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PRIVATE AND CONFIDENTIAL

**Argyll and Bute Council
Audit of Accounts 2001/02
Audit Memorandum
October 2002**

1. INTRODUCTION

- 1.1 Following completion of the examination of the Council's statutory annual accounts for the year ended 31 March 2002 we now submit an audit memorandum summarising a number of issues arising from this aspect of the audit.
- 1.2 The purpose of this memorandum is to draw to your attention, for information and action as appropriate, any issues of substance or matters of accounting principle which have not previously been referred to in the 2001/02 Final Report on the Audit.
- 1.3 The memorandum has been discussed with the relevant officers and its factual accuracy confirmed. A number of minor points were previously reported to officers and, where appropriate, corrective action has been taken or agreed; accordingly these matters are not repeated here.
- 1.4 The memorandum contains an action plan which has been agreed verbally with Mr S McGregor (Director of Finance), Mr B West (Head of Accounting), Mrs M Miller (ASM - Corporate Accounting), Mr M Macfarlane (Senior Accountant) and Ms J Owen (Education Finance Team).
- 1.5 The co-operation and assistance afforded to audit staff during the course of the audit are gratefully acknowledged.

Argyll and Bute Council
 Audit of Accounts 2001/02 - Audit Memorandum

<u>Finding</u>	<u>Recommendation</u>	<u>Action</u>		<u>Comments</u>
		<u>Responsibility</u>	<u>Date</u>	
<p>1. Preparation of Accounts</p> <p>i. We noted that the quality of the Common Good and Trust Funds working papers could be improved upon, e.g. summary schedules were not prepared for 2001/02.</p>	<p>The Council should ensure that the 2002/2003 annual accounts working papers in respect of the Common Good and Trust Funds are improved and include summary schedules.</p>	<p>Tommy Armour</p>	<p>31st March 2003</p>	<p>Agreed</p>
<p>2. Accounting & Statutory Requirements</p> <p>i. It was noted that the Consolidated Revenue Account does not disclose budgeted net expenditure for each Council service. This differs from the 2000/2001 annual accounts which disclosed budgeted amounts.</p>	<p>Consideration should be given to the inclusion of budgeted net expenditure amounts for each Council service within the 2002/2003 annual accounts.</p>	<p>Moirra Miller</p>	<p>31 March 2003</p>	<p>There is no requirement within the SORP and the accompanying Guidance Notes to disclose budgeted net expenditure within the Consolidated Revenue Account.</p> <p>However, we will consider including budget information within the Consolidated Revenue Account when we review and update the format of the Financial Statements for the 2002/03 year end.</p>

Argyll and Bute Council
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<p>2. Accounting & Statutory Requirements (cont'd)</p> <p>ii. In Note 1.1 to the Consolidated Balance Sheet, capital expenditure is shown gross in the 'Expenditure in Year' line with the expenditure not increasing the value of the asset being shown in the 'Write Off to FARR' line. However, best practice would be to disclose the total expenditure incurred on enhancement work during the year gross in the 'additions' line, with the difference between the expenditure incurred and the increase in the value of the asset being included in the revaluation line.</p>	<p>The Council should consider amending Note 1.1 to the Consolidated Balance Sheet in the 2002/2003 annual accounts to reflect best practice disclosure requirements and include expenditure not increasing the value of the asset within the 'Revaluations' line as opposed to being shown in the 'Write Off to FARR' line.</p>	<p>Moira Miller</p>	<p>31st May 2003</p>	<p>Agreed</p>

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<p>2. Accounting & Statutory Requirements (cont'd)</p> <p>iii. Per paragraph 4.189 of ACOP Practitioners Guide, the Deferred Government Grants Account balance should be disclosed within the financing section of the Consolidated Balance Sheet and not within the long term liabilities section as currently disclosed. This would have the effect of increasing the Total Net Worth amount, which would then not agree to the total amount, disclosed in the Statement of Total Movement on Reserves. The reason that the figures would not agree is due to the fact that the Council has not presented the Statement of Total Movement in Reserves strictly in line with the format prescribed in paragraph 4.276 of ACOP Practitioners Guide.</p>	<p>The Council should ensure that the 2002/2003 annual accounts reflect the disclosure requirements of ACOP in relation to the Statement of Total Movement on Reserves and the Deferred Government Grants Accounts.</p>	<p>Moira Miller</p>	<p>31st March 2003</p>	<p>My understanding of the ACOP Practitioners Guide is that it is not prescriptive and that Councils have the discretion to present their accounts in a user-friendly way as possible. The format of the Statement of Total Movement in Reserves, as shown in the Practitioners Guide, is not in an easily understandable format. However, we will look at the format of the Statement with a view to bringing it more into line with that in the Practitioner's Guide whilst maintaining a level of understandability for the reader of the financial statements.</p>

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<p>3. Fixed Assets</p> <p>i. Assets with a Net Book Value of approximately £300,000 were identified by the Estates Department during 2001/2002, which could not be located on the Fixed Asset Register.</p>	<p>The Council should consider reconciling the Estates Department Property Database and the Fixed Asset Register at least biannually.</p>	<p>Tommy Armour / Nick Allan</p>	<p>31st March 2003</p>	<p>A reconciliation of the Property Database to the Fixed Asset Register is currently being carried out as well as allocating UPRN numbers (property database references) to all properties within the asset register and vice versa.</p> <p>However it should be recognised that there is always the potential for properties and land to be identified which are currently not on the asset register. These are unlikely to be material.</p>
<p>4. Cash & Bank</p> <p>i. We noted that unrepresented cheques greater than 6 months old totalling £17,715 have been included within the 2001/2002 annual accounts. The Council are aware of this situation.</p>	<p>The Council should ensure that it continues to investigate unrepresented cheques greater than 6 months old.</p>	<p>Malcolm Bannatyne</p>	<p>On-going</p>	<p>All cheques over 6 months old were voided on the system in August 2002 following investigation. This now takes place on a monthly basis.</p>

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<p>4. Cash & Bank (cont'd)</p> <p>ii. We noted that the Income Bank Account reconciliation (No. 84200) shows an unreconciled amount of £11,328.</p>	<p>The Council should confirm the action being taken to address this unreconciled difference.</p>	<p>Tommy Armour</p>	<p>On-going</p>	<p>The unreconciled difference has remained circa £11,000 since the year end. The cash and bank team are currently working towards achieving the same difference for two or more months. Once this is achieved the unreconciled difference will be written off.</p>
<p>5. Education Reserve</p> <p>i. Audit testing of contributions to and withdrawals from the Education Reserve noted that 8 out of a total of 55 "Form DP9A-application to withdraw from capital items replacement fund" submitted by schools to the Education Department, had not been certified by the relevant Head Teacher.</p>	<p>The Council should remind Education Department Area Finance Assistants of the requirement to ensure that these forms are certified properly before being passed to the Education Department.</p>	<p>Sharon Macdonald</p>	<p>31 October 2002</p>	<p>A memo will be issued to AFAs regarding this and the Education Finance Team will ensure that all forms are properly authorised, prior to processing.</p>

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<p>6. Common Good and Trust Funds</p> <p>i. We understand that Legal Services are currently working towards amalgamating all Trust Funds to allow expenditure levels to be increased.</p>	<p>The Council should ensure that the appropriate legal procedures are followed when amalgamating all Trust Funds, i.e. obtain appropriate judicial approval prior to amalgamation.</p>	<p>Susan Mair</p>	<p>On-going whilst trust funds are being reviewed</p>	<p>Legal Services will comply with relevant legal procedure, obtaining the relevant judicial approval where necessary.</p>

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