

## RESPONSE ON ISSUES RAISED IN THE SAS 610 REPORT

### 1. MATERIAL WEAKNESSES IN ACCOUNTING AND INTERNAL CONTROL SYSTEMS

#### 1.1. Fixed Asset register

The value of non-Housing assets presented in the Accounts is based on a register of assets held in SAP and built largely from manual records held in the Council. During 2003/04 Property and Regeneration implemented their own asset management system based around the Manhattan application. This system has a more comprehensive schedule of all types of asset and includes items that would not normally be recorded as fixed assets in the accounts (e.g. easements and subsoil access). Nevertheless, we recognised that there are differences between the two systems and a full reconciliation has been in progress since 2003 with a target completion date of December 2004. Any amendments will be included in the 2004/05 Accounts.

To demonstrate to the District Auditor that the Accounts are not materially misstated an interim reconciliation was carried out between Manhattan and SAP on a sample representing approximately 30% of all non-HRA assets. This identified only one asset not on SAP that should have been included, with a value of approximately £50,000. The sample therefore indicates that the Accounts are not materially misstated for assets not included in the accounting system.

#### 1.2. Valuation of Housing dwellings

The valuation of housing stock for Accounts' purposes had not been in accordance with Government, RICS and CIPFA guidance. A report has been commissioned from external accountants Ernst & Young and external valuers FPD Savills to support the corrected valuation now included in the Balance Sheet.

To prevent re-occurrence in future, formal certification will be required from the Property Division for Accounts purposes, confirming that all control requirements have been adhered to, as well as providing documentary evidence to this effect.

### 2. OTHER MATTERS

#### 2.1. Approval of Journals

This matter had been highlighted in an internal audit report and is being progressed by management. The intention is to have new processes in place by January 2005 and work is progressing towards meeting this deadline.

#### 2.2. Updating fixed assets on SAP

The unacceptable levels of clerical error in updating valuations of non-Housing fixed assets in SAP has arisen in part due to confusion between the separate land and buildings components. Capital charges to services had to change by a net £4,000, but had no effect on the bottom line of the Consolidated Revenue Account, as the correction is offset against another account, the Asset Management Revenue Account.

Year-end procedures and controls will be improved to ensure that review and sign-off by the senior officers within the team takes place.

#### 2.3. Dormant Trust Funds

All dormant or potentially dormant trust fund balances are now either closed or their status is being discussed with relevant parties with a view to closure. Some of the balances are very old (three are dated 1898, 1927 and 1938) which has made the investigations time consuming.

2.4. IWORLD

During 2003/04 management identified that the interface between the IWORLD and SAP applications was not functioning correctly and so suspended the link to allow investigations to be conducted. Detailed re-mapping is being finalised, and 'bugs', contained in the current software will be rectified in the next software release, which is due to go into 'test' in November 2004. It is anticipated that the interface will be fully functional in the first quarter of 2005.

Transactions between IWORLD and SAP have since been posted manually rather than automatically, to ensure correct accounting. The £623,000 adjustment referred to in the SAS 610 report is the amount that officers properly identified during the closing process that had not been posted correctly by IWORLD and required action to ensure the correct presentation of the Accounts.

2.5. Pension Fund bank account

The operation of a separate bank account for the pension fund is not mandatory, but can be considered good practice. A separate bank account has now been set up but is not yet fully operational due to the need to conclude reviews on interfaces with the payroll system for pension payments.

2.6. NNDR reconciliations

Some minor variances in the reconciliation processes between Liberata's systems and SAP have indicated potential control weaknesses. Officers have agreed to review the reconciliations and controls, with a deadline for completion by January 2005.