Luton Borough Council

Annual report to those charged with governance 2007/08

September 2008

Draft

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Introduction

Background and purpose of the report

Luton Borough Council ('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 two.

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 three.

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, has been re-produced in full in Appendices A and B and reflects the scope of our audit.

This report summarises the principal matters arising from our audit. The issues raised have been discussed with the Head of Strategic Finance 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 Audit Committee at its meeting on 24 September 2008.

The accounts opinion

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 is as set out in the Audit and Inspection Plan 2007/08, agreed with the Council.

At the time of reporting to the Audit Committee, the audit is substantially complete and we expect to issue an **unqualified opinion on the Council's accounts** by the 30 September deadline. However, the following items remain outstanding at the time of writing this report:

- final receipt and review of the accounts post audit adjustments
- final review of the annual governance statement
- receipt of the management representation letter
- a final review of post balance sheet events
- clearance of outstanding audit queries
- completion of audit work in relation to reserves, STRGL and financial instruments

The Council continues to prepare acceptable quality accounts which are supported by generally good quality working papers, however we recommend that closedown processes be updated to ensure that all recent additions to the Statement of Recommended Practice

(SoRP) are taken into consideration each year. We also consider the paper filing system of work papers is somewhat inefficient for the audit process and the Council should consider the use of electronic filing of workpapers to make the process more streamlined.

We have reviewed the Annual Governance Statement ("AGS") and have provided feedback to the necessary officers. We did not have any significant concerns over the level of disclosure in the AGS.

Further details of our accounts audit are given in section two. We note that management have agreed to process some of the adjustments we have recommended, and these are detailed in Appendix D. Management has not agreed to process the accounts adjustments described in Appendix E, and we would ask the Committee to record if they agree, or not, with management on this matter.

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 ahead, it is important that Councils start planning now, as there will be significant changes to the accounts, and our experience in other sectors shows that 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 with those that are not well prepared. 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

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.

In giving our VFM conclusion, we have also considered emerging findings from our 2008 use of resources key lines of enquiry (KLoE) assessment. Following national submission of our KLoE scores and Audit Commission quality assurance, we will write to the Council confirming 2008 Use of Resources scores, in November 2008.

Key messages from this year's Use of Resources opinion work are summarised in section three.

Use of this report

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.

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.

We would like to take this opportunity to remind the Audit Committee of the need to monitor implementation of the recommendations arising out of this report (see Appendix C) and other reports issued during the year (see Appendix F).

Independence

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 (Appendix H).

Acknowledgements

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

Grant Thornton UK LLP
September 2008

The accounts opinion

Introduction

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

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').

Our approach to the audit was set out in the 2007/08 Audit and Inspection plan. 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 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 and management controls 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

Financial Performance

The Council has reported a deficit on the Income and Expenditure account of £35m, and an increase in general fund balances of £6.5m, with the overall general fund balance as at 31 March 2008 of £10.3m (excluding schools). There were a variety of reasons why the Council achieved its overall contributions to general fund balances, and these included additional funding from the Business Growth Incentive Scheme of £1.2m, overall departmental underspending of £1.3m due to good management, contingency released of £1m due to overall budget controls, and increase in schools balances for future plans of £1.5m, these accounted for some of the £6.5m increase in general fund balances. Overall, the Council has continued to demonstrate good financial management.

Key audit findings

Accounting policies and practices

The Council has adopted appropriate accounting policies, in accordance with the 2007 SoRP.

There a number of areas in which the draft accounts did not, in our view, fully comply with the SoRP. One of these areas related to financial instruments disclosures, specifically the absence of accounting policies for financial instruments and the impairment of debtors and the additional detailed disclosures required by the SoRP. Management have enhanced the disclosures in the Statement of Accounts so that they now comply with the SoRP.

Additionally, the Council had not followed the required format for the Statement of Total Recognised Gains or Losses (STRGL). Management have agreed to make the required changes to ensure the statement is now in compliance with the SoRP.

We also found that items included under intangible fixed assets did not meet the definitions under the SoRP or under FRS10. Subsequently management have adjusted the accounts to reflect the fact some are deferred charges and should have been written off to the income and expenditure account, and some were considered assets under construction and were therefore transferred to tangible fixed assets.

Annual Governance Statement (AGS)

The Council produced an Annual Governance Statement (AGS) 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 2003 and that the contents of the statement are consistent with our knowledge of the Council.

Financial Instruments

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 to be disclosed in the Statement of Accounts, principally within the notes.

