

COMMITTEE: **AUDIT AND GOVERNANCE**

DATE: **24 SEPTEMBER 2008**

SUBJECT: **EXTERNAL AUDITOR'S ANNUAL REPORT TO
THOSE CHARGED WITH GOVERNANCE**

REPORT BY: **HEAD OF CORPORATE FINANCE**

CONTACT OFFICER: **DAVE KEMPSON 01582 546087**

IMPLICATIONS:

LEGAL		COMMUNITY SAFETY
EQUALITIES		ENVIRONMENT
FINANCIAL	✓	CONSULTATIONS
STAFFING		RISK ✓

WARDS AFFECTED: None

PURPOSE

1. To enable the External Auditors to report to the Committee on their audit of the Council's accounts, their views on the Council's arrangements to secure value for money, the Auditor's and Council's responsibilities, and matters arising from the Audit.

RECOMMENDATION(S)

2. **Audit and Governance Committee is recommended to**
 - 1) **agree the management action plan attached;**
 - 2) **agree that the changes to the accounts set out in Appendix D of the report of the External Auditor should be made in the 2007/08 accounts, and that the changes set out in Appendix E of the report of the External Auditor should not be processed on the grounds that it is not practically possible to make the changes required in the timescales necessary to meet the statutory date for the publication of the accounts. However, the changes in approach required will be made for the 2008/09 accounts.**

- 3) **Support the development of in-house training for accountancy staff in issues arising from the changes in Statements of Recommended Practice (SORP).**
- 4) **Note that the implications and resource requirements relating to the introduction of International Financial Reporting Standards (IFRS) will need to be assessed over the next 18 months.**

BACKGROUND

3. This is a key annual report in accordance with statutory and proper practices. The most fundamental issue is whether the Auditor is able to issue an unqualified opinion on the Council's accounts by the 30 September statutory deadline. The Auditors report is also required to comment on detail on the audit, noting all errors and changes to the accounts that are required, and to come to a conclusion on the Council's arrangements for achieving value for money.

REPORT

4. It is pleasing to note that:
 - at the time of reporting, the Auditor expects to be able to issue an unqualified opinion on both the Council's accounts, and on the Council's arrangements for achieving value for money.
 - The Auditor has concluded that 'overall, the Council has continued to demonstrate good financial management'
 - The Auditor is satisfied with the Council's first Annual Governance Statement.
5. The Auditor has noted some significant areas where changes have been required in the accounts. It should be said that none of these impact on the bottom line, in terms of the effect on the Council taxpayer. This is the case even where the Auditor has advised on variations in sums put through the income and expenditure account.
6. We do need to learn significant lessons from the 2007/08 audit, as the changes required are greater than in previous years. I should therefore like to comment some aspects of the Key Audit Findings of the Auditor's report.
7. The Auditors have noted that there are areas in the draft accounts which do not, in their view, fully comply with the Statement of Recommended Practice (the SORP). This year, as in previous years, the Accountancy division has attempted to minimise the costs to the Council taxpayer by only purchasing the SORP, and not the separately issued Guidance Notes which cost approximately £600. It has become apparent during the audit that many key issues are only set out fully in the Guidance Notes, and that

it is essential that we buy both SORP and notes, and use both in conjunction, in future years.

8. The report states that the Council has not followed the required format for the Statement of Total Recognised Gains or Losses (STRGL), and that the treatment of some items as reserves and other balances is not correct. It should be noted that the Council has followed the same format for the STRGL and the same approach to reserves and other balances that it used in 2006/07. That format and approach was agreed as appropriate by the external auditors of the 2006/07 accounts, and the Council was given a score of 3, meaning 'performing well', for its financial reporting of the 2006/07 accounts. The Lead Partner and Audit Manager have changed for the audit of the 2007/08 accounts. On closer review of the full guidance now available, I have to agree with the views and recommendations of the current auditors.
9. The requirements for reporting on Financial Instruments have changed significantly in 2007/08, and far more detail was included in the guidance notes than was in the SORP. The Auditors comment that in their view, the treatment of Local Government Reorganisation liabilities and debtors by ourselves and the County Council may not be correct. There are differing views on this, and the Council has obtained the view of one the leading national experts who supports the Council's accounting treatment in this area. Further guidance from the Audit Commission is awaited for future years.

Resourcing and Training issues arising

10. The changes in recommended practice for 2006/07 and 2007/08 have altered the ways in which the Council is required to account. As the External Auditors' report makes clear, there will be further major changes in future years, with the introduction of International Financial Reporting Standards (IFRS) from 2010/11. It is important that the Council's accountants receive appropriate training in how these developments affect the accounts, and that expertise in accounts closure is more widely shared than in the past. Therefore I believe that the development of a training programme is required, and that the implications of the IFRS introduction are assessed in conjunction with the auditors. Every effort is being made to deal with these issues within existing resources. However, the potential for further resource requirements does need to be recognised.

PROPOSAL/OPTION

11. The Committee can agree with the management response, or amend it. However, the requirement to publish the audited statement of accounts by 30 September does limit what can effectively be done.

FINANCIAL IMPLICATIONS

12. The statement of accounts is the Council's principal public financial statement.

RISK IMPLICATIONS

13. If the accounts are not agreed with the auditor and published by the end of September, the Council will not have met its obligations under the Audit and Accountancy regulations. This could impact negatively on its Use of Resources score, which is an important part of the overall external judgement on the Council.

LEGAL IMPLICATIONS

14. There are no legal implications. Agreed with Richard Stevens on 15 September 2008.

APPENDIX

15. Appendix A - Annual Report to those charged with Governance 2007/08, produced by Grant Thornton UK LLP.

LIST OF BACKGROUND PAPERS

LOCAL GOVERNMENT ACT 1972, SECTION 100D

None.