Grant Thornton

London Borough of Haringey

Audit 2009-10
Annual Report to those Charged with Governance

13 September 2010

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Appendices

1 Executive Summary

ISAUK 260 requires communication of:
- relationships that have a bearing on the independence of the audit firm and the objectivity of the engagement team
- nature and scope of the audit work
- the form of reports expected.

Purpose of the report

1.1 This report has been prepared for the benefit of discussion between Grant Thornton UK LLP and the London Borough of Haringey (the Council). The purpose of this report is to highlight the key issues arising from the audit of the Council's accounts for the year ending 31 March 2010.

1.2 This report meets the mandatory requirements of International Standard on Auditing 260 (ISA 260) to report the outcome of the audit to 'those charged with governance' which, for the purposes of the accounts, is designated as the General Purposes Committee. The requirements of ISA260, and how we have discharged them, are set out in more detail at Appendix A.

1.3 The Council is responsible for the preparation of accounts which record its financial position as at 31 March 2010, and its income and expenditure for the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Council's accounts present a true and fair view of the financial position.

1.4 Under the Audit Commission's Code of Audit Practice we are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Audit conclusions

Accounts Opinion

1.5 The Council produced its draft 2009/10 accounts in advance of the 30 June 2010 deadline and presented them to the General Purposes Committee on 28 June 2010. As in previous years, the working papers were timely and of a good standard and we worked collaboratively with officers to ensure a smooth audit process.

1.6 The key highlights from the audit are:

- the Council managed an effective closedown process and worked with us to ensure a more rapid completion of the audit than in previous years
- the Council continues to secure improvements in valuing and accounting for its fixed assets although our audit findings suggest that there is scope for further development, particularly in light of the requirements under international accounting standards applicable from 2010/11
- the Council is developing its response to the forthcoming comprehensive spending review and will need to work hard to deliver the anticipated significant financial challenge ahead

- the Council's arrangements for accounting for NNDR debtors need to be strengthened to ensure better visibility over the collection of debts that are over a year old.

1.7 We anticipate providing an unqualified opinion on the accounts following approval of the accounts by the General Purposes Committee on 23 September 2010.

1.8 Further details of the outcome of our accounts audit are given in Section Two and Appendix B (adjustments to the financial statements).

Value for Money Conclusion

1.9 In providing our opinion on the accounts, we are required to reach a conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion). We are pleased to report that we propose to issue an unqualified conclusion.

1.10 Further information on our Value for Money audit is contained in Section Two. We will shortly issue our Value for Money report 2009/10 to management and will then present this to the December meeting of the General Purpose Committee.

The way forward

1.11 Matters arising from the accounts and Value for Money audit have been discussed with the Director of Corporate Resources. We have made a number of recommendations, which are set out in the action plan at Appendix C. This has been discussed and agreed with the Director of Corporate Resources and her senior finance team.

1.12 We will continue to work with the Council to ensure that outstanding finalisation issues are completed in time for the accounts opinion to be formally signed in accordance with the statutory deadline of 30 September 2010.

1.13 We are required to provide an audit opinion on the consolidation pack that is to be completed as part of the Whole of Government Accounts. This work is not covered by our opinion on the Council's accounts. We will complete this work once the accounts audit has been finalised and in time for the 1 October deadline.

Use of this report

1.14 This report has been prepared solely for use by the Council to discharge our responsibilities under ISA260, and should not be used for any other purpose. We assume no responsibility to any other person. This report should be read in conjunction with the Statement of Responsibilities and the Council's Letter of Representation.

Acknowledgements

1.15 We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council’s staff.

Grant Thornton UK LLP
13 September 2010

2 Detailed Findings

Introduction

2.1 This section provides a summary of findings arising from our audit of the accounts and Value for Money (VFM) conclusion.

Financial Statements Audit

Status of the audit

2.2 We carried out our audit in accordance with the Audit Plan 2009/10 (December 2009) and the Accounts Audit Approach Memorandum (June 2010). Our audit is substantially complete, subject to the following finalisation procedures:

- some minor pieces of audit evidence and explanations from management primarily relating to fixed assets
- review of the final version of the financial statements
- obtaining and reviewing the Council's Letter of Representation
- updating our post balance sheet events review, to the date of signing the accounts.