We have reviewed the accounts submitted for audit and found that the Council's processes for identifying financial instruments were not adequate and not in accordance with the SoRP. We have also reviewed the Council's accounts disclosures against the CIPFA disclosure checklist and, following that review, made suggested further disclosures to ensure full compliance with the SoRP.

Luton Airport

One major investment that the Council had not disclosed as a financial instrument was Luton Airport. The SoRP specifically requires that all financial instruments be classified and disclosed under that basis. The original set of accounts submitted for audit had measured the investment at cost but this was not disclosed as a financial instrument. A financial asset generally could fall into four categories, but it is considered that two of these generally apply to the public sector and those are loans or receivables or assets available for sale. To be loans or receivables are defined as financial assets that have fixed or determinable payments and are not quoted in an active market. However, as we did not consider the investments in the Airport and the related dividends and debentures interest to be fixed or determinable, we are of the view that they should be classified, in accounting terms, as available for sale. Discussions with the Head of Corporate Finance have indicated that classification would not be plausible given the political nature of the accounts and that there is no intention by the Council to sell this asset. We have considered this argument against the provisions of the SoRP which indicates that one type of financial asset which falls outside the standard asset categories is an unquoted equity instrument for which a reliable fair value cannot be established. It suggests that these should be measured at cost if fair value cannot be reliably estimated when the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. We have reviewed the fair values for the Airport and consider that the range of fair values is significant and therefore accept that the Council recognises the investment at cost. Currently the Council has not made any disclosures in the draft accounts for the airport in relation to its classification. We have recommended that the Council includes the airport under note 23.1 as 'unquoted equity investments at cost', with an explanatory note as to the accounting treatment.

Deferred liabilities and Long term debtors - Local Government Reorganisation

The Council went through reorganisation in 1974 and 1997 and as such transferred and acquired assets with Bedfordshire County Council, which take the form and substance of a loan agreement. A financial instrument is defined as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. Neither the Council or Bedfordshire County Council have recognised this agreement as a financial instrument. We are of the opinion that it is strictly a financial instrument, but we recognise for consistency purposes across the whole of government accounts we cannot justify recognising this as a financial instrument within the Council when the other party has not. CIPFA and the Audit Commission has not provided definitive guidance on this area and we will raise this issue within the relevant technical groups to ensure guidance is given on this area for future years.

Revaluation Reserve

2007/08 is the first year in which a UK GAAP compliant revaluation reserve is to be incorporated into the accounts of local Councils. We further note that the opening balance needs to be nil to comply with CIPFA guidance. We have reviewed the implementation of the new requirements and confirm that the Council has complied with these.

Statement of Total Recognised Gains or Losses (STRGL)

As mentioned above, from our initial receipt and review of the draft accounts we noted the STRGL was not in the required format as required by the SoRP. We therefore suggested that the Council revises this statement, and an amended STRGL has now been provided to us.

The revised STRGL submitted for audit contained a total of £4.1m 'other' gains or losses. The SoRP implies that authorities should not have significant balances included within the 'other' line, except for the collection fund and first year implementation of financial instruments adjustments account, apart from these items the significant balances included within 'other' are analysed below:

£2.261m of capital receipts not relating to fixed assets - this represents monies that have been accounted for directly through reserves. The income that the Council is receiving in relation to premiums on long leases for example should be firstly processed through the I&E account and then transferred to reserves. We have included this adjustment in Appendix E.

£2.789m - Other balances for revenue/capital purposes - this represents the total movement in the reserve for the year (total reserve balance stands at £8.1m), this has not been processed through the income and expenditure account but rather straight to reserves. Most of the balance relates to either cash or debtors created in relation to capital grant funding received or pending in relation to assets that are being constructed. CIPFA released guidance through its LAAP bulletins (73) which noted that grants and contributions received in advance of the completion of the asset cannot be credited to the Government Grant Deferred Account (or Capital Grants Deferred account as used at the Council), because the

asset is not yet in use. Therefore grants and contribution received in advance should be credited to accounts for Grants and Contributions Unapplied (liability account) pending completion of the asset. Upon completion of the asset and it coming into use the grant or contribution would be transferred from the relevant Unapplied accounts to the GGDA to be matched against the asset. We consider that £6.15m of the £8.1m included within other revenue and capital reserves, which relates solely to capital grants, should be transferred to the liabilities section of the balance sheet and thereby the £2.789m should not form part of the STRGL. Furthermore the remaining balance of the reserve (£2m) should be analysed to ensure that it has been correctly accounted for.

