# London Borough of Haringey

# Annual report to those charged with governance 2007/08

**September 2008**

Contents

# 1 Introduction

## Background and purpose of the report

1.1 The London Borough of Haringey ('the Council') is responsible for the preparation of accounts which record its financial position as at 31 March 2008 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 fairly' the financial position of the Council. Our detailed findings are set out in Section 2 of this report.

1.2 Under the Audit Commission's Code of Audit Practice we are also required to reach a conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion'). The pieces of work that have informed our VFM conclusion, and our detailed findings, are set out in Section 3 of this report.

1.3 The Audit Commission's Statement of Responsibilities, which sets out the respective responsibilities of the Council and the auditor in relation to the accounts and arrangements for securing economy, efficiency and effectiveness in the use of resources, have been re-produced in full in Appendices E and F and reflects the scope of our audit.

1.4 This report summarises the principal matters arising from our audit. The issues raised have been discussed with the Chief Financial Officer and his team and other officers as appropriate. Auditing standards require us, as the Council's external auditors, to report to those charged with governance certain matters before giving an opinion on the accounts and the Code of Audit Practice requires us to report key matters relating to our VFM conclusion. For the Council, this function will be carried out by the General Purposes Committee at its meeting on 29 September 2008.

1.5 We have undertaken the audit of the Pension Fund for 2007/08 and this work has been undertaken by our pensions specialists within the Firm. We are pleased to report that we anticipate being able to provide an unqualified opinion on the Pension Fund. We did not identify any significant findings during our audit work, although some minor matters were identified that have been reported in Appendices A and B. The full report on the audit of the Pension fund will be presented to the Pensions Committee on 20 October 2008.

## The accounts opinion

1.6 We have performed our audit of the 2007/08 accounts in accordance with the Audit Commission's Code of Audit Practice and applicable auditing standards. Our approach follows that set out in the Audit and Inspection Plan 2007/08 and the update to the original plan that was presented to the Audit Committee in January 2008 as well as our detailed audit strategy presented to the Audit Committee in May 2008.

At the date this report was issued, the following matters were outstanding and required resolution prior to the issue of our audit opinion:

- receipt of supporting documentation for a small number of items
- updating post balance sheet events to the date of signing
- receipt of a signed management representation letter.

Subject to the satisfactory conclusion of these matters we expect to issue an **unqualified opinion on the Council's accounts** by the 30 September deadline.

An outline of the key issues identified during the course of the audit are detailed below, with further detail provided on these issues in Section 2 of the report.

1.7 The financial year 2007/08 was the first year that we were appointed as the external auditors to the Council. During the year we have undertaken several discussions and reviews with management, the Council's internal audit function and the previous auditors to ensure we are fully aware of the issues faced by the Council.

1.8 We reviewed the relationship between the Council and Alexandra Palace and Trust in terms of whether the Trust should be consolidated into the Council's accounts due to a change in management arrangements during 2007/08. We considered this in the context of the requirements of the 2007 SORP and the six tests of control set out in the SORP. We concluded that although there were additional controls put into place at the instigation of the Council at the Trust during the year, these were of a temporary nature and were not sufficient to warrant the Trust being included within the group financial statements. We would note that the financial impact of the relationship between the Trust and the Council is reflected in the Council's accounts in respect of the funding of the Trust's deficit.

1.9 During the 2007/08 financial year there has been an increase in the deficit reported at Alexandra Park and Palace and there have been some complications over the granting of a lease to the proposed service provider at Alexandra Palace. Further detail on this is reported in Section 2 of this report.

1.10 In February 2008 services within the PFI contract with Haringey Schools Services Limited were suspended, resulting in the facilities management element being transferred back to the Council. There are several accounting entries that are required as a result of the decision, not least the requirement that as a result of the suspension the assets will come back onto the Council's balance sheet.

The Council sought external advice on the accounting treatment of this and we are satisfied with the treatment included in the accounts as presented.

1.11 As part of our audit procedures in the first year we were required to undertake additional work in certain areas to give us assurance over the prior year figures disclosed within the accounts. The results of this are reported in Section 2.

1.12 We have included an action plan detailing controls that could be improved upon and accounts adjustments identified during the course of the audit in Appendices A and B respectively.

Finally, we would like to draw to the attention of those charged with governance further significant changes that will happen to the Statement of Accounts in future years. The most significant of which is the full implementation of International Financial Reporting Standards ("IFRS") into the 2010/11 accounts. Although this may seem a long way a way, it is important that the planning process starts now, as there will be significant changes to the accounts. Our experience in other sectors shows that audited bodies that are well planned for the transition to IFRS have fewer amendments to their accounts and would not be charged additional audit fees, compared to those that are not well planned. We would be happy to share our experiences of working with CIPFA in this area, as well as involving our Financial Reporting Advisory Group who are specialists in planning for IFRS.