Key risks

2.3 Our 2009/10 Accounts Audit Approach Memorandum set out the key risks relating to the audit of the financial statements. As part of our interim audit, we completed work in a number of areas to consider the audit risks identified and tailored our audit approach accordingly. As part of our final accounts audit, we reviewed the identified audit risks and have set these out in Exhibit One together with the outcome of the work completed. Our review of the risks facing the Council has not identified any significant additional risk areas affecting the 2009/10 accounts.

Exhibit One: 2009/10 Key audit risks and conclusions

Key audit risk	Conclusion
Risk 1	
The Council must prepare its annual accounts under International Financial Reporting Standards (IFRS), from 2010/11. The most significant issues to note in relation to the transition to IFRS accounting are: • potential consolidation of Alexandra Park and Palace into the group accounts • lease classification and accounting • calculating the employee benefits 'holiday pay' accrual • fixed asset component accounting • fixed asset valuation	We are continuing to work with management as preparations for IFRS continue and have had positive meetings with officers in March and August 2010 to review the good progress being made to date. We have agreed with management that we will perform a review of the restated 31 March 2010 balance sheet, under IFRS, by 31 December 2010.
Risk 2	
The Council is required to comply with the 2009 SoRP in preparation of its accounts. The principal change in the 2009 SoRP is around current and prior year adjustments to accounting for Council Tax (CT) and National Non-Domestic Rate (NNDR) income. From 1 April 2009 the Council's account should: • disclose CT balances net of any amounts that relate to other precepting bodies • only recognise NNDR cash collected in excess of the Council's cost of collection allowance. This change in accounting policy requires an adjustment to the prior year comparator figures shown in the 2009/10 accounts.	Our audit work included a detailed review of the change in accounting treatment and adjustments made to the 2008/09 figures. The results of this work are detailed from paragraph 2.8 below.
Risk 3	
Following our 2008/09 accounts audit we made a number of recommendations to the Council in areas where there was scope to improve arrangements, primarily around fixed asset valuations and accounting.	Our audit procedures have followed up on the recommendations made in 2008/09 and overall progress has been positive. Where the recommendations made have had a continuing impact in 2009/10, these have been discussed further in the 'matters arising from the financial statements audit - fixed asset accounting'.

2.4 The General Purpose Committee should confirm that it is not aware of any additional material risk areas facing the Council, including significant fraud risks.

Matters arising from the financial statements audit

2.5 We were presented with an initial set of draft 2009/10 accounts on 7 June 2010 (prior to submission of full draft accounts on 28 June 2010), which enabled an initial team and technical review of the accounts to take place and be fed back, prior to production and approval of the formal draft accounts. This enabled audit work to begin early and was useful for the finance team in obtaining timely feedback on the accounts. The supporting working papers were also provided in accordance with the agreed timetable for audit.

2.6 Regular liaison meetings were held between the audit team and key finance officers prior to the preparation of the draft accounts, and throughout the audit fieldwork. This enabled early resolution of emerging issues and ensured that audit queries were processed in a timely manner. We would like to place on record our appreciation to those officers involved in this process.

2.7 Matters arising from the financial statements audit are set out below. Where appropriate, we have made recommendations for improvement, as set out in the agreed action plan at Appendix C.

Accounting for Council Tax (CT) and National Non-Domestic Rate (NNDR) income under the 2009 SoRP

2.8 The 2009 SoRP introduced the concept that cash collected from NNDR taxpayers belongs to the Government and at the balance sheet date a debtor or creditor should be recognised for the difference between cash collected from taxpayers and money due to or from the Government.

2.9 In line with the SoRP guidance the Council has recognised a debtor of £12.2m due from the Department for Communities and Local Government (DCLG) at 31 March 2010. Review of the balance identified that approximately £7.9m related to prior year balances for which money had not been recorded as received as at the time of our audit work.

2.10 Upon detailed investigation management have now been able to determine that approximately £5.2m of this outstanding balance relates to business rate payers rather than the NNDR pool due from DCLG. This £5.2m balance has been evidenced by management as being the difference between the estimate of the NNDR pool balance included in the accounts for each financial year between 2006/07 and 2008/09 and the final figure as certified on each year's NNDR claim.

