

Three Rivers District Council

2007/08 Auditor's Report to Those Charged With Governance (ISA 260)

September 2008

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1 Executive Summary

1.1 Introduction

This report summarises the principal matters arising from our audit of accounts for the year ended 31st March 2008. 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. The Code of Audit Practice also requires us to report key matters relating to our VFM conclusion.

This report will be presented to the Audit Committee at its meeting on 3 September 2008. The issues raised have been discussed with the Director of Corporate Resources & Governance and his team and other officers as appropriate.

The key findings from our audit are summarised in this section. Further details of the findings are given in sections three and four of this report.

1.2 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 follows that 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.

We are pleased to report that the Council has prepared accounts of a generally good quality that, subject to a number of amendments as a result of the audit, are free from material error and misstatement. These were supported by good quality working papers.

Subject to the clearance of the outstanding items noted in this report, no material misstatements were found as a result of our audit. However, there were a number of misstatements that were not material to the overall presentation of the accounts. The amendment of these errors is at the discretion of the Council but will not impact on the true and fair presentation of the financial statements. These errors included:

- Fixed Asset Revaluations (£59k overstatement)
- Rental Income (£62k understatement).
- Section 106 Income - (£143k incorrectly presented in the STRGL)
- Bad Debt provision - Council Tax (£141k understatement).
- Bad Debt Provision - Rental Income (£80k Understatement).
- Pensions Asset - (£52k understatement).

There were also a number of errors in presentation and disclosure which required amendment. Further details of these and the other errors noted here are provided in section four.

We reviewed the Annual Governance Statement (AGS) and found it to contain appropriate contents and was consistent with the accounts. Subject to the completion of our UoR work, no issues were identified.

1.3 Value for Money Opinion

Our work on the Council's arrangements for achieving economy, efficiency and effectiveness in its use of resources is currently underway. Based on past performance and our knowledge of the Council, we expect to issue an unqualified VFM conclusion by the 30 September deadline.

In giving our VFM conclusion, we also consider 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 KLoE scores, in November 2008.

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

1.4 Developments in Future Periods

We would like to draw to the attention of those charged with governance significant changes that will be required to the Statement of Accounts in future years. The most significant of which is the full implementation of International Financial Reporting Standards (IFRS) in the 2010/11 accounts. Although this is several years away, it is important that Council start planning now, as there will be significant changes to the accounts, and our experience in other sectors shows that organisations need to prepare well in advance for transition to the new statements. 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.

1.5 Acknowledgements

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
3 September 2008

2 Background

2.1 Responsibilities

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, have been reproduced in full in Appendix A and B and reflects the scope of our audit.

2.2 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 (Appendix C).

2.3 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.

3 The Accounts Opinion

3.1 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.

3.2 Our Approach

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 our 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 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 our Audit Strategy Document presented to the last Audit Committee meeting in June 2008.

3.3 Significant Events - Housing Stock Transfer

We noted that in March 2008, following an extended period of consultation, the Council negotiated the transfer of its housing stock assets to Thrive Homes. This was carried out in order to ensure that the housing stock could be developed to meet the conditions of the Government's 'Decent Homes' standard. The transfer follows the example of many other Councils who have transferred administration of council housing to housing associations in order to help deliver higher standards and value for money to tenants in the longer term.

The stock transfer has had a significant impact on the Council's financial statements in a number of areas including a reduction in fixed assets and total equity on the balance sheet, a substantial loss on disposal reported in the Income and Expenditure (I&E) account and a reduction in the pension deficit following the transfer of staff in the Council's housing department.

The reported loss on disposal of £292 million is made up of the difference between the purchase receipt of £24 million (net of set up costs & government levy) and the book (carrying) value of the assets of £316 million at the point of disposal. The difference is a result of the accounting treatment for the transfer of assets from the balance sheet, which

reflects the net book (carrying) value of the assets transferred, but takes no account of future income and expenditure generated from these assets. The purchase price is significantly lower as it reflects the projected costs that Thrive will incur as a result of taking on the District's social housing, including those costs associated with meeting the 'Decent Homes' standard. The 'loss' was absorbed by the Council's reserves and does not have a significant impact on the Council's continuation as a 'going concern' or on its financial standing.

