



INTERNAL AUDIT REPORT

TO: Head of Finance

SUBJECT: Capital Accounting

C.C.: Chief Executive
Deputy Chief Executive
Strategic Finance Manager
Principal Accountant (Capital and
Treasury Management)

MY REF: JK/CA

FROM: Audit & Risk Manager

DATE: 27th September 2012

1. INTRODUCTION

- 1.1 As part of the 2012/2013 Audit Plan an audit has recently been completed on the policies and procedures in place to manage the council's capital accounting.
- 1.2 This report outlines the approach to the audit and presents the findings and conclusions arising.

2. SCOPE AND OBJECTIVES OF THE AUDIT

- 2.1 The audit was undertaken in order to review the council's capital accounting systems and procedures and the controls in place.
- 2.2 The work undertaken comprised:
- (a) Walkthrough testing for additions to and deletions from the asset registers and
 - (b) Compliance testing in the following areas:
 - Capital accounting policy
 - Asset registers
 - Reconciliation of asset registers
 - Access to asset registers
 - Valuations
 - Depreciation
 - Control accounts.
- 2.3 Capital accounting is a specialist subject with a high level of detail and complex accounting processes. The time available for the audit only allows for a general overview approach to be taken.

3. BACKGROUND

- 3.1 Capital accounting is undertaken by the Treasury Team in Financial Services. The team is headed by the Principal Accountant (Capital and Treasury Management).
- 3.2 The total value of the council's non current (fixed) assets at 31st March 2012 was around £306 million.
- 3.3 The team is in something of a transitional phase at the moment as a result of an enforced change and the current restructure in Finance but this does not impact on the performance of the team.

4. FINDINGS

- 4.1 In overall terms the audit concluded that capital accounting is carried out by experienced staff and is in accordance with the CIPFA Code of Practice for Local Authority Accounting and WDC accounting policies.
- 4.2 In respect of the walkthrough and compliance testing carried out the findings were as follows:-

4.3 Walkthrough Testing

- 4.3.1 One recent addition to the asset registers (South West Warwick play equipment) and three deletions (sales of HRA properties) were traced through the system and procedures and accounting entries had been followed and performed as expected.

4.4 Capital Accounting Policy

- 4.4.1 The council's annual Statement of Accounts is prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the UK which is supplemented by guidance notes for practitioners.
- 4.4.2 In addition the council has its own accounting policies which are included in the annual Statement of Accounts.

4.5 Asset Registers

- 4.5.1 The Code of Practice requires authorities to maintain asset registers recording both historical cost and current value. In the council's case there are basically two asset registers – one for General Fund and one for Housing. These are subdivided into a number of smaller registers and maintained in spreadsheet format.
- 4.5.2 In 2011/2012 it was a requirement that Heritage Assets be included in the Balance Sheet for the first time and therefore in the asset registers. These are mainly items of an art or historical nature held at the Art Gallery and Museum. In the 2012 Balance Sheet they are valued at £8.7 M.
- 4.5.3 The council has purchased an asset management package called Logotech that will eventually provide the asset registers and become part of the

background for the preparation of the annual Statement of Accounts. Data has been transferred from the spreadsheets and tested and it is likely that the system will be fully functional in time for the 2012/2013 accounts process. Some issues with the HRA register delayed Logotech being used for last year's accounts.

4.6 Reconciliation of Asset Registers

- 4.6.1 Periodic reconciliation of the asset registers to the FMS is not a consideration as most of the processes involved take place at the year end. The asset registers and the entries in Total are essentially the same record.
- 4.6.2 Capital expenditure from the FMS feeds into the asset registers and all adjustments (depreciation, valuations, impairments) appearing in the registers are reflected in the FMS.
- 4.6.3 Testing confirmed the balance between the registers and the FMS and therefore the balance sheet.

4.7 Access to Registers

- 4.7.1 The asset registers in spreadsheet format are held in the Treasury folder within the Finance folder. Full access is restricted to the Treasury Team and a small number of other Finance Staff. Read only access is available to certain staff within Finance. The data is backed up as part of the central back up routine
- 4.7.2 Access to Logotech is restricted to the Treasury Team and the support officer in ICT. Currently there is only a single user assigned to the system so all staff use the same log in and password. When the system is fully operational it will be necessary for all users to be allocated individual log ins, passwords and privileges.

4.8 Valuations

- 4.8.1 The Code of Practice requires valuations to be carried out at least every five years. The Code allows for valuations to be carried out on a rolling basis or as a single exercise every five years. The council has opted for the rolling basis. Housing properties are valued on an annual desktop review using the principle of "beacon properties" i.e. one of each category of property is valued and that value is applied to all other properties in that group.
- 4.8.2 It is also a requirement that assets are tested annually for impairment. With that in mind examples of particular assets e.g. a leisure centre, a car park, an office, a public convenience are submitted to the District Valuer annually for revaluation and any changes are applied to all other assets of the same type.

4.9 Depreciation

- 4.9.1 For all assets that are depreciated e.g. not land, investment properties and Heritage Assets, the straight line method is used.

- 4.9.2 When the District Valuer revalues an asset an estimate is provided at the same time of its remaining life and this is entered into the asset registers to calculate depreciation.
- 4.9.3 Limited testing revealed that depreciation was being dealt with correctly.
- 4.10 Control Accounts
- 4.10.1 Control accounts are not maintained as such; items such as depreciation are charged directly to cost centres by journal entries and not through control accounts.
- 4.10.2 Total amounts of depreciation, for example, can be traced from the asset registers to the FMS property, plant and equipment codes and from there to the individual cost centre codes in the service accounts.

5. SUMMARY AND CONCLUSIONS

- 5.1 The audit concluded that there are sound systems and procedures in place to manage the council's capital accounting function.
- 5.2 The audit can therefore provide a **SUBSTANTIAL** level of assurance that the systems and procedures in place are appropriate and working effectively.

Richard Barr
Audit & Risk Manager