains on fixed assets.
- 1.3.3 For the year ending 31 March 2009, the Council had a total general fund reserve balance of £32.6 million, of which £28 million was earmarked for specific purposes, leaving £4.6 million available for new expenditure or to meet the costs of contingencies and unforeseen events. These unearmarked reserves represent 1.8% of net operating expenditure, which exceeds the Council's target to maintain such balances at 1.5% of net operating expenditure for the financial year.
- 1.3.4 The impact of the economic recession on public sector finances will lead to increased financial pressure on all local authorities. The Council recognises this and has projected that it is likely to face a significant budget shortfall in the 3 year period to 2011-12. The Council is currently reviewing its financial strategy to address the forecast budget shortfall and is assessing the impact of any future cuts in public sector expenditure on its operations.

### **1.4 Independence and robustness**

- 1.4.1 Ethical standards require us to give you full and fair disclosure of matters relating to our independence. We confirm that there are no facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Ethical Standards of the Auditing Practices Board and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

### **1.5 Acknowledgements**

- 1.5.1 We would like to take this opportunity to thank the staff who have been involved in this audit for their assistance and co-operation.

## 2 Financial results

### 2.1 Financial results

2.1.1 The Council reported a surplus on the Income and Expenditure account for 2008-09 of £8.3 million (2008: £5.1 million). The net increase on the general fund was £2.8 million (2008: £5.9 million).

**Table 1: Financial results for 2009 and 2008**

	2009 £'000	2008 £'000
Net Cost of Service	237,378	205,721
Loss on disposal of fixed assets	1,429	5,291
Surplus on trading with 3rd parties	-93	-
Interest payable	13,281	13,274
Interest receivable and investment income	-4,808	-3,560
Pension interest cost	-574	-3,845
Net Operating expenditure	246,613	216,881
Income from taxation and government grants	254,916	221,946
<b>Surplus for the year</b>	<b>8,303</b>	<b>5,065</b>
Net additional amount required by statute and non-statutory proper practices to be (debited) or credited to the General Fund Balance for the year	-6,682	888
<b>Increase in the general fund balance</b>	<b>1,621</b>	<b>5,953</b>

Source: Argyll and Bute Council 2008-09 financial statements

2.1.2 The Income and Expenditure account shows a significant increase in revenue support grant for the year (£31.7 million). This reflects the change in Scottish Government funding, whereby ring fenced grants, such as Supporting People grant, are paid as part of the main revenue support grant rather than directly allocated to services. This increase is offset by a corresponding increase in net cost of services.

2.1.3 The Council reported an overall underspend of £1.9 million against budgeted expenditure of £256 million (0.74%). The underspend reflects the following key variances:

- an overspend of £0.9 million in Development Services from lower building and planning consent income, and increased payments to bus contractors
- underspends in a range of service areas including Piers and Harbours and Airports
- an underspend of £0.5 million in loan charges due to lower interest rates during the year
- additional funding of £0.4 million over budget.

### 2.2 Balance sheet

**Table 2: Balance sheet as at 31 March 2009 and 2008**

	31 March 2009 £'000	31 March 2008 £'000
Fixed assets	349,601	333,828
Long term debtors	3,229	1,657
Current assets	35,830	63,920
Current liabilities	-51,610	-40,211
Long term liabilities	-209,765	-244,754
Pension liability (restated)	-32,517	-598
<b>Net assets</b>	<b>94,768</b>	<b>113,842</b>
Revaluation reserve	21,266	13,559
Capital adjustment account	75,965	72,050
Useable capital receipts reserve	2,762	2,681
Capital fund	871	1,356
Pension reserve	-32,517	-598
Financial instruments adjustment account	-6,750	-7,114
Repairs and renewals fund	544	902
General fund	32,627	31,006
<b>Total reserves</b>	<b>94,768</b>	<b>113,842</b>