2.11 The misclassification of the NNDR pool debtor and the fact that this was only highlighted during the audit is indicative of weaknesses in the Council's system for managing this debt and maintaining reconciliation between SAP, the Council's finance system, and SX3, its benefits system. We understand that the Council intends to take a new approach in 2010/11 to actively manage and reconcile the debtor balance to ensure timely recording of monies due to the Council on the Council's finance system, SAP. In line with this new approach we would expect to see a significant proportion of this historical debt due from DCLG reconciled during 2010/11 such that the balance is significantly reduced as at 31 March 2011.

2.12 In preparation of the accounts the Council has estimated the NNDR income included in the collection fund and the debtor is accordingly based upon this estimated figure. We have reviewed the NNDR return and identified an apparent understatement of income by £4.1m. Further discussion noted that the difference arises from the use of a "live" data system with reports produced on different dates.

2.13 As the SoRP permits the use of estimated values we have not suggested any adjustments to amend the collection fund or the debtor which has historically also been determined using estimated values. Nonetheless this difference highlights an area for improvement to ensure the NNDR income within the accounts more closely reflects the NNDR return submitted to DCLG.

Capitalisation direction for impairment of Icelandic investments

2.14 During 2009/10 the Council received a capitalisation direction of £11.1m in respect of the impairment of its Icelandic investments which have totalled £11.2m, meaning the difference has been taken direct to the general fund. This direction has allowed the Council to spread the impact of the impairment on the council tax payer over a 20 year period in a similar way to new borrowing.

2.15 The Council has continued to accrue interest income on the investments held in Iceland, which has totalled £3.7m over 2008/09 and 2009/10. This interest income is considered to be an accounting benefit to the Council which has decided to offset this benefit against the capitalisation direction and spread the net impact over the next 20 years.

2.16 The Council's treatment of the capitalisation direction and accrued interest is not explicitly detailed in either the SoRP or specific guidance surrounding Icelandic investments. The Council has taken this approach in order to more closely reflect the Council's cash loss with the impact of accounting entries on the council tax payer and we take the view that the approach is consistent with extant accounting standards such as FRS 5 in terms of substance over form and IAS 18 in terms of revenue recognition.

Fixed asset accounting

Private Finance Initiative (PFI)

2.17 The Council's PFI contract is in suspension and as such the assets and liabilities associated with the arrangement were brought on balance sheet in a previous period and have been accounted for in the same way as a finance lease. The introduction of IFRIC 12 "Service Concession Arrangements" during 2009/10 has not necessitated any change to the accounting treatment but has required inclusion of additional disclosure information within the accounts.

2.18 The scope of IFRIC 12 is wide reaching and can be applicable to a variety of long-term contracts, involving Council assets, depending on the exact nature of the contractual relationship. Prior to our audit the Council performed a complete review of their contracts against the applicability criteria of IFRIC 12 and determined that no further contracts were within the scope of IFRIC 12. We have reviewed this work and agree with the conclusions reached by management that at this stage no assets need to be brought onto balance sheet that have not already been accounted for.

2.19 Our review of the draft accounts indicated that a number of the disclosure requirements under IFRIC 12 had not initially been included and the Council agreed to consider these points when preparing the revised accounts.

2.20 As the PFI arrangement is treated as a finance lease the liability due to the contractor should be reduced each year by the unitary charge such that over the contract life the liability becomes £nil. Early in the audit process management identified that the closing liability reflected in the accounts was not in line with the contract period remaining and as such the liability was overstated by £221,000. This adjustment has now been processed by the Council when preparing the revised accounts.

Revenue expenditure funded from capital under statute

2.21 Revenue expenditure funded from capital under statute (REFCUS) is expenditure of a capital nature, on assets which are not owned by the Council but which are permitted by statute to be financed using capital reserves. In 2009/10 the Council had £15.9m of REFCUS which was predominantly spend on the voluntary aided and foundation schools. This expenditure was included as an addition to fixed assets and then written out in year to the Income and Expenditure account as an impairment. As REFCUS relates to assets which are not owned by the Council, these costs should not be accounted for through fixed assets but should be taken directly to the Income and Expenditure account.

2.22 A classification adjustment has been processed by management to remove the £15.9m from Assets Under Construction additions and impairments. This adjustment has no impact on the carry forward fixed asset balance or on the in year charge to the Income and Expenditure Account.

Fixed asset movements

2.23 The fixed asset note analyses out the movements to the fixed assets in the year split between cost and accumulated depreciation. The note is produced from reports direct from the financial system without manual adjustments to reflect the actual figures for each category of asset. Our audit work identified a number of SAP (the Council's accounting system) classifications which did not reflect the requirements of the SoRP.

