

Statement of Accounts 2003/04

Sandwell Metropolitan Borough Council

INSIDE THIS REPORT

PAGES 2 - 3

Summary Report

- Introduction
- Main conclusions
- Key recommendations

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|-------------------|-------------------------------|
| Reference: | Statement of Accounts 2003/04 |
| Date: | January 2005 |

Introduction

The purpose of the final accounts audit is for us to form an independent assessment as to whether the Statement of Accounts presents fairly the financial position of the Council as at 31 March 2004. This report summarises the matters arising from the audit of the 2003/04 accounts.

The objectives of the final accounts audit were to:

- obtain sufficient assurance that the accounts are free from material misstatement
- ensure that the Statement of Accounts presents fairly the financial position of the Council and has been prepared in accordance with appropriate guidance.

We use a risk-based approach to performing the final accounts audit. This involved working with both the central and devolved finance departments to:

- agree the ledger to the accounts
- perform high-level analytical reviews on the final accounts
- test year end balances
- check the validity and completeness of notes to the accounts
- follow up points raised by previous audits.

We use the results of other regularity work performed as part of the 2003/04 audit to inform the risk-based approach to the final accounts audit. This includes work performed on the main accounting system and the Council's budgetary control arrangements.

We have held regular meetings with Stuart Kellas and Rebecca Fisher, both before and during the final accounts audit, to ensure the smooth completion of the audit. These meetings have been very productive in addressing issues which have arisen both before and during the audit.

Main conclusions

Our opinion on your 2003/04 accounts was unqualified, although it was delayed until very close to the deadline because the Council were late in providing information to their actuary to enable them to value unfunded teachers' pensions liabilities. The Statement of Accounts was provided for audit on 5 August 2003 and we gave an unqualified audit opinion on a revised version of the accounts on 29 November 2004. Our findings from the audit are detailed in the paragraphs below.

Timeliness

The draft Statement of Accounts was prepared 10 days earlier than for 2002/03 and only a few days later than that originally planned. The Council's objective was to produce a complete Statement of Accounts for audit by 30 July 2004 and we received the draft Statement of Accounts on 5 August 2004. As in previous years, the Statement of Accounts was approved by Members in line with the statutory deadline of 31 August 2004.

Quality

Our audit of the accounts found that they contained a number of mis-statements which required correction. The most significant of these amendments were:

- the balance on the Housing revenue Account was reduced by £2.7m, largely because the Council had over-estimated the amount of housing subsidy that it was due to receive
- the draft accounts had not eliminated internal recharges within service areas resulting in the double counting of gross income and expenditure
- the pensions liability and pensions reserve deficit were increased by £35m because the draft accounts did not include the relevant valuations from your actuaries in respect of unfunded teachers pensions.

A number of disclosures had to be added to the Statement of Accounts in order for the accounts to comply with CIPFA's Statement of Recommended Practice (SORP). For example, a note had to be added on the Education PFI scheme.

Our testing of Regeneration & Community Services debtor balances found that £5.8m of Sure Start grant had not been received. This relates to monies due for Sure Start claims relating to 2002/03 & 2003/04. No bad debt provision had been provided for this debt.

A full list of the recommendations we are making to help improve the quality of the 2004/05 Statement of Accounts audit is detailed in the attached Action Plan.

Supporting records

For the second successive year there has been an overall improvement in the quality of working papers prepared by the Council to support the accounts. The majority of the documents that we requested in our working paper checklist prior to audit were provided at the start of our audit. Furthermore Corporate Finance provided many of the key working papers electronically.

We also noted some improvements in the quality of working papers prepared by outposted finance teams. However, we still found problems with working papers that supported the Housing Revenue Account (HRA). In particular the working papers used to compile the analysis of dwellings notes had not been independently checked to ensure they were consistent with the stock analysis on the Housing Management system (Arramis).

We were unable to complete our planned audit work in a number of key areas until a relatively late stage of the audit due to the Councils failure in completing key feeder system reconciliations. The following table highlights those system reconciliations that were provided at a late stage.

| Feeder system reconciliation | Provided at start of audit (Yes/No) | If 'No' when provided |
|---|-------------------------------------|-----------------------|
| Payroll transactions on the SBS payroll module to the SBS general ledger module | No | End of October |
| HB transactions on I World to the SBS general ledger module | No | Mid October |
| Sundry debtors on the SBS AR module to the SBS general ledger module | Yes | |
| Creditors on the SBS AP module to the SBS general ledger module | Yes | |
| Rent Rebate transactions on I World to the Arramis system | Yes | |
| Housing rents on Arramis to the SBS general ledger module | Yes | |
| Council tax transactions on I World to the SBS general ledger module | No | Mid November |
| NNDR transactions on I World to the SBS general ledger module | No | Mid November |

We recognise that the difficulties encountered by the Council with the introduction of new financial systems during 2003/04 had an impact on the council providing prompt feeder system reconciliations. However, it is important that the Councils 2004/05 closedown procedures include the prompt completion of year end feeder system reconciliations.

Key recommendations

R1 It is important that the Councils 2004/05 closedown procedures include the prompt completion of year end feeder system reconciliations.

R4 The Council needs to formalise the arrangements that are required to fully comply with FRS17 and ensure they are included in their 2004/05 Closedown Plan & timetable.

R10 The Council should ensure that their closedown procedures include the elimination of internal recharges.

R13 The Council should ensure that the estimation of the HRA subsidy receivable is carefully checked and in line with budgeted expectations.

R21 The Council should take prompt action to ensure that outstanding Sure Start grant is collected as soon as possible.

Status of our reports to the Council

Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to Members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.

