



Internal Audit Report

CHIEF EXECUTIVE'S UNIT,
STRATEGIC FINANCE

CAPITAL ACCOUNTING

FEBRUARY 2013

1 INTRODUCTION

This report has been prepared as a result of the Internal Audit review of the Capital Accounting policies and procedures maintained by Strategic Finance, Chief Executive's Unit. The audit forms part of the 2012/2013 Internal Audit planned programme of audits.

Reviews of specific aspects of Capital Accounting have been undertaken in previous years by Internal Audit as part of the annual audit plans. The work undertaken during 2012/13 will form year one of a new three year programme.

Capital Assets reported on the Council's Balance Sheet at 31 March 2012 are summarised below:

DATA – net book values by category	Value £000s
Other land & buildings	296,463
Vehicles, plant, furniture & equipment	6,784
Infrastructure assets	153,761
Community assets	1,338
Surplus assets	5,117
Assets under construction	11,723
Total Property Plant & Equipment	475,186

2 AUDIT SCOPE AND OBJECTIVES

Internal Audit has undertaken both a high level review of policies and procedures and a limited amount of sample testing of capital transactions to ensure policies and procedures are appropriate and adequate and being complied with. The areas reviewed included:

- The Council has an approved capital accounting policy
- The form and content of the asset register is in accordance with CIPFA guidance and the Council's approved accounting policy
- Asset valuations are undertaken in accordance with relevant guidance
- Additions and deletions from the asset register are correct and supporting evidence is appropriate and correctly authorised.
- Additions to the asset register are allocated to appropriate asset categories and depreciation is correctly calculated and charged to service revenue accounts
- The asset register is reconciled to the financial ledgers

3 RISK ASSESSMENT

As part of the audit process and in conjunction with our CIPFA Systems Based Audit (SBA), ICQ approach, the risk register was reviewed to identify any areas that needed to be included within the audit. The area identified was:

- SR10 Inefficient use of Council Assets
- SR11 Failure to meet capital/revenue spending targets
- SR13 Failure to comply with new legislation, regulations or statutory responsibilities

These risks have been considered within the scope of the audit.

4 CORPORATE GOVERNANCE

There were no Corporate Governance issues to be reported as a result of this audit.

5 MAIN FINDINGS

- 5.1A comprehensive capital accounting policy document has not yet been developed.
- 5.2 The Council currently uses the Logotech asset register system which provides adequate asset and depreciation data across categories in accordance with CIPFA guidelines and Code of Practice.
- 5.3 The Council carries out a rolling programme that ensures all assets are re-valued at least every five years and impairments are assessed annually in line with guidance.
- 5.4 Records are maintained by Strategic Finance for asset acquisitions, disposals and transfers although the process would be enhanced by the further development of procedures.
- 5.5 The asset register is updated and reconciled at the end of each financial year and depreciation charged as appropriate.

6 RECOMMENDATIONS

There are 3 low recommendations resultant from the audit. The recommendations are shown in the action plan attached at Appendix 2 which has been compiled with the co-operation and agreement of the Finance Manager, Corporate Support.

Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable

implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement recommendations it must evaluate and accept the risks associated with that decision.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as high, medium or low. The definition of each classification is set out below:-

High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

7 AUDIT OPINION

Based on our findings we can conclude that there are appropriate operational procedures in place to ensure that capital accounting processes are adequate although the level of understanding and control would be further enhanced by the implementation of the recommendations set out in the agreed management action plan attached at Appendix 2.

8 ACKNOWLEDGEMENTS

Thanks are due to the Strategic Finance Staff for their co-operation and assistance during the course of audit and the preparation of the report and action plan.

Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. In any circumstances where anyone other than the Council accesses this report it is on the strict understanding that the Council will accept no liability for any act or omission by any party in consequence of their consideration of this report or any part thereof. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.