Source: Argyll and Bute Council 2008-09 financial statements

- 2.2.1 The total net worth of the Council has decreased by £19.1 million, mainly due to the actuarial loss on the pension fund of £35.1 million offset by a small gain on asset revaluation of £7.8 million and the surplus on income and expenditure for the year of £8.3 million.
- 2.2.2 Assumptions relating to the potential future value of pension fund investments at 31 March 2009 are more favourable than at 31 March 2008. However, the subsequent reduction in the pension scheme's liabilities has been significantly outweighed by the deterioration in investment markets during the year. The actuary has noted that the typical return on Local Government Pension Scheme Funds during 2008-09 varied from -15% to -25%.
- 2.2.3 In 2008-09, there was a change in the accounting estimate for the calculation of investments in the Local Government Pension Scheme Funds. The valuation estimate was changed from mid-market to bid value. This was treated as a prior year adjustment by the Council in line with the SORP guidance notes and the 2008 figures have been adjusted. The impact of this has been to change the pension asset as at 31 March 2008 of £818,000 to a pension liability of £598,000.

### 2.3 General fund

- 2.3.1 For the year ending 31 March 2009, the Council had a total general fund reserve balance of £32.6 million, of which £28 million was earmarked for specific purposes, leaving £4.6 million available for new expenditure or to meet the costs of contingencies and unforeseen events. Table 3 below provides a breakdown of general fund balances at 31 March 2009.



**Table 3: General Fund balances as at 31 March 2009 and 2008**

	31 March 2009 £'000	31 March 2008 £'000
PPP Smoothing Funds	14,639	11,719
Social Housing	6,032	4,916
Grant Income carried forward	1,585	1,951
Budget carried forward	4,086	5,915
Funding committed to 2007-08	1,673	1,597
<b>Total Earmarked</b>	<b>28,015</b>	<b>26,098</b>
<b>Unearmarked</b>	<b>4,612</b>	<b>4,908</b>
<b>Total General Fund</b>	<b>32,627</b>	<b>31,006</b>

Source: Argyll and Bute Council

- 2.3.2 The Council's reserves policy for the year ending 31 March 2009 was to retain unearmarked reserves of at least 1.5% of its net operating expenditure. At 31 March 2009, the Council's unearmarked reserves totalled £4.6 million representing 1.8% of net operating expenditure in line with this policy.
- 2.3.3 The Council completed a risk based assessment of its general fund reserve and the level of unearmarked reserves during the budget setting process for 2009-10. The assessment concluded that the Council will continue to maintain the 1.5% target for unearmarked reserves.
- 2.3.4 The Council continues to keep its reserve policy under review and has undertaken steps to implement our 2007-08 interim management report recommendation to improve arrangements to provide greater transparency around departmental plans to apply all earmarked reserves. The Council now restricts the carry forward of unspent grants and budgets to 3% of net operating expenditure, and this target was achieved for 2008-09. Going forward, the Council will implement plans to ensure that unspent budget carried forward is targeted at the Council's priorities as set out in the corporate and service plans.

## 2.4 Looking forward

- 2.4.1 The impact of the credit crunch on the global economy has led to a significant deterioration in the financial position of the UK government. This will translate into reduced public sector funding across all public services for the foreseeable future, with the likely impact taking effect on the Council's funding from 2010-11 onwards. The Council is aware of this issue and is in the process of bringing forward plans to contain costs and safeguard core services.
- 2.4.2 The Council has projected that it is likely to face a significant budget shortfall in the 3 year period to 2011-12. In response, the Council is currently identifying proposals to increase income and reduce expenditure to meet the expected budget shortfall. Although the Council has sufficient general fund reserves, the level of unearmarked reserves may not cover budget shortfalls. In addition to the budget shortfalls identified above, the Council is currently facing the following budgetary pressures:

- the impact on the Council's share of expected cuts in central government budgets

- wage and price inflation continue to exceed increases in income and levels of funding
- income from fees, charges and investments has decreased due to the decline in economic activity and interest rates
- demand for Council services, particularly care services, continues to exceed existing levels of provision
- the impact of appeals by staff on the new grading structure could lead to a significant and unplanned increase in future staff costs.