2.24 This has resulted in a number of reclassifications between lines within the fixed asset note, in particular between cost and depreciation and between revaluations, impairments and reclassifications, as well as changes to the brought forward cost and depreciation. These adjustments have no impact on the closing net book value of fixed assets or on the in year charge to the Income and Expenditure Account.

Council dwelling depreciation

2.25 As in 2008/09 the Council has used the Major Repairs Allowance (MRA) as a proxy for depreciation on council dwellings on the basis that there is not a material difference. We made the recommendation in 2008/09 that the Council should move towards calculating depreciation under conventional methods. Work has been performed by council staff to move towards calculating actual depreciation and to determine the impact of using MRA as an estimate. It is anticipated that for 2010/11, a 'true' depreciation figure will be included for council dwellings. The Council's analysis of the impact of this accounting estimate choice have been reviewed and considered reasonable and gives a depreciation range on council dwellings of between £12.3m and £12.6m. Actual depreciation of £12.4m has been charged.

2.26 We have concluded that the impact of using MRA as a proxy for depreciation is more significant than the Council's estimate but would not result in material differences in the accounts. We continue to recommend that the Council progresses plans to calculate an actual depreciation figure on council dwellings from 2010/11 onwards, as the size of the impact can fluctuate year on year, particularly with the move to IFRS.

Hostel Valuations

2.27 The Council currently holds £8.8m of hostels in its Balance Sheet. Over the last few years, shared room hostels have been decommissioned, converted or are awaiting sale so that the majority of hostel stock held are now self contained single units. As self contained units, the sale prices of the hostels are expected to be comparable to council dwellings of a similar nature.

2.28 Under housing valuation guidance issued by the Department for Communities and Local Government (CLG), hostels owned by the Council should be valued on a Depreciated Replacement Cost (DRC) basis unless there is sufficient evidence of sales for similar types of use to establish an Existing Use Value (EUV). In the 2009/10 accounts the Council's hostels have been valued on an EUV basis, the same basis as the dwelling stock portfolio, which is a departure from the housing valuation guidance.

2.29 While the expectation is that the self contained hostel units will have comparable sale prices to similar council dwellings, there is currently no evidence to support this view and the decision to move to all self contained single units has not been documented at a strategic level. We have concluded however that the impact of this departure from the guidance is not material in the context of the HRA portfolio as hostels comprise only 0.7% of the total balance sheet value but recommend that the Council formally documents the rationale to back up the valuation basis supported by appropriate evidence and amends its accounting policy.

Revaluation programme

2.30 In 2008/09 we reported on control weaknesses in the revaluation of the fixed asset property portfolio which had resulted in property values on non-HRA properties not being kept up to date. We identified that there was limited documentation to demonstrate that all fixed assets had been revalued as part of the five year rolling programme. The audit work performed for the 2009/10 audit, has identified improvements in the procedures in place to revalue the property portfolio and keep valuations up to date. A full revaluation has been performed in 2009/10 on the Council's property both under the 2009 SoRP for the 2009/10 accounts and under IFRS for the 2009/10 restated accounts. The Council has a draft rolling programme for the next 5 years, which identifies the classes of assets to be covered each year. Under IFRS, the Council will need to revisit this programme each year to ensure that the properties covered will provide sufficient assurance that the figures in the accounts accurately represent the true value of the assets.

Revaluation and impairment values reflected in the accounts

2.31 When processing asset revaluations and impairments into the SAP accounting system each transaction type receives a different transaction code to ensure that it is processed correctly through the accounts. Our audit work included a request for a reconciliation of the detailed revaluation reports to the figures in the accounts and in doing this management noted that £3.2m of downward revaluations had been coded as impairments, taken to the Income and Expenditure Account rather than movements on the Revaluation Reserve.

2.32 Correction of this error results in a £3.2m reduction to the deficit on the Income and Expenditure account which also reduces the gain/loss on revaluation recognised in the Statement of Recognised Gains and Losses. It has been agreed with management that the accounts will be adjusted to correct this error which will also impact disclosures within the fixed asset note.