## Value for Money Conclusion

1.13 We have substantially completed our work on the Council's arrangements for achieving economy, efficiency and effectiveness in its use of resources and we expect to issue an **unqualified VFM conclusion** by the 30 September deadline.

1.14 In giving our VFM conclusion, we have also considered findings from our 2008 use of resources key lines of enquiry (KLoE) assessment and also the latest Corporate Assessment that was undertaken at the Council. Following national submission of our KLoE scores and Audit Commission quality assurance, we will write to the Council confirming 2008 KLoE scores, in November 2008.

1.15 Key messages from this year's Use of Resources work are summarised in Section 3.

## Use of this report

1.16 This report has been prepared solely for use by the Council to discharge our responsibilities under the Audit Commission Code of Audit Practice and relevant auditing standards and should not be used for any other purpose. No responsibility is assumed by us to any other person. This report should be read in conjunction with the Council's draft letter of management representation.

1.17 This report includes only those matters that have come to our attention as a result of performance of the audit. An audit of the accounts and Use of Resources is not designed to identify all matters that may be relevant to those charged with governance. Accordingly the audit does not ordinarily identify all such matters.

1.18 This report will be sent to the Audit Committee for information, in order that it can monitor implementation of the recommendations arising out of this report detailed in Appendix A.

## Independence

1.19 We are able to confirm our independence and objectivity as auditors and note the following:

- 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 after a period of no longer than five years
- we comply with the Auditing Practices Board's Ethical Standards. We have not undertaken any non-audit work for the Council in 2007/08

## Acknowledgements

1.20 We would like to record our appreciation for the co-operation and assistance provided to us by the Council's management, officers and members during the course of our audit.

**Grant Thornton UK LLP**
**September 2008**

# 2 The Accounts Opinion

## Introduction

2.1 We summarise in this section matters arising from our audit of the Council's 2007/08 accounts which we are required, under auditing standards, to report to those charged with governance.

## Approach to the audit

2.2 We carry out work to enable us to report to the Council our opinion as to whether the financial statements 'present fairly' the financial position of the Council in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 ('the SoRP').

2.3 Our approach to the audit was set out in our 2007/08 Audit and Inspection plan in June 2007 and updated in January 2008. We have planned our audit in accordance with auditing standards and the Audit Commission's Code of Audit Practice.

2.4 Other key factors to highlight include:

- we consider the materiality of items in the accounts both 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 final accounts audit purposes
- we have been able to place reliance on the work of internal audit in respect of the key accounting systems covered by their review.
- no significant changes have been made to our audit approach in the year and as outlined in out Audit Strategy Document presented to the last Audit Committee meeting in May 2008.

## Key audit findings

### Alexandra Park and Palace - consolidation

As part of our audit work we reviewed the arrangements in place between the Council and Alexandra Park and Palace as to whether these should continue to be treated as separate entities or whether Alexandra Park and Palace Trust should be consolidated into the main Council accounts.

We have reviewed the requirements of the SORP as to whether the Trust should be consolidated into the main accounts. The SORP is not transparent in this area as differing parts of the SORP appear to set up different tests for bodies to follow. It would appear that the SORP allows that normally, a trustee relationship does not give rise to a control relationship as the trustees are legally bound to act only in the interests of the charity. However, it does state that all factors should be taken into account to determine the substance of the relationship that exists and that the issue over control should be the dominant test.

We have reviewed these factors and during 2007/08 there have been some additional elements of control that have been instigated by the Council, such as the Council seconding staff to the Trading Company, additional financial resources being provided to the Trust and involvement of Council staff on the Trading Company Board during the latter part of the financial year.

We reviewed the relationship between the Council and Alexandra Park and Palace in terms of whether the Trust should be consolidated into the Council's accounts. We concluded that for 2007/08, although the Council has increased its level of involvement in the Trust, the controls that were put into operation were of a temporary nature and were not sufficient to warrant the Trust being included within the group financial statements.

## Alexandra Park and Palace - other matters

We have reviewed the accounting arrangements between the Council and the Trust and are satisfied that these have been undertaken correctly. However, there has been a significant increase in the deficit of the Alexandra Park and Palace Trust as this has increased to £3.1m from £1.8m in the previous year.