## 3 Financial Statements

### 3.1 Audit opinion

- 3.1.1 We expect to give an unqualified opinion on the Council's 2008-09 financial statements and conclude that the financial statements are prepared in accordance with Part VII of the Local Government (Scotland) Act 1973 and the 2008 SORP.
- 3.1.2 The Local Government in Scotland Act 2003 places a statutory requirement on significant trading operations to break even over a three year rolling period. The accounts record that, for the three year period to 2008-09, the Council's catering and cleaning trading operation failed to achieve the statutory break even financial requirement with a cumulative deficit of £1.1 million.
- 3.1.3 The recorded deficit largely results from the impact of the costs of equal pay claims and implementing single status, which was not accounted for when setting budgeted recharges. The Council has prepared a financial strategy to return the catering and cleaning trading operation to a break even position, and the 2008-09 in year result is a surplus of £1.0m. It remains unlikely, however, that this trading account will be in a position to meet its statutory financial target until 2010-11 at the earliest.
- 3.1.4 This finding does not impact on the true and fair presentation of the financial statements and, therefore, does not affect the opinion on the accounts. We are required, however, to report any failure to comply with a statutory requirement as an explanatory paragraph in the audit report.

### 3.2 Group accounts

- 3.2.1 The group accounts include the consolidation of the Council's interest in Strathclyde Police Joint Board and Strathclyde Fire and Rescue Joint Board. Consolidation is based on the level of contribution to the joint boards' budget, currently 3.99% for Strathclyde Police and 3.88% for Strathclyde Fire and Rescue.
- 3.2.2 In August 2009, Audit Scotland issued an 'urgent issue note' on the application of the pension reserve to the new police and fire pension schemes which were established on 6 April 2006. This urgent issue note raised the possibility of material misstatements in the financial statements of police and fire joint boards throughout Scotland, and that this may impact on councils.
- 3.2.3 The Local Government Pension Reserve Fund (Scotland) Regulation 2003 is the relevant legislation which allows local authorities to establish a pension reserve for pension scheme surpluses and deficits. The Regulation allows local authorities to reverse out through the Statement on the Movement of the General Fund Balance the pension costs under FRS 17, Retirement Benefits, and replace them with the actual pension contributions paid out of the general fund. This arrangement prevents the general fund (and thus council tax payers) bearing the cost of FRS 17 pension costs.

- 3.2.4 Audit Scotland's urgent issue note concludes that the new police and fire pension schemes are not covered by the 2003 Regulation. This means that police and fire and rescue joint boards will have misstatements in their pension accounting arrangements for the new pension schemes. Although the Scottish Government plan to update the 2003 Regulation to cover the new schemes, this is unlikely to be in place for the 2008-09 accounts of Strathclyde Police Joint Board and Strathclyde Fire and Rescue Joint Board.
- 3.2.5 The Council has received confirmation that Strathclyde Police Joint Board will not be processing an adjustment to their accounts to comply with the 2003 Regulations and the Council has estimated that this omission will impact on their group accounts for 2008-09 as follows:
- a decrease in the Council's share of the general fund of the Strathclyde Police Joint Board by £447,000
  - an increase in the Council's share of the pension reserve of the Strathclyde Police Joint Board by £447,000
- 3.2.6 The Council has not adjusted the accounts to reflect this decrease on the grounds of materiality. Strathclyde Fire and Rescue Joint Board have processed an adjustment to their accounts to comply with the 2003 Regulations and the Council have processed their share of the adjustment (£93,000). A disclosure note will be added to the group accounts to provide information on the impact of the pensions scheme adjustments on the Council's group accounts. The Scottish Government has indicated that it will bring forward legislation to regularise this matter for the 2009-10 financial year.

### 3.3 Fixed assets

#### Sale of assets not held on the Fixed asset register

- 3.3.1 Proceeds of £0.3m were recognised in 2008-09 from the sale of assets not previously held on the fixed asset register. These items were only identified when the Council received an offer from a potential buyer for the assets. It is our understanding that this issue reflects the lack of records inherited from the Council's predecessor authorities on land transferred following reorganisation in 1996.
- 3.3.2 There is a risk that other similar assets are also not recorded in the Council's fixed asset register. Our audit confirms that the majority of the assets identified in the current year relate to the sale of small strips of land. The proceeds received for such land are dependant upon its value to a particular development (e.g. for access). These assets are therefore likely to have low market value or value in use outside the context of an ongoing development.
- 3.3.3 We therefore consider the risk of material misstatement resulting from unidentified assets to be low. However, in order to ensure the fixed asset register is complete, the Council should formulate a plan to identify such assets.