From analysis of the above 'other' line we consider that the income and expenditure account should have been credited with the £2.261m. Further we consider that £6.15m should be accounted for under liabilities rather than included within reserves prior to being transferred to the Government Grants Deferred Account. These items have been included within unadjusted variances in Appendix E. We recommend that the Council reviews its accounting procedures prior to closedown and ensure that the going forward the amount of balance included under 'other' with the STRGL are kept to a minimum.

Explanatory Foreword

We are satisfied that the relevant financial information disclosed in the Explanatory Foreword is consistent with the accounts.

Additional comments on the accounts are included as follows:

Area	Key messages
Material risks and exposures	We have requested that the Council confirms in its draft letter of representation that it has no material risks and exposures, to date, which should be reflected in the accounts. We will undertake audit procedures to identify any significant risks and exposures to the Council, which should be reflected in the accounts prior to our audit opinion being formed.
Audit adjustments	We recommended a number of adjustments, mainly to correct classifications and presentational matters, including the disclosure of intangibles, financial instruments and the STRGL and notes on the gains and losses on reserves.
Unadjusted errors	We have included a number of unadjusted errors detailed in Appendix E, which management have not agreed to process.
Other matters	The overall quality of the Council's working papers to support the 2007/08 accounts remained good. We were presented with draft accounts on 10 June 2008. The Audit Committee approved the draft accounts on 25 June 2008. The appointed day for electors to ask the auditor questions on the accounts this year was 21 August 2008. We have to date, received no questions or objections from the public in relation to the accounts. We have however during the course of our audit received correspondence from a member of the public and we will consider the impact that the issues raised have on our assessmernt of the Council's overall Use of Resources score. 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. We have not identified any matters, that we have not already reported, that require the attention of the Audit Committee. We have discussed these and other matters arising with the Head of Corporate Finance and his team and have reflected their responses to the matters raised in the Action Plan attached at Appendix C.

Next steps

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.

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

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.

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

The VFM conclusion

Introduction

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

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
- review of the recent Corporate Assessment
- 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)

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

VFM conclusion

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.

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

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.

Our assessment is based on the latest direction of travel statement covering the 2007 calendar year. Based on this work, we assess the Council as having at least adequate arrangements for objective setting, consultation and performance management.

Data quality audit 2007
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.

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 December Audit Committee.

Use of resources
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.

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

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
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.'

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

The Audit Committee should monitor implementation of the recommendations referred to in this report.

Appendix A 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 B 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 statement on internal control.

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.

Appendix C Action plan

Finding	Actions required	Management response	Implementation details
Additional disclosures are required to the Statement of Accounts to comply with the disclosure requirements of the 2007 Local Government SoRP in respect of financial instruments. These specifically refer to the classification of financial instruments, disclosure of financial instruments and policies. The Council are also required to include a note on the impairment of loans and receivables (bad debts).	Additional disclosures to be made to the Statement of Accounts.	Agreed, these have been adjusted.	Immediate.

Finding	Actions required	Management response	Implementation details
The Council's accounting policy for items being brought onto the asset register is that the deminimis level is set at £10k for land and buildings, and £5k for vehicles, plant, furniture and equipment. One of the items we included within our sample for fixed asset additions included an immaterial amount for approx £1k which was found to be the capitalisation of a newspaper advertisement for notification of road closures due to development. This capitalisation is not in line with the Council's policy nor is it considered an item directly attributable to the fixed asset.	The Council should ensure that it applies the correct accounting policy for capitalisation purposes.	Agreed.	Immediate and on-going.
The Council had a number of items (£4.1m) included within its 'other' line with the Statement of Total Recognised Gains and Losses (STRGL). It is not expected that the 'other' line should include any items other than the collection fund and financial instruments adjustment accounts.	The Council should ensure that the 'other' line is reduced in 2008/09 with items correctly included in the balance sheet or accounted for through the I&E account. Further, the Council should analyse 'other revenue and capital reserves' for appropriateness.	Agreed.	31 March 2009.

Finding	Actions required	Management response	Implementation details
When reviewing depreciation balances for the year we found that land had been depreciated for a value of £156k. This practice is not in line with the Statement of Recommended Practice (SoRP).	The Council should ensure that depreciation is only charged to those assets with a finite useful life.	Agreed.	On-going.
We have reviewed the Council's policies for deprecation and note that vehicles are depreciated on a 25% reducing balance method, for application of this policy we have found that this is not the case for Children and Learning who use 5% as a basis for depreciation. This also the case with some (but not all) of the Vehicles, Plant and Equipment in Corporate & Customer Services.	We recommend that the Council reviews it's accounting policies for depreciation rates.	Agreed.	On-going
We note that rent arrears have increased by 42% but the provision has only increased by 27%. While most of this is current debt, we note that internal audit gave limited assurance on the rent arrears controls audit and therefore there is additional risk that some of this current debt may become uncollectible.	We recommend that the Council closely monitors its rent arrears balances to ensure that debt collection rates do not slip.	Agreed.	Ongoing.