During the 2007/08 financial year there were some legal complications over the granting of the lease to the proposed developer at Alexandra Palace. The Charity Commission was required to make an order to ensure this lease could be granted and this was approved by the Charity Commission in April 2007.

However, this was subject to judicial review in October 2007 and this resulted in the ruling of the Charity Commission being quashed. Due to the nature of the relationship between the Council and the Trust, the Council has met the costs associated with this decision, such as legal costs and costs that would have been avoided had the transfer of the lease been successful.

We understand from the Council that the latest position on this is that the proposed developer has withdrawn its interest in Alexandra Palace. We are satisfied that the Council's liability is materially reflected in the Council's accounts. We have also been updated by the Council about the steps it has and will take to ensure the Council's financial position is protected in 2008/09 and future years. We will be monitoring very closely the arrangements put in place by the Council to minimise the financial impact on Council tax payers.

 

## Private Finance Initiative (PFI)

The Council has a PFI contract with Haringey Schools Services Limited for the maintenance and operation of eight of the Council's secondary schools. The Council was allocated funding under the Building Schools for the Future Programme (BSF) to refurbish and improve these schools. It was identified that there would be issues with the implementation of the BSF programme if this was run alongside the PFI programme, and as a result the services within the PFI contract were suspended with the facilities management element being transferred back to the Council.

There are several accounting entries that are required as a result of the decision, not least the requirement that as a result of the suspension the assets will come back onto the Council's balance sheet. Other factors that have been considered include ensuring that the residual interest has been accounted for correctly and also that prepayments made to reduce future unitary charges have been properly accounted for.

The Council commissioned external advisers to consider the accounting treatment. We have reviewed the advice that has been provided to the Council by the consultants and the key area for debate centred upon whether the assets should be brought back onto the balance sheet and treated as fixed assets under FRS 15 or whether they should be brought onto the balance sheet and treated as a finance lease under SSAP 21. Advice that has been provided to the Council recommending that the asset should be brought back onto the balance sheet under FRS 15 and for the asset and liability to be recognised in the balance sheet and subsequently revalued. It was concluded that this should not be treated as a lease because the suspension agreement makes it clear that the provider's ability to access the properties is removed. We are satisfied with this view. As a result of the review being undertaken it was identified that a revised method of calculating the capital liability to be brought onto the balance sheet was more appropriate. The Council has updated the financial statements to reflect this.

## Other audit findings

2.5 We summarise our key audit findings below:

| Area | Key messages |
|---|---|
| Accounting policies and practices | The Council has adopted appropriate accounting policies, in accordance with the 2007 SoRP.<br><br>There were some major changes required by the new SORP, and we are pleased to report that only minor areas of non compliance were identified. These have been discussed and agreed with the finance team.<br><br>The Council produced an Annual Governance Statement that was produced for the first time in 2007/08 as required by the CIPFA/SOLACE framework. The governance statement covers all significant corporate systems, processes and controls, spanning the whole range of the Council's activities. We have reviewed this statement and are satisfied that the disclosures made satisfy the requirements made within the Accounts and Audit regulations 2006 and that the contents of the statement are consistent with our knowledge of the Council.<br><br>Our first year audit procedures included detailed testing on opening balances and a review of the SORP 2006 to ensure the Council had correctly implemented the changes required. We worked with the Council in this area, and it was identified that there were a number of adjustments required in relation to the 2006/07 comparatives mainly focussing upon the 'Other gains' line of the Statement on Recognised Gains and Losses where a balance of £14.8m was recorded within the 2006/07 financial statements. We have reviewed these entries and are satisfied that these amendments have been processed correctly within the 2007/08 financial statements.<br><br>There is scope to adopt a more robust process to the accounting arrangements for insurance provisions under the requirements of FRS 12. The sums are not significantly misstated but valuations need to be brought more up to date.<br><br>Adoption of the presentation and accounting requirements for financial instruments of FRS 25, 26 and 29 was required for the first time in 2007/08. The presentation requirements are more onerous than in previous years, with more detail required to be disclosed in the Statement of Accounts. |

