



ACCOUNTS COMMISSION

S.R. 2001/1

PROGRESS REPORT ON
INVERCLYDE COUNCIL

**A REPORT BY THE CONTROLLER OF AUDIT TO THE ACCOUNTS COMMISSION
UNDER SECTION 102(1) OF THE LOCAL GOVERNMENT (SCOTLAND) ACT 1973**

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1 INTRODUCTION

- 1.1 At its meeting on 5 July 2000, the Accounts Commission considered two reports by the Controller of Audit regarding Inverclyde Council (S.R. 2000/2 – ‘Inverclyde Council – Audit of Accounts 1997/98’ and S.R. 2000/4 – ‘Comments on Inverclyde Council’s Formal Response to S.R. 2000/2’). The Commission were concerned about reports of significant weaknesses in the Council’s financial procedures and the arrangements for preparing accounts and other matters which were indicative of a poor standard of financial administration and control within the Council.
- 1.2 On 23 August 2000 the Commission held a public hearing at the Council’s offices at which evidence was taken from the Leader of the Council, the Chief Executive, the Director of Resource Services and the Director of Social Work and Housing. In its subsequent findings, the Commission expressed concern about the serious continuing shortcomings in financial management and stewardship in Inverclyde Council and instructed the Controller of Audit to report early in 2001 on the extent to which, by 31 December 2000, the commitments set out in the Council’s action plan had been achieved.
- 1.3 This report is in response to the Commission’s request. It is based on recent audit work undertaken by the Council’s external auditors (PricewaterhouseCoopers) and on their assessment of the Council’s progress against the action plan.

1.4 The content of this report and the detailed report prepared by the external auditors have been agreed with the Council's Chief Executive.

2 FINDINGS

2.1 The assessment of progress against the action plan was carried out by the external auditors as a separate exercise in December 2000. Their remit was to:

- consider the completeness of the Council's action plan (which had been prepared by the Council to address the deficiencies arising from the 1997/98 audit and the Controller's statutory reports)
- review the action plan progress report presented to the Council's Finance and Audit Sub-Committee on 12 December 2000; challenge the progress reported; and obtain audit evidence supporting management's assessment of progress
- conclude on progress actually achieved, in light of the available evidence.

2.2 The auditors' detailed findings are reproduced as Appendix 1 to this report and a matrix prepared by the auditors summarising progress against each of the items in the action plan is reproduced as Appendix 2. The remainder of this section summarises the auditors' findings.

2.3 Overall, the auditors consider that the action plan prepared by the Council addresses the key matters and, in the event of the agreed actions being implemented, they believe that the identified financial control weaknesses would largely be resolved.

2.4 Of the 19 action points identified by the Council, three refer to the implementation of management letter recommendations which do not relate directly to matters arising from the earlier statutory reports. As Appendix 2 shows, of the remaining 16 action points, the auditors consider that six points have been dealt with fully and significant progress has been secured on a further six. The auditors also acknowledge the commitment of elected members to resolving the problems at the Council.

2.5 However, the auditors are of the view that the level of progress achieved on the remaining four action points is insufficient. Their conclusions on these four action points can be summarised as follows.

- While action has been taken to improve the process for production of the annual accounts, further improvements in the timeliness and quality of reconciliations and explanations on matters of importance to the audit process are required. In addition, action is needed to minimise the volume of post year end accounts changes. (Action points 7 and 8).
- Further progress is required to ensure that bank reconciliations are up to date and completed to an appropriate standard, with reconciling items investigated fully and promptly. Substantial improvement is still required in relation to the main bank accounts. (Action point 10).
- Progress has been achieved in improving the quality of the internal audit function, but significant action is required to complete planned systems reviews. (Action point 14).

2.6 Of these, the auditors expressed particular concern about continuing weaknesses in basic financial controls, particularly in respect of bank and creditors reconciliations. They also

reported that these weaknesses have had a significant impact on the progress of the 1999/2000 audit, which has yet to be completed at the date of this report.

- 2.7 The areas where the auditors highlighted insufficient progress are under the control of the Finance Department. The auditors are of the view that the Finance Department urgently requires to address the continuing weaknesses in financial control within an acceptable timescale. In this context it is relevant to note that the Council's Director of Resource Services (the Chief Financial Officer) resigned in December 2000.

3 CHIEF EXECUTIVE'S PROPOSALS

- 3.1 The Chief Executive met with the auditors and Audit Scotland staff to discuss the current situation. Arising from these discussions, a timetable to address the remaining issues has been prepared by the Chief Executive. The timetable requires completion of 1999/2000 bank reconciliations by 7 February 2001 and 2000/01 reconciliations as at 7 February 2001 by 7 March 2001. Thereafter regular and timeous reconciliations are to be prepared. There has been a reallocation of duties within the Finance Department to ensure that these reconciliations are brought up to date and properly completed. This is being monitored by Internal Audit and reported to the Council's Finance and Audit Sub-Committee. To improve the effectiveness of Internal Audit, the Council intends to invite tenders for the delivery of a comprehensive Internal Audit service to the Council.

- 3.2 As regards the Finance Department, disciplinary hearings involving senior finance staff are ongoing and the Chief Executive expects to be notified of the findings early in February 2001. In the meantime, the Chief Executive is taking steps to appoint a Chief Financial Officer and, in the interim, is seeking a temporary appointee. The Council has agreed nine additional posts

for the Finance Department. A review of the current allocation of duties within the Finance Department and the effectiveness of existing staff is also under way.

4 CONCLUSIONS

- 4.1 As a result of their most recent work, the auditors have reported progress on most of the points included in the Council's action plan. However, it is clear that there is a need for urgent action on the part of the Finance Department to address the remaining issues, in particular accounting reconciliations, which are fundamental to the proper administration of the Council's finances.
- 4.2 The action proposed by the Chief Executive in addressing these matters and the outstanding action points from previous audit reports is of critical importance. It is essential that key vacancies in the Finance Department are filled and that all bank reconciliations are brought up to date by the end of the financial year, in order to ensure proper control of the Council's finances and to avoid potential delays in the preparation and audit of the 2000/01 accounts.

R HINDS
Controller of Audit and Depute Auditor General
31 January 2001