It is important to note that the substantial deficit in the Council's Income and Expenditure Account reported for the year was primarily a product of the transfer of the Council's housing stock. The transfer was carried out, and accounted for in line with government guidelines and past precedent. Therefore the value of the loss presented in the accounts is not an indicator of the Council's relative performance in ensuring value for money on the sale of these assets. We are satisfied that for the purposes of our audit, the valuation of both the book (carrying) value of the assets at the point of transfer, and the purchase price paid by Thrive were conducted by experts and are therefore appropriate.

We have audited the disposal of housing stock, including the accounting treatment of VAT on future development costs, and have concluded that the transfer has been correctly accounted for and is materially accurate in the Councils financial statements.

3.4 Financial Performance

The Council has reported a total deficit on the I&E account of £296 million of which £292 million was due to the housing stock transfer. The remaining £4 million deficit for the year is broadly in line with the Council's financial projections. The net £4 million deficit for 2007/08 is reduced from the £5 million deficit reported in 2006/07.

The Council under-spent on its original budgeted deficit by £0.5m during the year which, when added to the under-spend of £0.3m that arose on closing the 2006/07 accounts, resulted in the General Fund balance being £0.8m more at 31 March 2008 than had been anticipated when the 2007/08 budget was set in February 2007. This under-spend represents 1.5% of the Gross Expenditure budget. Included within this are a number of positive and negative variances against the budget.

The Council continued to under-spend on its capital budget as was the case in 2006/07. From a budget of £12.5 million, £7.7 million was spent resulting in an under-spend of £4.8 million. This represents a 38% under-spend against the budget. The primary reason for the under-spend is re-phasing in a number of capital projects, including the William Penn Leisure centre which has fallen behind schedule.

3.5 Financial Systems & Controls

We have evaluated the Council's key financial control systems as part of the audit planning process. This work was conducted primarily during the Interim Audit phase in April 2008.

We have documented the key control systems and undertaken tests to ensure that the system is operating as described. Compliance with key financial controls have been tested by the Council's Internal Audit Function and the findings have been presented to the Council. We have reviewed the work of Internal Audit and concluded that the scope and conduct of the testing was appropriate to provide adequate assurance on the effective operation of controls. We have therefore placed reliance on the work of Internal Audit in our evaluation of controls. We noted that Internal Audit had provided assurance that controls over all key financial systems were operating effectively. We fully support the recommendations made by Internal Audit during the year and would expect their recommendations for improvement to be addressed by the Council in the course of 2008/09.

Our financial controls work did not identify any control issues which present a material risk to the accuracy of the financial statements. However, in the course of our audit we did note some weaknesses in regard to the cash and fixed asset processes, which require management attention. Details of these issues are provided below.

- **Fixed Asset Register** - Due to the implementation of a new fixed asset register system in year, reconciliation between the register and the general ledger had not taken place in the latter part of the year. When the register was reconciled during the audit fieldwork, a number of errors in the general ledger were found (see audit adjustments below). We recommend that the process of regular (at least quarterly) reconciliation is reinstated into the accounting cycle.
- **Bank Reconciliations** - Monthly bank reconciliations in the year were completed by a finance manager who retired in June 08, passing responsibility to another officer. At the time of the audit, we found that bank reconciliations had not been completed following the handover. The bank accounts have now been reconciled at the year end and we have been able to conclude on the accuracy of the cash figure. The Council should ensure that the process for bank reconciliations is re-instated and that appropriate accountability and training is put in place.
- **Payroll Headcount** - We noted that there had been no regular reconciliation of employee headcount information, maintained by the Human Resources department, to Payroll records held in the finance department. Our payroll testing noted some discrepancies between these records. These were assessed and found not to present a material risk to the payroll cost in the accounts. However, this reconciliation represents a key control to prevent erroneous or duplicate payments. We recommend that a regular reconciliation between the payroll records and the HR department's records be established.