| Area | Key messages |
|---|---|
| | We have reviewed the accounts balances and are satisfied that the Council's processes for identifying financial instruments are adequate and in accordance with the SORP. We have also reviewed the Council's accounts disclosures against the CIPFA disclosure checklist and although we have made some minor recommendations to ensure full SORP compliance, we are satisfied that the disclosures submitted for review were of a good standard.<br><br>2007/08 is the first year that a UK GAAP compliant revaluation reserve was required to be incorporated into the accounts of local Councils. This required the opening balance to be nil to ensure compliance with CIPFA guidance. We have reviewed the entries in the revaluation reserve to ensure that the entries comply with the provisions of the 2007 SORP and have no issues we wish to bring to the attention of the Committee.<br><br>We are satisfied that the relevant financial information disclosed in the Explanatory Foreword is consistent with the accounts. |
| Material risks and exposures | The Council has confirmed in its draft letter of representation that the only issue, to date, which will be reflected in the accounts relates to the ceasing of the agreement with the preferred partner for the Alexandra Park and Palace development. The resolution of this issue is still some way in the future.<br><br>Our audit procedures have not identified any other significant risks and exposures to the Council to date, which should be reflected in the accounts.<br><br>This review will be updated on the date the Council signs the final letter of representation and we sign our audit opinion. |
| Audit adjustments | We recommended a number of adjustments within the financial statements. Further detail on these is included within Appendix B. |
| Unadjusted errors | We are pleased to report that management agreed to process all proposed adjustments, detailed in Appendix B. There are no unadjusted errors to report to the General Purposes Committee. |

| Area | Key messages |
|---|---|
| Other matters | The overall quality of the Council's working papers to support the 2007/08 accounts was good.<br><br>We were presented with draft accounts on 26 June 2008. The General Purposes Committee approved the draft accounts on 26 June 2008.<br><br>The appointed day for electors to ask the auditor questions on the accounts this year was 22 September 2008. We received no questions or objections from electors on this date. In addition we have, during the course of our audit, received correspondence from some electors in respect of a number of aspects of the Council's accounts. We have reviewed the matters contained in this correspondence, discussed it with officers and reached the conclusion that the matters raised have no impact on our accounts opinion or value for money conclusion.<br><br>Having considered the Council's medium term financial strategy and 2008/09 budgets it is appropriate for the Council to account on a going concern basis.<br><br>We have not identified any matters, that we have not already reported, that require the attention of the General Purposes Committee.<br><br>We have followed up on last year's recommendations and are satisfied that the Council is making satisfactory progress in addressing these recommendations.<br><br>We have discussed the matters arising from our audit work with the Chief Financial Officer and his team and made recommendations detailed in Appendix A. These responses will be reported to the Audit Committee in due course.<br><br>We detailed our proposed fee in our audit plan that was presented to the Audit Committee in July 2007. We can confirm that there is no difference between the fee proposed and the fee that has been incurred. |

## Next steps

2.6 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 2008.

2.7 Subject to satisfactory resolution of the above issues, we expect to issue an **unqualified opinion on the Council's accounts**.

2.8 We are required to provide an audit opinion on the consolidation pack that is to be completed as part of 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.

2.9 The Audit Committee should monitor implementation of the recommendations arising from this report.

# 3 The VFM Conclusion

## Introduction

3.1 Under the Audit Commission's Code of Audit Practice we are required to reach a conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion'). In meeting this responsibility we review evidence that is relevant to the Council's corporate performance management and financial management arrangements, which are assessed against twelve criteria specified in the Code of Audit Practice.

## Approach to the audit

3.2 The following pieces of work have informed our assessment against the Code criteria:

- review of relevant findings from the Council's Direction of Travel Statement issued in February 2008
- assessment of the Council's data quality management arrangements, using criteria prescribed by the Audit Commission
- assessment of the Council's arrangements for financial reporting, financial management, financial standing, internal control and value for money, using the Commission's key lines of enquiry (KLoE)

3.3 The key findings from each of these pieces of work are summarised in this section of the report.

## VFM conclusion

3.4 We have substantially completed our work on the Council's arrangements for achieving economy, efficiency and effectiveness in its use of resources and we expect to issue an **unqualified VFM conclusion** by the 30 September deadline.

 

3.5 Our conclusions for each of the 12 Code criteria are set out in the table below:

| Code area | Source of evidence | Arrangements adequate? |
|---|---|---|
| Setting, reviewing and implementing strategic and operational objectives | Direction of travel statement | Yes |
| Communication with service users and other stakeholders and partners | Direction of travel statement | Yes |
| Management of performance against strategic objectives | Direction of travel statement | Yes |
| Monitoring the quality of published performance information | Data quality audit | Yes |
| Maintaining a sound system of internal control | Use of Resources audit | Yes |
| Managing significant business risks objectives | Use of Resources audit | Yes |
| Managing and improving value for money | Use of Resources audit | Yes |
| Maintaining a medium-term financial strategy | Use of Resources audit | Yes |
| Ensuring that spending matches available resources | Use of Resources audit | Yes |
| Managing performance against budgets | Use of Resources audit | Yes |
| Managing the asset base | Use of Resources audit | Yes |
| Promoting and ensuring probity and propriety in the conduct of business | Use of Resources audit | Yes |

## Direction of travel statement

3.6 We are required to review the Council's latest direction of travel statement in order to satisfactorily conclude on three of the Code criteria (see table above). In completing this work we are not required to re-perform the work of the corporate assessment team and the Relationship Manager rather we are looking to place reliance on this work. We can confirm that we have been able to place reliance upon this work and there are no issues to report to this Committee.