#### Existence of assets

- 3.3.4 Audit work on the fixed asset register also identified assets recorded on the register, but which had been sold in previous periods or had never been owned by the Council. These assets were identified by the Council during the 5 year revaluation cycle, when valuations could not be obtained. This raises concern as to the existence of assets disclosed in the accounts. As the current year write off of £0.4m reflects the resolution of queries going back several years, the remaining value of non existent assets is not

expected to be material, as similar errors will have been identified during previous revaluation exercises.

- 3.3.5 The issue of assets, sold for a nominal fee, not being removed from the asset register highlights a weakness in the Council's disposal procedures. It is recommended that the Council updates and reinforces its existing procedures for identifying and recording fixed asset disposals.

*Action plan point 1*

**Depreciation of assets classed as non operational investment properties**

- 3.3.6 Non operational investment assets have been depreciated in the year. The 2008 SORP indicates such properties should not be subject to depreciation. An adjustment has been processed to reverse the depreciation of £0.2m on these assets. We note that the implementation of IFRS in 2009-10 will remove the investment property asset classification.

**Impairment**

- 3.3.7 There is a risk that land and buildings may be impaired as a result of the downturn in the property market. In response to this concern, the Council increased the number of assets revalued in the year. We have reviewed the results of these revaluations as part of our audit, and have found no indication that further material impairments are required.
- 3.3.8 Schools replaced by the NPDO schools are no longer operational, raising the possibility of impairment. Valuations were obtained for these assets at the point they were reclassified as surplus assets, but there has been no formal revaluation in the current year. We do not expect any further impairment in relation to these assets to be material, however, the Council should perform a full revaluation in future years.
- 3.3.9 In addition, revaluation procedures should be amended to ensure specific high risk properties are identified and included in the annual revaluation exercise outwith the normal 5 year cycle.

*Action plan point 2*

**3.4 Retirement benefits**

- 3.4.1 The Council has treated the adoption of the amendment to FRS17 *Retirement Benefits* in the period as a change of accounting policy. This has resulted in the restatement of prior year pension assets, changing the 2008-09 pension asset of £0.8m to a deficit of £0.6m
- 3.4.2 We are satisfied that the treatment adopted by the Council is in line with the 2008 SORP guidance. However, we noted during our audit that this change in accounting policy was not highlighted in the accounts. The Council has accepted our recommendation that the accounts disclose the change in policy within the Statement of Accounting Policies, and detail the impact of the prior year adjustment under the Statement of Total Recognised Gains and Losses.

**3.5 Interest payable and receivable**

- 3.5.1 Historically, elements of interest payable and receivable have been netted off against each other. In the current year this results in a £3.4 million understatement of both interest payable and receivable. Whilst this has no impact on the financial outturn for the year, an audit adjustment has been proposed to ensure full disclosure. This reclassification increases both interest payable and receivable on the income and expenditure by £3.4 million. A prior year adjustment is required in order to allow for comparability of results.

**3.6 Common Good & Trust Funds**

- 3.6.1 There are seven Common Good Funds administered by the Council (Campbeltown, Dunoon, Helensburgh, Inverary, Lochgilphead, Oban and Rothesay). The Common Good Funds are held in trust for the citizens of these towns, and the assets and liabilities of the Funds do not form part of the Council's finances. The Council is, however, responsible for the financial management of the Funds.

3.6.2 In December 2007, the Local Authority (Scotland) Accounts Advisory Committee (LA(S)AAC) published a guidance note for authorities on accounting for Common Good Funds, including:

- introduction of an asset register for Common Good Funds from 1 April 2008
- consideration of registered charitable status by 2010.