Our work detected some other minor control issues which merit attention on the part of management and these will be presented to the Council finance team in a separate memorandum.

We also conducted a review of high level IT controls and a report on the findings of this work will be presented in a separate report. A number of issues were noted, including the following:

- Security and event logs were only reviewed on an exception basis, i.e. when problems have occurred.
- Complex passwords were not enforced by the system.
- It was not clear that security and environmental standards and procedures are in place for the third party provider (Steria) who support IT systems on behalf of the Council.
- There was no overall IT security policy, although there are procedures and policies covering internet and e-mails usage.
- It was not clear when the computer room access codes had last been changed.

3.6 Accounting Policies

There were no issues we wished to raise relating to the Council's accounting policies as stated in the accounts, other than amendments resulting from the revision of Financial Instruments disclosures, including the Bad Debt Provision (see below).

3.7 Material Risks & Exposures

There were no material risks or exposures identified in the course of the audit, subject to the implementation of the adjustments noted in this report.

3.8 Material Audit Adjustments

Subject to the resolution of the outstanding items noted in paragraph 3.11, our audit work did not identify any adjustments which we considered material, and would therefore require action in order to present a true and fair view of the Council's financial performance. There were a number of non-material errors which may be corrected at the Council's discretion, but which do not affect the true and fair status of the financial statements.

3.9 Unadjusted Errors

We noted a number of errors which although not material, were considered not inconsequential to the figures presented in the accounts. The Council may chose to make these adjustments, although the issue of a true and fair opinion would not be affected if this were not done. The adjustments were as follows:

- **Fixed Asset Revaluations** - Two assets that were improved and revalued in the year (triggering both revaluation reserve and additions entries in note 14) were double counted to the value of £59,000. Thus Fixed Assets (L&B) and the revaluation reserve are both overstated by £59,000.
- **Rental Income** - A difference of £62k was detected between the General Ledger and the Academy System used to administer rent collection (the Academy system presented the higher figure). £18k was attributable to an identified timing difference but the remaining £44k difference could not be resolved before the closing deadline at year end. The discrepancy was thought likely to be linked with the splitting of the Academy database as part of the stock transfer. It was not considered material in a total gross rent income of £15m and was brought forward into accounting year 2008/09 to be resolved.
- **Bad Debt Provision - Council Tax** - The bad debt provision for Council Tax was based on ageing of debt and the collection history. A detailed calculation was performed by the Council to determine the collection rate over the last 14 years. After further inspection of the calculation we identified that 100 percent of debt relating to 2001/02 and 2002/03 financial years was provided, but none of debt on the system relating to years prior to this had been provided for. The amount of prior year debt not provided for was £141k, representing an understatement of the provision.
- **Pension Assets** - The Audit Commission Auditor of the Hertfordshire County Pension Scheme informed us of a non-material understatement of pension fund assets relating to the Council of £52k. The amount is not material, therefore no adjustment was deemed necessary.
- **Statement or Recognised Gains & Losses** - In the Statement of Recognised Gains and Losses (STRGL), the balance of 'Pensions Creditor, Collection Fund & Other Reserves' is £439k. Within this amount, we consider that £143k of income received in advance from non-governmental third parties for community facilities (section 106 income) should have been treated as 'income received in advance' in the balance sheet. We consider that it does not represent a true 'gain' as this depends on future expenditure in line with conditions which have yet to be fully specified, and therefore should not be accounted for through the STRGL.

3.10 Disclosure

A number of issues were noted in regard to disclosures within the accounts, which required adjustment:

- **Fixed Assets** - Additions to Vehicles Plant and Equipment (£268,760) and Infrastructure (£14,938) were incorrectly analysed as Land and Buildings additions (depreciation was charged correctly to the right place and at the correct rate for the

VP&E). There was no effect on the FA total, but the analysis in notes 14 and 18, and on the face of the balance sheet required correction.