## Data quality audit 2007

3.7 The audit work that we have used to reach our conclusion in respect of Code criterion on published performance information is our audit of the Council's corporate management arrangements for data quality.

3.8 Our review of data quality management arrangements supports our conclusion that the Council's arrangements are adequate for monitoring the quality of published performance information. We will report more fully on data quality at the January Audit Committee.

## Use of resources

3.9 The audit work that we have used to reach our conclusion in respect of the remaining Code criterion is our audit of the Council's Use of Resources.

3.10 The results of this work confirm that that, for 2007/08, the Council has at least adequate arrangements in place in the areas covered by the Use of Resources assessment.

3.11 We are not able to formally report scores to the Council until after the Audit Commission's national quality assurance processes are complete. We will report the results of our work and confirm scores with the Council in November 2008.

## KLoE 2009

3.12 There have been significant changes to the use of resources assessment criteria for 2009, as part of the new Comprehensive Area Assessment. The Council's management arrangements for the 2008/09 financial year will be assessed against the new criteria that represent a 'harder test.'

3.13 Whilst we will not formally assess the Council against the new criteria until Summer 2009, as part of next year's plan, we will continue to carry out our use of resources work with reference to revised requirements to help the Council prepare for future assessments.

## Next steps

3.14 We will carry out our final review against any emerging findings and will then issue our VFM conclusion by the 30 September deadline.

# Appendix A Action Plan

The following table presents a list of recommendations which require action on the part of the Council's management. These relate to weaknesses in the systems of financial control and other issues associated with the accounts process.

| Finding | Recommendation | Management response | Implementation date |
|---|---|---|---|
| **Housing Rent write-offs**<br>Our testing on the Housing Rents system during the interim audit identified that the Chief Financial Officer had not authorised the write-off for the debt selected.<br>We understand this was because the housing rents team were working from an incorrect version of the Constitution resulting in the proper procedures not being followed.<br>The amount written off in year without authorisation was immaterial. | We recommend that the Council ensures the correct version of the Constitution is being applied to ensure compliance with proper procedures. | | |
| **Pension Fund cash**<br>The Council does not hold separate bank accounts in the name of the Pension Fund. The result of this is that separate reconciliations are required to ensure that monies in connection with the Pension Fund are ring fenced from that of the Council. | We recommend that the control environment would be enhanced if pension fund assets were maintained separately from the main Council accounts. The Council should review and consider opening a separate bank account for the Pension Fund. | | |

| Finding | Recommendation | Management response | Implementation date |
|---|---|---|---|
| **Related Party Transactions**<br>During our testing of related party transactions we identified an instance whereby a Councillor included £11m for transactions between the Council and another body for whom the Councillor was a Non Executive Director. The amount that should have been included was the amount of remuneration received for this position. It was agreed with the Council that their arrangements could be improved in this area. | We recommend the Council reiterate the policy to Councillors that amounts disclosed on the related party declaration form should relate only to monies received by the individual. and not to the value of transactions between the Council and other organisations. | | |
| **Insurance Provision**<br>The insurance provision of £6.4m is not currently discounted to reflect the timing of the future cashflows.<br><br>As per FRS12, where the effect of the time value of money is material, the amount of a provision should be the present value of the expenditures expected to be required to settle the obligation.<br><br>The last valuation of the provision was carried out in 2006/07 and there is a risk that the provision is misstated as it does not reflect accurately the Council's liabilities as at 31/3/2008. Our work suggests that while taking on board the overstatement implicit in not discounting, we are satisfied that there is no material misstatement of the provision. | We recommend that from 2008/09 onwards this provision be discounted as required and that valuations are kept up to date. | | |
| **Tangible Fixed Asset Depreciation**<br>Our testing identified that the depreciation figures for 07/08 were calculated in Oct 2006, which was before the revaluation at 31/3/07. However, in October 2006 it would not have been possible to ascertain which assets the Council would have owned as at 31/3/08.<br><br>We have ascertained that in 07/08 General Fund operational assets have been under-depreciated by approximately £870,000, and it is recommended the Council adjust the accounts for this amount. See Appendix B. | It is recommended that from 2008/09 onwards the Council depreciate on the revalued amount within the Balance Sheet at year end, in order to ensure compliance with FRS15. | | |