2.33 Whilst the closing process does include a number of controls surrounding revaluations and impairments this error was not identified because the checks performed by management on the Revaluation Reserve did not fully reflect the impact of depreciation on asset values. Management have acknowledged this weakness in the current system of controls around fixed asset accounting and plan to implement further controls to prevent such an error in future periods.

Group accounts consolidation

2.34 In line with our work in previous years we have again considered the arrangements in place between the Council and Alexandra Park and Palace Trust to determine whether these should continue to be treated as separate entities or whether Alexandra Park and Palace Trust should be consolidated into the group accounts.

2.35 We have reviewed the requirements of the SoRP as to whether the Trust should consolidated into the group accounts. The SoRP determines that charitable trusts are generally outside the boundary of local authority control as the Trustees are legally bound to act in the interest of the charity. However, the SoRP also requires that other factors are considered to assess the substance of the relationship including the issue of control.

2.36 The Board of Trustees at the Trust is comprised of elected councillors who are (once appointed) not dependant on the Council for their position and as such are not under the control of the Council. The Trust includes a wholly owned trading subsidiary whose Board of 7 members includes the Council's Director of Corporate Resources who is therefore able to express some influence over operational decisions on behalf of the Council. However, the Council's presence on the Board is not significant enough to exhibit control over the entity, under the requirements of the SoRP 2009.

2.37 As such, we have concluded that for 2009/10, the Council's level of control over the Trust is not sufficient to warrant the Trust being consolidated into the Council's group accounts. Under statute the operating deficit of the Trust is funded by the Council and is therefore reflected in the Council's accounts.

2.38 Under IFRS the control of an entity is considered to exist if a parent has the power to control as opposed to ability to control which is the case under the current accounting rules. As part of the wider review of the changes required under IFRS the Council is considering whether the Trust will need to be consolidated in the group accounts for 2010/11.

Adjusted misstatements

2.39 During the course of our audit management identified some errors within the Cashflow Statement and provided a revised statement which largely resolved our audit queries identified during review of the statement included in the draft accounts.

2.40 In addition, we identified various proposed amendments to classification and disclosure of the accounts and notes to improve presentation and we are pleased to report that management have agreed to process the majority of these.

2.41 All adjusted misstatements are scheduled at Appendix B. The aggregate of these adjustments increased the General Fund balance by £612,000.

Unadjusted misstatements

2.42 We are pleased to report that management has agreed to process all adjustments to correct any identified misstatements.

Financial Statements Opinion

2.43 We anticipate providing an unqualified opinion on the Council's financial statements, following approval of the accounts by the General Purposes Committee on 23 September 2010.

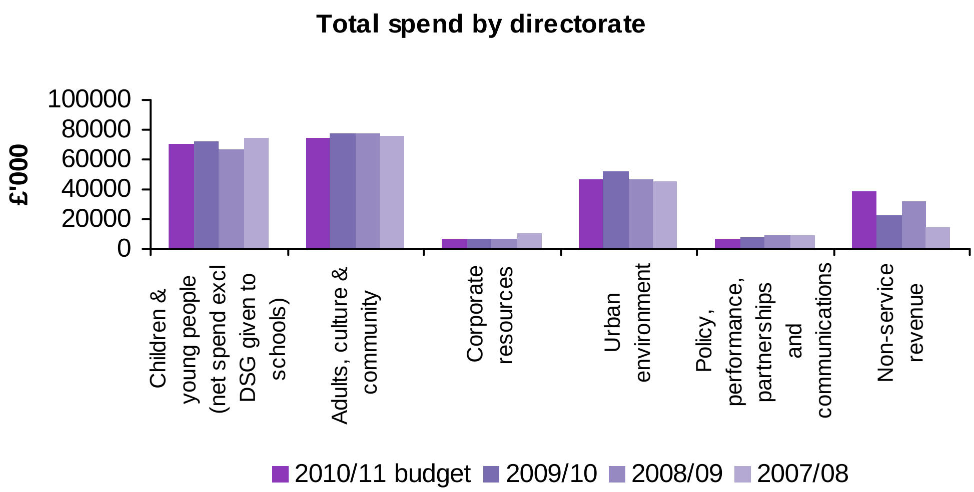
Pension fund audit

2.44 The results of the pension fund audit have reported separately and presented to the Pensions Committee.

Financial performance

2.45 The Council reported an £1.1m net services overspend to be met from the General Fund compared to a £75,000 underspend in 2008/09. The Council's spending by directorate over the last 3 years is detailed below and provides an indication of changes in spending.