- **Investments** - The disclosure on the face of the cashflow statement 'Management of Liquid Resources' in total is correct however the split between short-term deposits and investments available on demand is incorrect. The split between short-term deposits and investments available on demand is also incorrect in notes 31 and 32.
- **Capital Receipts** - In regard to the disclosure of capital receipts in the HRA, the figure of £21m is correctly shown net of set-up costs in the (HRA note 7) and contributing to the overall loss on disposal in the I&E account. However, due to the substantial value of the costs netted off (£5m of Levy and £2.5m of other set-up costs including a 650k pensions adjustment). We feel that additional disclosure should be provided to reconcile the receipt back to the £28.7m Transfer valuation.
- **Interest & Investment Income** - Interest and investment income is shown separately in the I&E account, and has a material balance of £1.7m but there is no supporting note in the financial accounts. This income should be incorporated in to the expanded Financial Instruments note (see below).
- **Building Control Trading Account** - Disclosure in Note 2 to the Accounts (Building Control Trading Account) has omitted Employee Expenditure of £174k. This required re-instatement.
- **Capital Adjustment Account** - We noted an error in note 22(b) - Capital Adjustment Account, where £430k is analysed incorrectly as capital grants applied when it is actually part of capital receipts applied (also affects capital financing at note 14).
- **Usable Capital Receipts** - Error in note 22(c) - There are minor errors in the analysis of Usable Capital Receipts. Under 'Sources of Capital Receipts' Cash was overstated by £40k, Sale of Land & Buildings is understated by £20k and Other Receipts was also understated by £20k.
- **Financial Instrument Disclosures** - The Council had not disclosed financial instruments according to accounting standards. Specific areas that required further disclosure were:
 - Investments at 'Fair Value'.
 - Disclosure of policies on the councils exposure to financial risks (e.g. interest rates).
 - Bad debt provision.

3.11 Outstanding Work

The following information is currently outstanding and required completion prior to the issue of the audit opinion:

- Clarification required on operating leases held on 'pepper corn' rents.
- Clarification of the movement in rental income year on year.
- Bank Conformation Letters.
- Investment Conformation Letters.
- Letter of Management Representations.
- Confirm adjustments to final draft accounts.

3.12 Other Matters

Other matters which do not result in adjustments to the accounts but should be noted, include:

- **Pensions Valuations** - We noted that there are differences between the pension values in the actuary's report and the pensions figures noted in the accounts. The differences are considered to be materially acceptable in regard to the accounting standard (FRS17), however the Council should be aware that this is a departure from generally accepted practice, and may lead to material differences in future, specifically in regard to cumulative differences carried forward. The differences were as follows:
 - There is a small (10k) difference between the actuary's estimate of current service cost, and the value stated in the accounts. The Council uses the actual cost rather than the actuary's estimate of cost in the calculation. This has been done historically and does not impact materially.
 - Because of this difference, the estimated liabilities in the scheme stated in the accounts is less than the actuaries estimate by 110k (out of £55m total liabilities). This is the cumulative effect of the difference in current service cost carried forward (99k) and this years difference (10k). The cumulative impact remains non-material for 2007/08.
- **Pension Adjustment due to Housing Transfer** - We also noted that due to the housing stock transfer, 'Employers Contributions Payable to the Scheme' has been reduced by £1.45m (down from £2.9m) to £1.52m to reflect the transfer of the housing department to Thrive Homes (thus reducing future liabilities in regard to these staff). The £1.45m was agreed to the actuary's report which provided the FRS17 calculations for Thrive's entry into the Hertfordshire County Council Pension Scheme. We are therefore satisfied that this treatment is materially accurate.
- **Bad Debt Provision - Housing Revenue** - The Council used an unconventional calculation method for the bad debt provision. This used three different calculations of bad debt and took the average as the value of the provision. We consider this treatment to be unusual, however it does not directly contravene accounting standards as it reflects the Council's judgement on recoverability. It should be noted that 98 percent of the debt relates to former tenants where there is some uncertainty of whether the debt can be recovered. The Council should consider re-appraising the treatment of debt relating to former tenants in 2008/09.

3.13 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 issues noted above, 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.

4 The VFM Conclusion

4.1 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.