| Finding | Recommendation | Management response | Implementation date |
|---|---|---|---|
| **Fixed Asset Reclassifications**<br>Information provided by Corporate Property Services was not processed in time to be disclosed within Note 15, Fixed Assets. The Balance Sheet value of each class of asset is correct, but the Reclassification line within the Note does not show the various transfers that have occurred during the year. In order to be compliant with the SORP, the Council have agreed to amend the disclosure so that Note 15 reflects the reclassifications that have occurred. | We recommend that in future the Council ensure that the detail of fixed asset reclassifications in year is disclosed within the Fixed Asset note. | | |
| **Policies & Procedures**<br>During our audit we identified a lack of written procedure notes over the processes undertaken to identify impairments, although no actual errors were identified with regards to the treatment of impairments. We also identified a lack of procedure notes in place over the consolidation process required under FRS2 Accounting for Subsidiary Undertakings. | We recommend that the Council formally document all its key procedures to help ensure that the approach is consistent and in accordance with Council policy. | | |
| **Finance Lease - 48 Station Road**<br>Our testing identified that the interest element of the rental payments charged to the Income and Expenditure account had not been calculated in accordance with SSAP21. In addition, the asset in the Balance Sheet had not been depreciated since this came onto the Balance Sheet in 2003/04. | Although the amounts are not material, we recommend that the Council adjust its approach from 2008/09 to ensure compliance with the requirements of SSAP 21. | | |
| **Standards Fund Grant income and expenditure**<br>Our testing identified that the Council was double counting in gross terms Standards Fund grant income received by and spent by schools. This has resulted in a £17.633m adjustment to the accounts. There is no impact upon the bottom line for the income and expenditure account or for Council Tax. | We understand the Council intends to modify processes for the recording of the Standards Fund grant. We recommend that the Council submits to ourselves an outline of the modified process and controls in place to ensure that Standards Fund grant is properly accounted for going forward. | | |

| Finding | Recommendation | Management response | Implementation date |
|---|---|---|---|
| **Revaluation Reserve**<br>It is a SORP requirement for balances within the Revaluation Reserve to be identifiable by individual asset. Although the Council was able to demonstrate that the revaluations were identifiable for the majority of assets, this level of detail was not available for HRA dwellings and the PFI assets brought onto the Balance Sheet. | We recommend that the Council introduces a more robust methodology of record-keeping to ensure that in future years all revaluation reserve balances can be traced to individual assets. | | |
| **Pension Fund Accounts - late contributions**<br>During our review of contributions, it was noted for ten of the scheduled and admitted bodies, contributions were late for between four days and three months up to a maximum of twelve occasions each. The aggregate amount totalled £482,463. In the context of the Fund as a whole, the amount involved is not material. Regulations require, however, that contributions deducted from members' salaries are paid over to the fund by no later than the nineteenth day following the calendar month from which the contributions have been deducted. (ie March contributions to be paid to the Fund by 19 April). | It is recommended that the scheduled and admitted bodies be reminded of their legal responsibilities. | | |
| **Pension Fund Accounts - timely settlement of benefit liabilities**<br>During our review of benefits paid, it was noted that in some cases, benefit payments were not being settled in a timely manner. For example, transfers out that had been agreed during the month were not included on the BACS run until the end of the month, resulting in a delay of up to fifteen days from date of agreement to final settlement. | It is recommended that once agreed, benefit liabilities are settled at the earliest opportunity. | | |

