CORPORATE GOVERNANCE PANEL **28 JUNE 2011**

FINAL ACCOUNTS 2010/11
(Report by the Head of Financial Services)

1. INTRODUCTION

1.1 The Accounts and Audit Regulation 2011 no longer require Members to approve the accounts before they are audited. However, because of the changes that are created by the introduction of International Financial Reporting Standards (IFRS) this year the Panel asked that the accounts be presented to them at this meeting.

1.2 There has been significant pressure from the Government and the accountancy institutes for local authority accounts to more closely mirror those of the private sector. Whilst this has some obvious logic, local authorities have some specific rules relating to how particular items of expenditure are treated and the blending of these contradictory aspects gives rise to some rather unusual and complex adjustment accounts. As a result, they are not easy to understand despite the inclusion of notes to help explain the key aspects.

1.3 The prime purpose of the accounts is to form the official record of what has happened in the last year and, when audited, they will demonstrate that a proper level of financial stewardship has been achieved on behalf of local residents.

1.4 If the Council's auditors, PricewaterhouseCoopers LLP, identify any significant concerns during the course of the audit then these will be reported to the Panel in September.

2 LAST YEAR'S AUDIT

2.1 When last year's accounts were approved for publication in September 2010 the external auditor made eight recommendations and these, together with the Council's response, are shown in Annex A.

3. CONSIDERATION OF THE ACCOUNTS

3.1 It is important that the Panel have an adequate understanding of the Final Accounts. It is therefore intended to provide an introduction to the key elements and issues prior to the start of the meeting thus enabling more effective discussion during the formal meeting.

3.2 The accounts cover a significant range of services and issues which means that it would be impossible to have a ready answer to all potential questions. Panel members are therefore encouraged to give prior warning of any areas on which they require explanation or clarification to be given at the meeting. Please notify Eleanor Smith or Steve Couper by email or phone of any such areas in advance of the meeting.

3.3 Unfortunately, the timetable for preparing the Final Accounts is demanding, particularly this year with the introduction of IFRS, and so it may be necessary for them to be circulated after the agenda. Every effort will be made to do this as soon as possible to give Members longer to review them.

4 RECOMMENDATIONS

4.1 It is recommended that the Panel note the draft Final Accounts.

ACCESS TO INFORMATION ACT 1985
Final Accounts and Working Papers held in the Accountancy Section

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ANNEX A

EXTERNAL AUDIT RECOMMENDATIONS

Accounting for Fixed Assets - IFRS Restatement

a) As part of the transition to IFRS accounting, the Council should undertake a thorough review of its fixed asset register to ensure that the restated financial statements accurately present the Council's fixed assets on an appropriate component basis.

The Council has modified its records to support the 2010/11 accounts.

b) Also in preparation for IFRS all instructions to valuers should be agreed between the Finance Department and the Estates Department to ensure that they meet IFRS accounting requirements and are consistent with previous instructions.

This took place

c) The Council should review the classification of its assets as part of its IFRS restatement exercise to ensure that they are accounted for in accordance with the appropriate accounting standards.

The Council has undertaken a review

Cut-off date for invoices.

d) Our testing of additions to fixed assets identified an issue relating to the cut-off of expenditure. Invoices had not been provided to the Finance team promptly and, therefore, had not been included in the correct accounting period. The Council needs to ensure that all departments are aware of the requirements around cut-off and provide financial information to the Finance team on a timely basis, particularly at or around year-end.

April invoices are now reviewed to reduce the likelihood of this occuring

Cedar eFinancials - administrative access.

e) Management should consider the feasibility of removing powerful administrative access from operational users of Cedar eFinancials to ensure appropriate segregation of duties is maintained in the system. If this is not feasible, then management should consider issuing each super-user two identities. The first identity should have the appropriate access restrictions for the user to perform their day-to-day operational duties. The second administrator identity should be assigned to the user and monitored to ensure actions performed are appropriate and authorised.

The recommendation is not technically possible so the Accountancy Manager reviews the system audit reports which highlight actions which could lead to segregation issues

Network intrusion detection and prevention

f) The Council should consider implementing an intrusion detection or prevention system.

An Intrusion Detection system is estimated to cost in excess of £50k and if installed would require almost a full time person to monitor, manage and maintain. Whilst the Council accepts there is a risk, the

likelihood of intrusion is low and new firewalls currently being installed will offer more protection

Encryption of wireless networks

g) Management should ensure that plans to upgrade the encryption of the wireless networks from WEP to WPA2 are completed promptly.

The Council is in the process of implementing new firewalls and network infrastructure which will fully meet this requirement by July 2011

Journals

h) Proposal that all journal entries should be independently reviewed.

This proposal is made every year and officers have again reviewed the risk that results from not having them checked.

Journals are only completed by the accountancy team who are experienced and competent. It is therefore considered that, in general, there should still be no independent checking. However, because of the implications for misclassifying items in the accounts it has been decided that journals with a gross value in excess of £100,000 will be reviewed by the Accountancy Manager.