3.6.3 In our 2007-08 report, we highlighted the need for a fixed asset register for Common Good Fund assets. The Council has made progress in this area and a draft list of assets has been compiled, and is currently under review to determine if they are Common Good assets. We will continue to monitor the implementation of the register in subsequent years.

### **3.7 Implementation of Single Status**

3.7.1 During 2007-08, the Council implemented a new Pay and Grading Model and also revised staff terms and conditions. Each role within the council was reviewed, and given a grade within the new structure. Where the new grade resulted in an increase in pay, this was backdated to 1 April 2006. A provision was created to meet the costs of the new pay and grading model approved by Council and this provision was fully released during 2008-09 following implementation of the model.

3.7.2 Some 580 staff have, however, appealed the determination of their allocated grade under single status arrangements. If an appeal is successful then any pay differential is normally backdated to 1 April 2006, and the Council is also required to honour the new salary scale increase for the particular individual or staff group. 179 appeals have been processed to date and 98 (55%) of these have been successful, resulting in an estimated £0.8m liability for backdated pay as at 31 March 2009.

3.7.3 The Council has agreed to create a new provision to reflect the additional costs for successful appeals against allocated grades under single status arrangements. The Council takes the view that it is too early to estimate the potential costs associated with the remaining appeals waiting to be heard, as the likelihood of their success cannot be known with any certainty. Note 24 (Contingent Gains and Liabilities) to the accounts has therefore been updated to reflect the Council's potential liability for further costs relating to the implementation of single status arrangements.

### **3.8 Accounts disclosure issues**

#### **Presentation of Non Domestic Rate Income Account**

3.8.1 The SORP recommends that the Non Domestic Rate Income Account is presented gross, before deductions for changes in the charge relating to prior years. In 2008-09 the Council had a significant (£6 million) repayment of charges relating to prior years which is not shown separately.

3.8.2 Amendments to the SORP in 2009-10 will remove the need to prepare a separate Non Domestic Rate Income Account from 2009-10 onwards.

**Presentation of Council Tax Income Account**

3.8.3 The Council Tax Income Account does not follow the presentational requirements as set out in the SORP. The main differences are:

- omission of the "Council Tax Benefit Given" line and the matching Scottish Government grant income
- omission of more detailed information on exemptions, such as disabled exemptions.

3.8.4 The Council has agreed to review the format of the Council Tax Income Account to ensure it is presented in line with the requirements of the SORP.

**Community Care Health (Scotland) Act 2002**

3.8.5 The SORP requires that 'sufficient information on any partnership schemes under s31 of the Community Care and Health (Scotland) Act 2002' be disclosed. As a minimum this includes the purpose of the partnership, identities of partner bodies, the gross income and expenditure of the partnership and the authority's contribution.

3.8.6 The disclosure in the accounts shows the Councils share of costs and income, rather than the gross figures for the partnership. This is not considered a material omission, but consideration should be given to updating disclosures in future periods.

*Action plan point 3*

**3.9 International Financial Reporting Standards**

3.9.1 Local government bodies will be required to prepare accounts on the basis of IFRS from 2010-11, with shadow IFRS-based accounts required for 2009-10. In addition, HM Treasury will require local authorities to restate PFI or PPP schemes under IFRS for the 2008-09 Whole of Government Accounts Return.

3.9.2 The transition to IFRS is complex, and will require detailed project planning to ensure the Council is able to fully implement the standard in line with the planned timetable. The Council has set up an IFRS project team, and has engaged the services of Pricewaterhouse Coopers to assist in the IFRS restatement exercise. A key task will be to review the impact of IFRS on the existing accounting treatment for the Schools NPDO and Waste management PPP projects.



## 4 Internal control systems

### 4.1 Roles and responsibilities

- 4.1.1 The Council is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.
- 4.1.2 Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to the Council. In consequence, our work cannot be relied upon necessarily to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might develop.
- 4.1.3 We issued our interim report on the findings emerging from our audit of the Council's internal control systems earlier this year. This section of the report highlights the additional control and risk observations identified as part of our financial statements audit, including our review of the progress made by the Council in implementing prior year recommendations.

