

EXTERNAL AUDIT 2004/05**Report By: County Treasurer****Wards Affected**

County-wide

Purpose

To report to the Committee on the progress in relation to the Council's 2004/05 External Audit by the Audit Commission.

Reasons

The Audit Committee should be informed of the progress in respect of the 2004/05 external audit.

Background

1. The external audit is approaching its conclusion. There is no suggestion that the audit will not be completed well before the statutory deadline of 31st October 2005. The Audit opinion is expected to be signed following the meeting of this committee. The auditors have not, to date, identified any issues in relation to the actual completion of the audit.
2. A preliminary list of findings has been provided by the auditors but this list is very much subject both to amendment and additions. In addition the list, at the time this report was written, has not been discussed with the County Treasurer in detail. Further discussions will have taken place before the meeting of this Committee.
3. This report does not in any way affect the presentation of the annual Management Letter to members.
4. A summary of the findings to date is as follows:
 - a) There are five potential changes to the actual figures in the accounts. These relate to the accounting treatment of finance leases, the Council's capital contribution in previous years to the Courtyard Theatre, the purchase of the Council's new Revenues and Benefits system, an end of year payment due from the PCT and the interest charged to the accounts in respect of certain loans with repayment options. Whilst the accounts are technically incorrect and the amounts involved in these adjustments are substantial, with each one being in excess of half a million pounds, the changes are largely to the balance sheet with in most cases no financial loss or gain to the Council being involved. With regard to the finance leases, there may be an additional cost to the Council in 2004/05. Further information on this issue will be reported orally at the meeting.

Such changes, which are very much of a technical nature, are identified every year by the auditors and normal practice is to simply alter the accounts. A copy of the final 2004/05 Statement of Accounts, revised to take account of the changes, will be circulated to all members once printed. A full list of amendments will be reported to the next meeting of the committee.

- b) The auditors have raised a number of issues about the Statement of Internal Control and the related declarations signed by Directors and Heads of Service. Discussions are continuing on these issues but it is expected that some changes to the wording of the Statement of Internal Control will be required.
- c) The auditors have asked for a minor change in accounting treatment to be made in future years in respect of Whitecross PFI.
- d) The auditors have pointed out that the balance sheet treatment in respect of the Waste PFI may have to be changed depending on the outcome of the present renegotiations.
- e) The auditors are pointing out that the Council's Revenue Balances have increased significantly to a balance sheet figure as at 31st March 2005 of £14.491 million and that the increase is an issue for the Council. However, the report to Cabinet on 14th July (General Reserves, Provisions and Balances) confirms that the balances after commitments are taken into account are only £6.992 million which is only marginally above the 3% of net Revenue budget upper limit referred to in the report and does not take account of the full Social Care overspend being met from reserves.
- f) The auditors have stated they think school balances appear excessive. The Schools Forum approved, on 9th June 2005, proposals for dealing with any excessive balances.
- g) A Waste Management creditor was shown in the accounts incorrectly including VAT. The 2004/05 accounts are therefore overstated by £99,000.
- h) The creditor for HJS was underestimated by £376,000 although this did represent less than 2% of the total paid to HJS in 2004/05.
- i) The auditors have expressed concerns that the Council bank reconciliations are not up to date in 2005/06. There are problems in relation to Housing Benefits owing to interface between the Council's new Academy Benefits and Council Tax system and Cedar, the Council's Financial Management system, not working correctly. Urgent discussions are taking place to resolve these problems and these discussions are making good progress.

Recommendation

- THAT (a) the Audit Committee note the progress of the external audit and the preliminary list of issues raised;**
- and**
- (b) make recommendations if appropriate.**

BACKGROUND PAPERS

None identified