

Appendix C

External Audit

Background

1. Council's accounts are submitted, annually to external auditors upon the completion of the internal audit. Regulations require that councils like Berwick upon Tweed must prepare for each year an income and expenditure account and a statement of balances in accordance with, and in the form specified in any Annual Return required by, proper practices in relation to accounts.
2. The internal audit report has already been received by council and work has begun to address the issues raised.
3. Members are reminded that the practitioners guide states "Fixed assets acquired in any year must be added to the asset register for management purposes. For accounting purposes, however, acquisitions and disposals of fixed assets must be treated as any other purchase or sale and recorded as part of annual receipts or payments, expenditure or income. Once recorded on the asset and investments register, the recorded value of assets and investments must not change from year to year until disposal. Commercial concepts of depreciation, impairment adjustments, etc. are not appropriate for local councils. For reporting purposes therefore, the 'book' value of fixed assets will stay constant throughout their life until disposal."
4. Section 3 of the Internal Audit report states "Additions are allocated and recognised in the income and expenditure account, as well as being added to the value of the assets. Our concern is that if this has been the treatment in previous years, then expenditure (in the income and expenditure account) has been overstated. Furthermore, as the assets are being separately recognised via the "adjustment" line within reserves, this would highlight duplication of such additions being acquired, i.e. recognised in both the balance sheet and in the income and expenditure account."
5. It is the view of your officers that these statements are contradictory, and that the wording of the practitioner guide is correct; that is to say, that the income or expenditure from any disposals or acquisitions of assets should be recorded along with any other income or expenditure. The concept of duplication, of an item being recorded in both the income and expenditure account and the balance sheet is a commercial concept that has no place in the accounts of a small council, and your officers will continue to discuss this with the Internal Auditor.
6. Apart from this point, against which the Internal Auditor has placed no actions, all other actions required are being addressed, and have been discussed with the Budget and Administration Committee.

Recommendation

1. Council is invited to note the report.