### 4.2 Year End Journal Entries

- 4.2.1 Several of the year end journals tested as part of our audit work did not include an adequate narrative explaining the transaction and several did not have back up documentation attached. This problem appears confined to the journals processed by corporate accounting in the period 13 adjustments.
- 4.2.2 As identified at interim testing, there are no policies and procedures for journals processing or maintenance of user/authorisation lists.

*Action plan point 4*

### 4.3 Follow up of prior year recommendations

- 4.3.1 We are pleased to note that the Council has fully implemented or partially implemented all the agreed audit recommendations in our 2007-08 report. The partially implemented recommendation relates to the set up of a fixed asset register for Common Good Funds. Further detail is contained at Appendix C.

**Grant Thornton UK LLP**  
16 September 2009

## A Summary of Accounting Adjustments

### Adjustments found by client during the course of our audit

During the course of our audit the following adjustments were proposed by the Council:

- NPDO Schools disclosures, updated for latest assumptions
- Adjustment to police and fire requisition
- A new provision in respect of single status for appeals completed (£0.8 million) and a contingent liability disclosure for those appeals not yet heard.
- Council's share of the adjustment to the Strathclyde Fire and Rescue Joint Board accounts to comply with the Local Government Pension Reserve Fund (Scotland) Regulation 2003 (£83,000)

### Adjusted audit differences

Detail of Adjustment	Adjustments Dr/(Cr)					
	Balance Sheet					I&E Account/ SMGFB
	CA	NCA	CL	NCL	Reserves	
1 Cr Non Distributed Costs Dr Investment assets Dr Statement of Movement on General Fund Cr Capital adjustment account		233,000			(233,000)	(233,000)  233,000
<i>Being adjustment to remove depreciation on non operational Investment assets.</i>						
2 Dr Depreciation Net cost of services Cr Deferred Grants NBV Cr Statement of Movement on General Fund Dr Capital adjustment account		(100,000)			100,000	100,000  (100,000)
<i>Being adjustment to correct UEL of deferred grant</i>						
3 Cr Depreciation Net cost of services Dr Deferred Grants NBV Dr Statement of Movement on General Fund Cr Capital adjustment account		73,000			(73,000)	(73,000)  73,000
<i>Being adjustment to depreciation deferred grant in line with related asset</i>						
4 DR Interest Payable CR Interest Receivable						3,393,144 (3,393,144)
<i>Being gross up of interest payable and receiveable</i>						
5 Cr Debtors Dr Net cost of services	(267,000)					267,000
<i>Being adjustment in respect of Oban Airport running cost grant</i>						
Net impact on the General Fund Balance						267,000

**Disclosure amendments**

In addition to the adjustments noted above, we also suggested the following enhancements to disclosures in the financial statements:

- to include comparative figures for the Common Good fund disclosures, and the Waste Management PPP and NPDO Service charges
- to amend fixed asset and financial instruments disclosures to bring disclosure amounts in line with ledger or supporting documentation
- to separately identify unspent budgets in respect of Devolved School Management
- to update the contingent liabilities note to reflect the potential additional costs associated with successful staff appeals against single status gradings
- to disclose the change in accounting policy in respect of FRS17 and the financial impact of the prior year restatement.

**Unadjusted differences**

The Council has received confirmation that Strathclyde Police Joint Board will not be processing an adjustment to their accounts to comply with the Local Government Pension Reserve Fund (Scotland) Regulation 2003 and the Council has estimated that this omission will impact on their group accounts for 2008-09 as follows:

- a decrease in the Council's share of the general fund of the Strathclyde Police Joint Board by £447,000
- an increase in the Council's share of the pension reserve of the Strathclyde Police Joint Board by £447,000

The Council has not adjusted the accounts to reflect this decrease on the grounds of materiality. A disclosure note will be added to the group accounts to provide information on the impact of the pensions scheme adjustments on the Council's group accounts.

