



ACCOUNTS COMMISSION

S.R. 2001/3
PROGRESS REPORT ON
INVERCLYDE COUNCIL

May 2001

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

PROGRESS REPORT ON INVERCLYDE COUNCIL - MAY 2001

1 INTRODUCTION

- 1.1 Following its consideration of two statutory reports which identified significant weaknesses in financial management at Inverclyde Council, the Accounts Commission held a public hearing at the Council's offices in August 2000 at which evidence was taken from a senior elected member and senior officers. In its subsequent findings, the Commission expressed concern about the position and instructed the Controller of Audit to report on the extent to which the commitments set out in the Council's action plan had been achieved by 31 December 2000.
- 1.2 The Controller's report (S.R. 2001/1 'Progress report on Inverclyde Council') was considered by the Accounts Commission in February 2001 at which time it noted that, while progress had been achieved, there was an urgent need for the Council to address remaining issues highlighted by the Controller as being fundamental to the proper administration of the Council's finances. In view of the action proposed at that time by the Council's Chief Executive, the Commission agreed to review the position at an appropriate future date. At its meeting on 9 May 2001, the Commission instructed the Controller to report on the position as at May 2001.
- 1.3 This report is in response to the Commission's most recent request. It is based on work undertaken by the Council's appointed auditors (PricewaterhouseCoopers) in May 2001 and on their assessment of the Council's progress against its action plan and in terms of the action proposed by the Council's Chief Executive.

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

2 REVIEW OF POSITION AS AT JANUARY 2001

2.1 In January 2001, the auditors identified four areas requiring further action by the Council, which can be summarised as follows.

- Further improvements were required in the timeliness and quality of reconciliations and in the provision of explanations on matters of importance to the audit process.
- Action was needed to minimise the volume of post year end accounts changes.
- Further progress was required to ensure that bank reconciliations were up to date and completed to an appropriate standard.
- Action was required on the part of the internal audit function to complete planned systems reviews.

2.2 Of these, the auditors expressed particular concern about weaknesses in basic financial controls, particularly in respect of accounting reconciliations. The auditors were of the view that the finance department required to take action immediately to address the continuing weaknesses in financial control.

2.3 A timetable to address the remaining issues was prepared by the Chief Executive. This required completion of 1999/2000 bank reconciliations by February 2001 and 2000/01 reconciliations by March 2001 and, thereafter, regular and timeous reconciliations. To

improve the effectiveness of internal audit, the Council intended to reassess the arrangements for the provision of internal audit services.

2.4 The Chief Executive was also taking steps to appoint a Chief Financial Officer (following the resignation of the Council's Director of Resource Services in December 2000) and, in the interim, was seeking a temporary appointee. The Council had agreed additional posts for the finance department and a review of the allocation of duties within the department and the effectiveness of existing staff was in progress.

3 POSITION AS AT MAY 2001

3.1 As part of their most recent review, the auditors considered the current position in relation to each of the four points summarised in paragraph 2.1 of this report. Their detailed findings are reproduced as Appendix 1 and can be summarised as follows.

- Significant progress has been achieved in producing regular and timely reconciliations of an appropriate standard in key areas. Communication on matters of importance to the audit process has improved significantly with regular meetings between external audit and senior finance staff.
- The Council has prepared a timetable for the completion of its 2000/01 accounts and is currently on schedule to submit the accounts for audit by the statutory deadline of 30 June 2001. This timetable, together with the improvements in reconciliations and in communication with the appointed auditors, is intended to minimise the volume of post year end accounts changes. Based on this, the auditors intend to complete the 2000/01 audit and report by 30 September 2001.

- The 1999/2000 bank reconciliations were brought up to date by February 2001. Since then, bank reconciliations have been undertaken on a regular basis, with the March year end reconciliations completed in April and ongoing reconciliations performed on a four-weekly basis. The auditors have noted significant efforts on the part of the finance department to resolve problems in this area.
- The internal audit service did not complete its planned systems review work by 31 March 2001 and the appointed auditors have indicated that they will be unable to place significant reliance on internal audit in respect of that year. The auditors' preliminary work in connection with the Accounts Commission's study of internal audit in Scottish councils indicates that those issues which require to be addressed by Inverclyde Council's internal audit service are substantial in number and fundamental to the operation of an appropriate, robust internal audit service. The Council is now completing a contract specification for the internal audit service and tenders are to be invited in early course.

3.2 Following the resignation of the Director of Resource Services in December 2000, the Council operated without a Chief Financial Officer until March 2001 when a temporary replacement was appointed. The recruitment process for a permanent Chief Financial Officer is now at an advanced stage, with interviews scheduled for June 2001. The Council recognises that the finance department's resources and organisation may need to be reassessed following that appointment. Consequently, a replacement for the Head of Revenues Services (who resigned in January 2001) is not being sought at this time. Other action has been taken by the Council to supplement its treasury and capital functions.

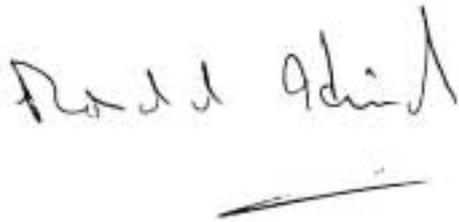
3.3 On a separate matter, the auditors have noted a number of instances where funds were borrowed in advance of need with surplus funds on-lent, in circumstances contrary to the Council's statutory powers. These have come to light in recent months and were initiated prior

to the resignation of the Director of Resource Services and the Head of Revenues Services. The auditors have been advised by the Council that corrective action has been taken to recover and repay the funds and that no such transactions will be entered into in future. This matter affects the 1999/2000 and 2000/01 financial years and the background and impact will be reported by the auditors as part of those years' audits.

4 CONCLUSIONS

- 4.1 The auditors' recent report indicates that substantial progress has been achieved by the Council in addressing the previously reported weaknesses in financial management. Fundamental accounting reconciliations are being completed regularly and plans are in place to ensure that accounts of an acceptable standard are produced for audit by 30 June 2001. Further action is needed to ensure that an effective internal audit function is in place and steps are being taken to invite tenders for the provision of internal audit services. The appointed auditors have been unable to place significant reliance on internal audit in 2000/01 and, consequently, the level of external audit input for that year may exceed that planned.
- 4.2 Interviews for a Chief Financial Officer, who will be responsible for the proper administration of the Council's finances, are imminent and further changes to the resources and organisation of the finance department may follow that appointment, once made.
- 4.3 The instances of borrowing in advance of need were initiated prior to the resignation of two senior finance officers and the situation appears to have been rectified. The full background to this and its impact will be reported by the auditors at the conclusion of their 1999/2000 and 2000/01 audits and I will consider whether further action is required on my part on receipt of their reports.

4.4 Overall, based on the appointed auditors' recent review, I am pleased to report a significant improvement in the Council's financial management in recent months which is sufficient to enable me to conclude that the Council has addressed the main areas of concern identified in earlier statutory reports. The auditors have yet to report on 1999/2000 and will report on the 2000/01 audit later this year and I will assess the outcome in due course, under the arrangements I have in place for considering local authority audits generally.

A handwritten signature in black ink, appearing to read "R Hinds", with a horizontal line underneath it.

R HINDS
Controller of Audit
6 June 2001