# Appendix B Accounts Adjustments Agreed

| Accounting adjustments agreed | |
|---|---|
| **Finding** | **Impact** |
| **PFI Liability**<br><br>The value included as the liability in respect of the PFI of £77.381m represents the total commitment in the form of the liability, including interest costs. On the balance sheet this should only include the capital element and not the interest element. Therefore the correct amount to be disclosed on the balance sheet in respect of this is £46.193m. | No net effect on the Balance Sheet<br><br>No impact upon income/expenditure and no impact upon Council Tax. |
| **Standards Fund grant income and expenditure double counted**<br><br>We identified that Standards Fund grant income and the expenditure associated with it was being double counted within the Council's accounts. This was due to schools including the grant in their year end returns, when it had already been included centrally during the year. The amount involved was £17.633m, which the Council has agreed to adjust. There is no net effect on the Council's position, although Note 41: Analysis of Government Grants will reflect the reduction of £17.633m. | No impact upon income/expenditure and no impact upon Council Tax. |
| **PFI residual interest (in 06/07)**<br><br>We identified that a total of £15m was held within the comparative figure for intangible fixed assets relating to the residual interest balance element of the PFI. We agreed with management that this should be included within the long term debtor balance. | 06/07 figures restated.<br><br>No impact upon income/expenditure and no impact upon Council Tax. |
| **Group Accounts**<br><br>We identified that the adjustments to the £14.8m 'Other gains' line of the 2006/07 Statement of Recognised Gains and Losses had not been processed to the Group Accounts. We agreed with management for these changes to be made when the Group Accounts are brought in line with the audited accounts of the Council. | 06/07 figures restated.<br><br>No impact upon income/expenditure and no impact upon Council Tax. |
| **HRA Income & Expenditure account - Restatement of 06/07 figures**<br>We identified from our analytical review work that HRA Income and Expenditure were both understated by £4.225m.<br><br>Income: Charges for Services and Facilities to increase by £4.225m<br><br>Expenditure: Repairs & Maintenance to increase by £0.102m; Supervision & Management to increase by £5.523m and Increase in Bad Debt Provision to decrease by £1.400m | 06/07 figures restated.<br><br>No impact upon income/expenditure and no impact upon Council Tax. |
| **STRGL - Financial Instruments adjustment**<br><br>It was noted whilst reconciling the STRGL that £1.78m of current year discounts earned on early repaid debt had been posted directly into the financial instruments adjustments account (FIAA) rather than via the income and expenditure account in the first instance. The adjustment has no impact to Council Tax or the Balance Sheet. | Increase in income of £1.78m.<br><br>No impact upon Council Tax. |

| Accounting adjustments agreed | |
|---|---|
| **Finding** | **Impact** |
| **Depreciation**<br><br>We identified that the depreciation figure for 2007/08 was under-stated by approximately £870,000, due to not being based on the revalued asset amount as at 31/3/07. It was agreed with management that this would be adjusted in order to comply with FRS15. See Appendix A. | Increase in expenditure of £870,000.<br><br>No impact upon Council Tax |
| **Government Grants Deferred**<br><br>£420,000 of government grant was identified relating to the Bernie Grant Centre. The Council should have amortised the full amount to income in year because it related to an asset not owned by the Council. The Council had only amortised one year out of thirty comprising of £14,000 instead of writing out the total amount in year to income. | Increase in Income of £406,000.<br><br>No impact upon Council Tax. |
| **Note 15 - Tangible Fixed Asset Revaluations**<br><br>We identified that the revaluation figure for Investment Assets included £365,000 relating to surplus assets. We agreed with management that this amount should be included under Assets Awaiting Disposal. | No impact upon income/expenditure and no impact upon Council Tax. |
| **Overdraft balance**<br><br>The overdraft balance within the accounts contains a mixture of overdraft and cash amounts, but these should not be netted off as per the SORP. An adjustment of £174,000 was agreed in relation to the cash balance on one of the Natwest accounts which has been offset against the overdraft balance. | No net effect on the Balance Sheet<br><br>No impact upon income/expenditure and no impact upon Council Tax. |
| **Investment Income**<br><br>We identified that £56,000 of Pension Fund investment income had incorrectly been included as investment income to the Council. It was agreed with management that this error would be adjusted to avoid the figure being overstated in the Council's accounts and understated in the Pension Fund accounts. | Decrease in income of £56,000.<br><br>Impact of £56,000 on Council Tax. |
| **Pension Fund Accounts**<br><br>There have been a number of adjustments agreed following the audit of the pension fund. These are detailed in the Pensions ISA260 report and this will be presented to the Pensions Committee in due course. | |

# Appendix C Summary of Unadjusted Variances

| Summary of Unadjusted Variances | |
|---|---|
| **Finding** | **Impact** |
| There are no unadjusted differences to report | |

# Appendix D Statement of Responsibilities - Accounts

The accounts, which comprise the published accounts of the audited body, are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources.

It is the responsibility of the audited body to:

- put in place systems of internal control to ensure the regularity and lawfulness of transactions
- maintain proper accounting records
- prepare accounts that present fairly the financial position of the body and its expenditure and income.

The audited body is also responsible for preparing and publishing with its accounts a statement on internal control.

Auditors audit the accounts and give their opinion, including:

- whether they present fairly the financial position of the audited body and its expenditure and income for the year in question
- whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards.

Subject to the concept of materiality, auditors provide reasonable assurance that the accounts:

- are free from material misstatement, whether caused by fraud or other irregularity or error
- comply with statutory and other applicable requirements
- comply with all relevant requirements for accounting presentation and disclosure.