## B Action Plan

No	Finding	Priority	Recommendation	Management Response	Implementation date and responsible officer
<b>Fixed assets</b>					
1	<p>The Council identified £0.3 million of fixed assets disposed of in the year that were not initially recorded in the fixed asset register.</p> <p>Audit work on current year fixed asset disposals noted assets sold in previous periods and assets that had never been the property of the Council.</p>	Medium	<p>The Council should carry out a review of the completeness of the fixed assets register.</p> <p>The Council should also reinforce existing policies and procedures for ensuring asset additions and disposal are correctly and timeously processed through the fixed asset register.</p>	<p>Arrangements to review the completeness of the asset register will be made including the process for updating the asset register for acquisitions and disposals.</p>	<p>For 2009-10 annual accounts Head of Strategic Finance</p>
2	<p>We noted that no formal impairment reviews had been carried out for assets held for sale. This increases the risk of misstatement if asset prices have declined due to the current economic conditions.</p>	Medium	<p>Although we concluded that there was no material misstatement in 2008-09, the Council should ensure impairment reviews take place for high risk properties such as assets held for sale.</p>	<p>Agreed We will put a review procedure in place for high risk assets.</p>	<p>June 2010 for the 2009-10 accounts. Development Services Finance Manager</p>

No	Finding	Priority	Recommendation	Management Response	Implementation date and responsible officer
<b>Disclosure findings</b>					
3	<p>We noted that the presentation of the following disclosures were not in full compliance with the SORP:</p> <ul style="list-style-type: none"> <li>▪ the Non Domestic Rate Income Account</li> <li>▪ the Council Tax Income Account</li> <li>▪ the budgetary arrangements with NHS Highland under the Community Care Health (Scotland) Act 2002.</li> </ul>	Low	<p>The Council should review these disclosures and ensure they are fully SORP compliant in the 2009-10 accounts.</p> <p>The Non Domestic Rate Income Account is being phased out by the 2008 SORP.</p>	<p>Agreed</p> <p>This will be done for the 2009-10 accounts</p>	<p>June 2010</p> <p>Corporate Accounting Manager</p>
<b>Journal procedures</b>					
4	<p>There is a lack of formalised procedures for the processing and authorisation of journals. This increases the risk of inappropriate journals being processed</p>	Medium	<p>Journal procedures should be drawn up, specifying:</p> <ul style="list-style-type: none"> <li>▪ standards for descriptions and quantity of documentation attached</li> <li>▪ responsibility of authoriser to ensure documentation and description is adequate</li> <li>▪ instructions for maintenance of user groups and authoriser lists.</li> </ul>	<p>Each Finance team have their own policies, procedures for journal processing. However, these processes need to be formally documented and user/authorisation lists compiled within each team.</p>	<p>31 Dec 2009</p> <p>Corporate Accounting Manager to co-ordinate</p>

## C Follow up of prior year recommendations

No	Finding	Priority	Recommendation	Management Response	Position as at September 2009
<b>Report on the 2007-08 Audit</b>					
1	Since the production of the three year budget for 2008-09 to 2010-11, significant budgetary pressures have been identified that may impact on projected outturn figures.	Medium	The Council should review the impact of identified budgetary pressures and consider the need to update the budget forecasts.	This is carried out as part of the budget process each year.	<b>Implemented</b>
2	The Council did not charge depreciation on surplus assets as required by the 2007 SORP.	Low	The Council should ensure depreciation is charged on surplus assets in future years in line with the requirements of the 2007 SORP.	Agreed – will action for 2008-09	<b>Implemented</b>
3	The Council allocated trading income and expenditure with third parties from the catering and cleaning trading account to Education services within net cost of services rather than a separate line within net operating expenditure.  This approach is not compliant with the 2007 SORP.	Low	The Council should ensure it separately identifies trading income and expenditure relating to third parties when preparing the trading accounts in future years.  Income and expenditure relating to third party trading should be disclosed in a separate line within net operating expenditure.	Agreed – will action for 2008-09	<b>Implemented</b>
4	The Common Good Funds for Campbelltown and Oban are managed by independent accountants. We noted that	Medium	The Council should have formal oversight of the Common Good Funds to ensure expenditure is regular, and that applicable	A formal quarterly review of the Common Good accounts will be established.	<b>Implemented</b>