Appendix D Accounts adjustments agreed

Accounting adjustments that affect the reported surplus / deficit on the I&E account	
Finding	**Impact**
Loan interest paid in relation to the local government reorganisation of 1997 was originally processed including the principal element of the loan, resulting in an overstatement of the expense of £1,182k.	There has been an decrease in the deficit by £1,182k and a reduction of the capital adjustment account by £1,182k.
The original set of accounts submitted for audit included intangible assets which were considered partly deferred charges and party tangible fixed assets. As a result the intangibles figure should have been nil.	There has been an increase in the deficit of £1,120k Tangible fixed assets have increased by £5,692k. Intangible fixed assed have decreased by £6,812k to nil.

Accounting adjustments that do not affect the reported surplus / deficit on the I&E account	
Finding	**Impact**
Non enhancing expenditure was originally included as a separate item on the face of the I&E account for £17m, and this has subsequently been reanalysed against the net cost of services to more appropriately reflect the costs per service.	Non enhancing expenditure line has been removed from the face of the I&E for £17m and distributed with continuing operations within the net cost of services.
The Statement of Total Recognised Gains or Losses (STRGL) was not originally in the required format of the SoRP, nor was it reflective of the actual gains or losses of the Council.	The STRGL has been adjusted to reflect the actual gains or losses, however see Appendix E for list of the 'other' balances that we do not consider appropriately accounted for.

Disclosure adjustments

A number of disclosure adjustments have been agreed to improve the clarity and presentation of the accounts that do not affect the reported financial position. This includes significant changes for the financial instruments note, some changes for reserves movements, and relates notes.

Appendix E Unadjusted variances not processes

Accounting adjustments that affect the reported surplus / deficit on the I&E account	
Finding	**Impact**
The Council have included £4.1m in the Statement of Total Recognised Gains or Losses (STRGL), we have found that some of these items should have been accounted for through the income and expenditure account or should be shown as a liability pending further application as a government grant deferred to be offset against depreciation.	We consider £2.261m of capital receipts not relating to sale of fixed assets should have decreased the I&E deficit by £2.261m and decreased reserves by £2.261m. Further reserves should have decreased by £6.15m and liabilities increased by £6.15m to account for those capital grants received in advance. (A further £1.95m included in other revenue and capital reserve requires further analysing).
Total Impact	Decrease the deficit by £2.261m Increase liabilities by £6.15m Decreased reserves by £8.411m

Accounting adjustments that do not affect the reported surplus / deficit on the I&E account	
Finding	**Impact**
The Audit Commission provided us with assurances on the FRS17 calculations within the Council's accounts. A material issue that they noted was that the value of the fund per the actuary and the pension fund accounts as at 31 March 2008 had a difference of £7,468k which represented an increase of 0.7% of the scheme's assets. For the Council the estimated understatement of pension fund assets was £1,987k.	The impact would be to increase Council assets by £1,987k and to increase liabilities by £1,987k.

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

Appendix F Reports issued

External audit reports issued during the year are listed in the table below.

Report title	Date issued
Audit and inspection plan 2007/08	March 2007
Use of Resources audit report 2006/07	November 2007
Data Quality audit report 2006/07	November 2007
Grants certification report 2006/07	December 2007
Annual report to those charged with governance (accounts and use of resources) 2007/08	September 2008
Health Inequalities review	September 2008

Appendix G Audit fees update

Audit area	Planned fee 2007/08	Actual fee 2007/08
Financial Statements	106,267	106,267
Use of Resources	96,000	96,000
Data quality and Performance Indicators	20,000	20,000
Whole of Government Accounts	2,733	2,733
Total	**225,000**	**225,000**

Code of Practice audit

As shown in the table above, the 2007/08 actual fee equalled the planned fee.

Grant claims certification

Grant claim certification work will be completed between September and December 2008. The certification fee was originally estimated at £100,000.

Our work is charged to the Council based on the cost of certifying each claim and the overall fee normally varies from estimate, depending on the number and complexity of claims to be certified, as well as the quality of claim compilation and supporting documentation.

We will update the Council on the final fee charged for 2007/08, in the grant claims report that we will produce in January 2009.

Non Code work

We have not carried out audit work outside of the Code of Audit Practice audit in 2007/08

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