Auditors examine selected transactions and balances on a test basis and assess the significant estimates and judgements made by the audited body in preparing the statements.

Auditors evaluate significant financial systems, and the associated internal controls, for the purpose of giving their opinion on the accounts. Where auditors identify any weaknesses in such systems and controls, they will draw them to the attention of the audited body, but they cannot be expected to identify all weaknesses that may exist.

Auditors review whether the Annual Governance Statement has been presented in accordance with relevant requirements and report if it does not meet these requirements or if it is misleading or inconsistent with other information of which the auditor is aware. In doing so auditors take into account the knowledge of the audited body gained through their work in relation to the audit of the accounts and through their work in relation to the body's arrangements for securing economy, efficiency and effectiveness in the use of its resources. Auditors are not required to consider whether the statement on internal control covers all risks and controls, nor are auditors required to form an opinion on the effectiveness of the audited body's corporate governance procedures or risk and control procedures.

# Appendix E Statement of Responsibilities - VFM

It is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them. Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:

- establishing strategic and operational objectives
- determining policy and making decisions
- ensuring that services meet the needs of users and taxpayers and for engaging with the wider community
- ensuring compliance with established policies, procedures, laws and regulations
- identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working
- ensuring compliance with the general duty of best value, where applicable
- managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body
- monitoring and reviewing performance, including arrangements to ensure data quality
- ensuring that the audited body's affairs are managed in accordance with proper standards of financial conduct, and to prevent and detect fraud and corruption.

The audited body is responsible for reporting on these arrangements as part of its annual governance statement.

Auditors have a responsibility to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In meeting this responsibility auditors should review and, where appropriate, examine evidence that is relevant to the audited body's corporate performance management and financial management arrangements, as summarised above, and report on these arrangements.

Auditors are responsible for reporting annually their conclusion, having regard to relevant criteria specified by the Audit Commission, as to whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Auditors report if significant matters have come to their attention that prevent them from concluding that the audited body has put in place proper arrangements. However, auditors are not required to consider whether aspects of the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources are effective.

In planning their audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, auditors consider and assess the relevant significant business risks. These are the significant operational and financial risks to the achievement of the audited body's statutory functions and objectives, which apply to the audited body and are relevant to auditors' responsibilities under the Code, and the arrangements it has put in place to manage these risks. The auditor's assessment of what is significant is a matter of professional judgement and includes consideration of both the quantitative and qualitative aspects of the item or subject matter in question. Auditors discuss their assessment of risk with the audited body.
When assessing risk auditors consider:

- the relevance and significance of the potential business risks faced by all bodies of a particular type
- other risks that apply specifically to individual audited bodies
- the audited body's own assessment of the risks it faces
- the arrangements put in place by the body to manage and address its risks.

In assessing risks auditors have regard to:

- evidence gained from previous audit work, including the response of the audited body to previous audit work
- the results of assessments of performance carried out by the Commission
- the work of other statutory inspectorates
- relevant improvement needs, identified in discussion with the Commission or other statutory inspectorates.

Where auditors rely on the reports of statutory inspectorates as evidence relevant to the audited body's corporate performance management and financial management arrangements, the conclusions and judgements in such reports remain the responsibility of the relevant inspectorate or review agency.

In reviewing the audited body's arrangements for its use of resources, it is not part of auditors' functions to question the merits of the policies of the audited body, but auditors may examine the arrangements by which policy decisions are reached and consider the effects of the implementation of policy. It is the responsibility of the audited body to decide whether and how to implement any recommendations made by auditors and, in making any recommendations, auditors should avoid any perception that they have any role in the decision making arrangements of the audited body.

While auditors may review audited bodies' arrangements for securing economy, efficiency and effectiveness in the use of resources, they cannot be relied on to have identified every weakness or every opportunity for improvement. Audited bodies should consider auditors' conclusions and recommendations in their broader operational or other relevant context.

Auditors are not required to report to audited bodies on the accuracy of performance information that the audited bodies publish. Auditors' work is limited to a review of the systems put in place by the audited body to collect, record and publish the information, in accordance with guidance issued by the Commission.

Audit work in relation to the audited body's arrangements to ensure that its affairs are managed in accordance with proper standards of financial conduct, and to prevent and detect fraud and corruption, does not remove the possibility that breaches of proper standards of financial conduct, or fraud and corruption, have occurred and remained undetected. Nor is it auditors' responsibility to prevent or detect breaches of proper standards of financial conduct, or fraud and corruption, although they will be alert to the possibility and will act promptly if grounds for suspicion come to their notice.

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