2.46 As shown in the chart below the spends by the Children & Young People, Adults, Culture & Community, Corporate Resources and Policy, Performance, Partnerships & Communications directorates have been consistent in the previous 3 years and are expected to remain so in 2010/11.



2.47 The current economic climate has placed significant pressure on the public sector and local government in particular, to generate efficiencies and operate within reduced resources. The Council's medium term financial plan agreed in February 2010 indicated a balanced position over the period but included assumptions surrounding council tax rises, the formula grant, pay and price inflation as well as area and specific grants which are now subject to considerable change. Additionally the plan included £32m of planned efficiency savings of which £20m had still to be identified.

2.48 The Council is currently planning for the significant spending cuts anticipated as part of the central government's comprehensive spending review in October 2010. These spending cuts have been incorporated into the Council's revised budget and medium term financial strategy with a gap of £7.5m being forecast for 2010/11, rising to approximately £63m by March 2014. In order to address this budget gap the Council is developing an efficiency and savings programme which will also look at transformational change within the Council. This programme is currently being further developed and will be incorporated into the budget setting process for 2011/12 in February 2011.

Evaluation of key controls

2.49 We have undertaken sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Our evaluation of the Council's key financial control systems did not identify any control issues that present a material risk to the accuracy of the financial statements.

2.50 We performed a high level review of the general IT control environment as part of the overall review of the internal control system and concluded that there were no material weaknesses within the IT arrangements that could adversely impact on our audit of the accounts, but some minor recommendations were identified and these were separately reported to management in January 2010.

2.51 We have reviewed the work of internal audit and concluded that the scope and conduct of internal audit work was appropriate to provide adequate assurance on the effective operation of controls. We have therefore taken assurance from the work of internal audit in our evaluation of controls.

2.52 During the course of our audit we have performed a review of the controls and processes in place at the Council surrounding employment taxes. This work has identified some minor recommendations upon which we will report separately to management.

Annual Governance Statement

2.53 We have examined the Council's arrangements and processes for compiling the Annual Governance Statement (AGS). In addition, we read the AGS to consider whether the statement is in accordance with our knowledge of the Council.

2.54 We have concluded that the Council has good arrangements in place to compile the AGS and provide a strong audit trail for the Chief Executive and Leader to sign the statement.

2.55 As the AGS must be reviewed and, as necessary, updated as at the date of signing our audit opinion for any new or amended significant internal control issues, we will review the final version of the AGS as part of our audit completion procedures.

Value for Money

2.56 The Audit Commission's Code of Audit Practice requires us to assess whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In discharging this responsibility, we are required to review and, where appropriate, examine evidence that is relevant to the Council's corporate performance management and financial management arrangements.

2.57 Our 2010 Value for Money conclusion has been informed by work carried out on Use of Resources up until the abolition of Comprehensive Area Assessment, and other local risk based work carried out in accordance with our 2009/10 Audit Plan.

2.58 On the basis of the work completed, we propose to issue an unqualified Value for Money conclusion.

2.59 We will shortly issue our Value for Money report 2009/10 to management and will then present this to the December meeting of the General Purpose Committee.

Next steps

2.60 The General Purpose Committee is required to approve the financial statements for the year ended 2009-10. In forming its conclusions the Committee's attention is drawn to the adjustments to the accounts and the required Letter of Representation.

2.61 We will continue to work closely with the Council in their preparation of the restated accounts for 2009/10 under IFRS to ensure that assurance can be gained on the comparative figures included in the 2010/11 accounts.

A Reporting requirements of ISA 260

The principal purpose of the ISA 260 report is:

To reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and those charged with governance.
To share information to assist both the auditor and those charged with governance fulfil their respective responsibilities.
To provide to those charged with governance constructive observations arising from the audit process.

ISA260 reporting requirement	Key messages
Independence	We are able to confirm our independence and objectivity as auditors and draw attention to the following points: • We are independently appointed by the Audit Commission. • The firm has been assessed by the Audit Commission as complying with its required quality standards. • The appointed auditor and client service manager are subject to rotation in line with the Audit Commission's requirements. • We comply with the Auditing Practices Board's Ethical Standards. • We have not provided any non audit services in 2009/10.