No	Finding	Priority	Recommendation	Management Response	Position as at September 2009
	there is no formal oversight or review of the Common Good Funds by management.		guidance for Common Good Fund accounting is being followed.		
5	The Council is required to prepare an asset register for the Common Good Funds by 31 March 2009.	Medium	A full review of community assets will be required to ensure any assets that are owned by the Common Good Funds are identified as such on the fixed asset register	An asset register for Common Good will be prepared as part of 2008-09 Accounts.	<b>Partially implemented</b> Position to be reviewed in 2009-10.
6	Although we noted that the Council's borrowing activities during the year were compliant with regulations regarding borrowing in advance of need, there was no formal calculations performed to demonstrate that the savings expected to accrue from borrowing at an advantageous rate outweigh the costs of borrowing early	Medium	The Council should ensure that all borrowings in advance of immediate need are formally assessed to ensure that savings expected to accrue from borrowing at an advantageous rate outweigh the costs of borrowing early	<p>More detailed documentation will be retained.</p> <p>New borrowing was taken in a deliberate attempt to bring our overall external borrowing closer to our Capital Financing Requirement at what are historically low interest rate levels.</p> <p>This is not borrowing in advance of need as at no time did our external debt exceed our CFR, in fact we still remain under borrowed and if we had to pay out all the revenue balances would require to take further borrowings to finance our existing capital expenditure.</p> <p>In terms of VFM the decision is around our view of future</p>	<b>Implemented</b> Documentation surrounding significant treasury decisions has been reviewed as part of our audit, and is considered adequate.

No	Finding	Priority	Recommendation	Management Response	Position as at September 2009
7	<p>Our audit found that the Council placed a temporary deposit in excess of the agreed counterparty limit for that institution. The transaction was approved by the Head of Strategic Finance but the counterparty limit register was not updated.</p> <p>In addition, we noted that there was no counterparty limit established for the Council's bankers, even though significant deposits are placed for investment.</p>	Medium	<p>The Council should ensure the counterparty limit register is kept up to date.</p> <p>The Council should ensure all relevant institutions that it places deposits with are assessed for credit risk and included as appropriate on the register.</p>	<p>interest rates in respect of borrowing against our current average borrowing rate and our view of the movements in our CFR. There are no savings associated with the decision to borrow at a particular point in time it is about protecting the Council from adverse movements in interest rates.</p> <p>Generally the counterparty list is kept up to date.</p> <p>The limits with the Bank of Scotland were increased to £20m on the 22 April 2008. Before the limits were increased formally in terms of the counterparty list all decisions taken to hold more cash with the Bank of Scotland were taken after discussion to spread the Credit Risk of holding all our cash with the Clydesdale Bank and ensuring a reasonable rate of return with a highly rated bank.</p> <p>All deposits are credit risk assessed against an agreed counterparty list. The only exception being our holdings</p>	<p><b>Implemented</b></p> <p>A limit of £30 million has been agreed for investment deposits with the Council's banker.</p>



No	Finding	Priority	Recommendation	Management Response	Position as at September 2009
8	Control accounts are not always cleared and reconciled at the balance sheet date. We noted an error of £130,000 on the elections control account as at 31 March 2008.	Low	Control accounts should be cleared and reconciled on a regular basis. This will improve the accuracy of the earmarked general fund reserves.	<p>with the Clydesdale Bank, for which we have no formal limit as this is the Council's Bankers. These bank accounts could at any point in time hold all the Council's cash if we could not find a home with other institutions, also they are used for day to day treasury management and can hold considerable sums if we are in the middle of a debt rescheduling exercise at the same time as we are holding cash to cover the Council's ordinary transactions.</p> <p>Nevertheless we will consider establishing a limit for the investment accounts with Clydesdale Bank.</p> <p>Agreed. Will reinforce this requirement.</p>	Implemented

**Small Print**

This report is part of a continuing dialogue between the Council and Grant Thornton and is not, therefore, intended to cover every matter which came to our attention. Our procedures are designed to support our audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in the Council's systems and work practices.

The report is not intended for use by third parties and we do not accept responsibility for any reliance that third parties may place on it.



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