

AGENDA ITEM No. 3

CABINET
10 JANUARY 2017

HEAD OF FINANCIAL SERVICES
REPORT NO. FIN1702

FOLLOW UP FROM AUDIT RESULTS REPORT

SUMMARY AND RECOMMENDATIONS:

SUMMARY: This report considers the Council's response to an issue raised by Ernst & Young in their annual Audit Results Report, previously reported to the Licensing & General Purposes Committee on 26th September 2016.

RECOMMENDATION: To note the action proposed in response to the Audit Results Report and to approve that the amount identified in the report be written back to the General Fund.

1 INTRODUCTION

- 1.1 Ernst and Young LLP, the Council's appointed auditor, presented their Audit Results Report to the Licencing & General Purposes Committee on 26 September 2016. An unqualified audit opinion was subsequently issued in respect of the Council's Annual Statement of Accounts and concluded that the Council has in place proper arrangements to secure value for money in its use of resources.
- 1.2 The Audit Report is scrutinised by the Licensing and General Purposes Committee as part of their role as 'those charged with governance' i.e. the Committee of the Council that has responsibility for matters such as the Annual Governance Report and approval of the Council's financial statements. It is not therefore, intended to go through the whole report with Cabinet but to draw Cabinet's attention to an audit matter that requires a sum to be written back to the General Fund. Under Financial Procedure rules (Part 4, Section 9 of the Council's Constitution), this requires Cabinet approval.

2 EXISTENCE TESTING

- 2.1 One aspect of the audit is to verify the existence of assets on the Council's Balance Sheet. This is generally done by selecting a sample of the asset type and, in the case of Property, Plant or Equipment, verifying its physical existence by the auditor actually visiting or being shown the selected asset.

Assets such as investments are verified by the auditor seeking direct confirmation with the institutions (Banks, other Local Authorities or Fund Managers, for example) with whom the Council has invested.

- 2.2 Assets on the Balance Sheet also include Debtors i.e. monies owed to the Council and the existence of these debts are supported by Sundry Debt invoices, Council Tax, Business Rates and Housing Benefit systems, Rent deposit records and other supporting paperwork. Debtors are assessed for the likelihood of recovery and provisions are held against potential non-recovery – these provisions for bad and doubtful debts are offset against the asset in the Balance Sheet. The net value of Debtors in the 2015/16 accounts was £4.95million.
- 2.3 The sample testing by the auditor identified one entry where full supporting paperwork was unobtainable. This related to an historical debtor, which had been held within the accounts prior to the current financial system being installed in 1999/2000. The supporting paperwork has not been retained. The entry should have been written out of the Balance Sheet at the time when it became clear that the Debtor was no longer substantiated. The limited information that is currently available suggests that this was one of the remaining issues carried forward from the Large Scale Voluntary Transfer of Rushmoor's housing stock in 1995 and would have been a tiny fraction of the sums involved in the transfer. The value of the debtor is £76,405.
- 2.4 Extended testing was then carried out and no further errors were identified.

3 PROPOSED ACTION

- 3.1 The Accountancy team within Financial Services have now carried out a complete exercise on all Debtors that fall outside of the verifiable systems (i.e. Sundry Debtors, Council Tax, Business Rates, Housing Benefit, Purchase Ledger) to identify all accounts where there was no movement during 2015/16. These have each then been reviewed for supporting evidence. No matters requiring Cabinet approval have been identified.
- 3.2 This process will be built into the annual accounts timetable moving forward so that information relating to debtors is adequately maintained and an assessment will be made for any provision against bad and doubtful debt. It should be noted that the Debtors that fall outside of these main systems are just a small fraction of the total Debtors category (17%) and are largely Highways-related (where works are recharged to others such as Hampshire County Council) or are in respect of Rent deposits or car loans, for example, all of which are well-recorded within services.
- 3.3 A working paper will be prepared to share with the auditors to demonstrate compliance with best practise and the Licensing and General Purposes Committee will be updated at their next meeting.
- 3.4 It is recommended that Cabinet approve that the debtor for the amount of £76,405 is written back to the General Fund Revenue Account and removed

from the assets on the Balance Sheet, in accordance with current accounting rules and Rushmoor's own accounting policies.

4 CONCLUSIONS

- 4.1 Ernst and Young's Audit Results Report 2015/16, presented to the Licensing and General Purposes Committee on 26th September 2016, highlighted one area of difference in their audit of the financial statements. This related to existence testing for Debtors. This had no effect on the overall opinion on the Council's financial statements or on the auditor's conclusion on value for money in the use of resources.
- 4.2 However, it would be best practice to ensure that a robust process is put in place to regularly review the recoverability of all debtors on the balance sheet and to meet the existence testing criteria of the auditors.
- 4.3 One debt of £74,605 does not meet the criteria and should be written back to revenue.
- 4.4 The resulting variance in the Revenue account was reported to Cabinet as part of the October budget monitoring report (FIN1622) and therefore has already been taken into account when estimating the outturn position for 2016/17.

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