ISA260 reporting requirement	Key messages
Audit Approach	Our approach to the audit was set out in our 2009/10 audit plan and Annual Audit Approach Memorandum. We have planned our audit in accordance with auditing standards and the Audit Commission's Code of Audit Practice. Other key factors to highlight include: • We consider the materiality of items in the financial statements in determining the audit approach and in determining the impact of any errors. • We have been able to place appropriate reliance on the key accounting systems operating at the Council for financial statement audit purposes. • In 2009/10 we have been able to take assurance from the work of internal audit in respect of the key accounting systems.
Accounting Policies	The Council has adopted appropriate accounting policies in the areas covered by our testing. Accounting policies are in accordance with the SoRP 2009. The General Purpose Committee has confirmed that it is satisfied that the accounting policies adopted are the most appropriate, as required by FRS 18. We have considered the Council's financial plans and consider it appropriate for the Council to continue to account on a going concern basis.
Material Risks	We have requested from the Council a Letter of Representation, to state that there are no additional material risks and exposures as at the date of the audit report, which should be reflected in the financial statements. We will also perform our own audit procedures to ensure that all significant risks and exposures to the Council have been recognised in the accounts as at the date of the audit report.

ISA260 reporting requirement	Key messages
Audit Adjustments	We have discussed with management the adjustments to the accounts, primarily to improve the fair presentation of the financial statements, as well as the clarity and presentation of disclosure notes. These adjustments are summarised at Appendix B.
Unadjusted Errors	There are no unadjusted misstatements to report to those charged with governance.
Other Matters	Other matters for the attention of those charged with governance are set out in the main body of this report.

B Adjustments to the financial statements

The table below lists all significant audit adjustments which have been processed and agreed with the Director of Finance.

Adjustment Type

Misstatement - A change to the value of a balance presented in the financial statements.
Classification - The movement of a balance from one location in the accounts to another.
Disclosure - A change to the way in which a balance is disclosed or presented in an explanatory note.

Adjustment type	Para ref	Accounts balance	Impact on financial statements
Disclosure	2.19	PFI note	Inclusion of additional disclosure surrounding the accounting for the PFI contract, valuation of associated assets, usage of the PFI lifecycle reserve and any terms within the contract which may impact future payments to the contractor.
Classification	-	Income from business rate payers	The income due from business rate payers was overstated by £232,000 compared to the certified claim and it has been agreed to process an adjustment to reduce this figure offset by £75,000 change to payments to the pool and £158,000 reduction in cost of collection and as such there is no impact on the collection fund surplus.
Disclosure	-	Debtors	The SoRP 2009 required restatement of debtor balances relating to Council tax and NNDR income such that the accounts reflect balances due to or from precepting bodies. It has been agreed that disclosures surrounding this restatement of 2008/09 balances will be increased.
Classification	2.22	Fixed Assets - REFCUS	REFCUS. A classification adjustment has been process by management to remove the £15.9m of REFCUS from Assets Under Construction additions and impairments. This adjustment has no impact on the carry forward fixed asset balance or on the in year charge to the I&E Account.
Classification	2.24	Fixed Assets	There have been a number of reclassifications between lines within the fixed asset note, in particular between cost and depreciation and between revaluations, impairments and reclassifications, as well as changes to the b/f cost and depreciation. These adjustments have no impact on the closing net book value of fixed assets or on the in year charge to the Income and Expenditure Account.

Adjustment type	Para ref	Accounts balance	Impact on financial statements
Disclosure	-	Fixed Assets	Inclusion of additional disclosures surrounding the revaluation exercise to make reference to the full revaluation in year and the involvement of the external valuers Wilks Head and Eve.
Misstatement	2.32	Revaluation reserve	A group of assets with downward revaluations had incorrectly been processed as impairments, accordingly an adjustment has been processed to appropriately account for the change in asset values which has caused a £3.2m decrease to the Income and Expenditure Account deficit.
Misstatement	2.20	PFI liability	The PFI liability had not been reduced over the correct contractual period causing an overstatement of the liability by £221,000. This error has been corrected through a movement against the PFI lifecycle reserve with no impact on the General Fund.
Misstatement	-	Debtors	The homelessness debtor was understated by £192,000 due to errors in the reports run to interface between the rent and financial accounting systems during the close process, this discrepancy has subsequently been corrected.
Misstatement	-	Debtors	The bad debt provision against sundry debtors included a general provision of £420,000 which under accounting standards is not allowed and as it cannot be attributed to specific debtor balances. Consequently an adjustment has been made to reverse this provision back to the General Fund.
Misstatement	-	Fixed Assets	In processing the 2009/10 valuation figures one school had incorrectly retained its 2008/09 value which caused a £3m overstatement in asset value. The Council has processed an adjustment to value the school at its 2009/10 valuation as well as entries to the revaluation reserve and capital adjustments account, however, there has been no impact on the General Fund.
Misstatement	-	Fixed Assets	Within the value of REFCUS spend was £1,978,494 relating to IT assets purchased by the Council, these have since been reclassified as additions to fixed assets.

A number of other presentational and disclosure adjustments have been agreed to improve clarity and presentation of the accounts which do not affect the reported financial position.

There is no impact on the balance sheet or the Council's income and expenditure position from the above changes.

C Action Plan

Rec. No.	Para Ref	Recommendation	Priority	Council response	Implementation date and responsibility
1	-	**Accounting for council tax using the Collection Fund Adjustment Account** During our review of the Council's accounting for council tax under the new SoRP requirements identified that the Council had not used a Collection Fund Adjustment Account to reflect the surplus or deficit on collections during the year. Whilst the values involved are not material we would recommend that the Council ensure the correct accounting is applied for 2010/11 in order to prevent a larger problem from arising in future years.	Medium		
2	2.9 - 2.11	**NNDR debtor due from the Department for Communities and Local Government (DCLG) and tax payers** Our testing showed a large balance due from DCLG in relation to NNDR pool income not received in respect of previous years. The Council was able to demonstrate that these debts relate as far back as 2006/07 and as such reflect a weakness in the Council's system for reconciling the Council's finance system to its benefits system and recording the receipt of this money in a timely fashion. The Council should ensure that the two systems are reconciled and that the finance system accurately presents the true debt due from the DCLG and tax payers on a more timely basis.	Medium		

3	2.12	**NNDR income from ratepayers** Our testing identified a significant difference between the NNDR income recorded in the Collection Fund and the NNDR income as per the NNDR3 return submitted by the Council for certification. The Council should ensure that the calculation for NNDR income to be included in the accounts is based upon the same report used for the NNDR3 return. This should ensure that in future years the two income figures can be agreed.	Medium		
4	2.23	**Fixed asset movements** The Council should ensure that manual checks are performed on the reports run from the fixed asset register to ensure that the movements reported in the fixed asset note are compliant with the SoRP.	Medium		
5	-	**Sundry debtor provision** Our work on sundry debtors and the bad debt provision held against these balances identified a general provision of £420,000 which had been carried forward from 2007/08 and did not relate to specific balances. It is understood that this provision is held in order to mitigate against bad debts which service lines have not specifically provided against. Accounting standards do not allow the use of such general provisions and as such the Council should ensure a thorough review of all debtors and make provisions against specific balances that are considered doubtful.	Medium		

6	2.25	**Depreciation of Council houses** As in the previous year the Council continues to use the major repairs allowance (MRA) as a proxy for Council house depreciation. The difference between the depreciation charged and the amount that would be charged under conventional depreciation methods was not considered material. However, the Council should continue with plans to calculate an actual depreciation figure on council dwellings in future years as the size of the impact can fluctuate year on year, particularly with the move to IFRS.	Medium		
7	-	**Reconciliation between rent and financial accounting systems** Accounting information regarding rental income and debtors is maintained in a separate accounting system (OHMS) and a manual interface between the systems takes place as part of the closing process. In our review of the homelessness debtor a difference between the two systems was identified that had arisen due to human error when processing the manual interface. The Council should introduce a system whereby manual interfaces such as this are reconciled to ensure that the correct figures are included in the accounts.	Medium		
8	2.27	**Hostel valuations** The Council should formally document the rational to back up the EUV basis used for valuing hostels, and ensure it is supported by appropriate evidence, to confirm compliance with the CLG housing valuation guidance.	Medium		

9	2.32	**Classification of changes in asset values** The reconciliation between revaluation schedule and figures included in the accounts for revaluations identified a group of transaction which had incorrectly been treated as assets with impairments. The Council should perform such as reconciliation as part of their closing procedures to ensure that figures within the accounts accurately reflect the supporting schedules.	Medium		

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