4.2 Our Approach

The following pieces of work inform 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).

4.3 VFM Conclusion

We have commenced our work on the Council's arrangements for achieving economy, efficiency and effectiveness in its use of resources. On the basis of past performance, subject to the completion of this work, we expect to issue an unqualified VFM conclusion by the 30 September deadline.

Our provisional 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

Code area	Source of evidence	Arrangements adequate?
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

4.4 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. Subject to the completion of this work, we assess the Council as having at least adequate arrangements for objective setting, consultation and performance management.

4.5 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.

Subject to completion, 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 November Audit Committee.

4.6 Use of Resources Assessment

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.

Subject to completion, the results of this work indicate that, for 2007/08, the Council have 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.

4.7 Use of Resources - Developments in 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.

4.8 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.

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.

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.

C Action Plan

Ref	Finding	Actions required	Management response	Implementation details
3.5	Fixed Asset Register - Due to the implementation of a new fixed asset register system in year, reconciliation between the register and the general ledger had not taken place in the latter part of the year. When the register was reconciled during the audit fieldwork, a number of errors in the general ledger were found.	We recommend that the process of regular (at least quarterly) reconciliation is reinstated into the accounting cycle.		
3.5	Bank Reconciliations - Monthly bank reconciliations in the year were completed by a finance manager who retired in June 08, passing responsibility to another officer. At the time of the audit, we found that a bank reconciliation at year end had not been completed, and the system had broken down following the handover.	The Council should ensure that the process for bank reconciliations is re-instated and that appropriate accountability and training is put in place.		
3.5	Payroll Headcount - We noted that there had been no regular reconciliation of employee headcount information, maintained by the Human Resources department, to Payroll records held in the finance department. Our payroll testing noted some discrepancies between these records. These were assessed and found not to present a material risk to the payroll cost in the accounts. However, this reconciliation represents a key control to prevent erroneous or duplicate payments.	We recommend that a regular reconciliation between the payroll records and the HR department's records be established.		

Ref	Finding	Actions required	Management response	Implementation details
3.12	Bad Debt Provision - Housing Revenue - The Council used an unconventional calculation method for the bad debt provision. This used three different calculations of bad debt and took the average as the value of the provision. We consider this treatment to be unusual, however it does not directly contravene accounting standards as it reflects the Council's judgement on recoverability. It should be noted that 98 percent of the debt relates to former tenants where there is some uncertainty of whether the debt can be recovered.	The Council should consider re-appraising the treatment of debt relating to former tenants in 2008/09.		

D Agreed Adjustments to Accounts

Accounting adjustments that affect the reported surplus / deficit on the I&E account	
Finding	Impact
There were no accounting adjustments with an impact on the reported surplus & deficit.	Nil

Accounting adjustments that do not affect the reported surplus / deficit on the I&E account	
Finding	Impact
There were no other material adjustments.	Nil

Disclosure adjustments
Fixed Assets - Additions to Vehicles Plant and Equipment (£268,760) and Infrastructure (£14,938) were incorrectly analysed as Land and Buildings additions (depreciation was charged correctly to the right place and at the correct rate for the VP&E). There was no effect on the FA total, but the analysis in notes 14 and 18, and on the face of the balance sheet required correction.
Investments - The disclosure on the face of the cashflow statement 'Management of Liquid Resources' in total is correct however the split between short-term deposits and investments available on demand is incorrect. The split between short-term deposits and investments available on demand is also incorrect in notes 31 and 32.
Capital Receipts - In regard to the disclosure of capital receipts in the HRA, the figure of £21m is correctly shown net of set-up costs in the (HRA note 7) and contributing to the overall loss on disposal in the I&E account. However, due to the substantial value of the costs netted off (£5m of Levy and £2.5m of other set-up costs including a 650k pensions adjustment). We feel that additional disclosure should be provided to reconcile the receipt back to the £28.7m Transfer valuation.
Interest & Investment Income - Interest and investment income is shown separately in the I&E account, and has a material balance of £1.7m but there is no supporting note in the financial accounts. This income should be incorporated in to the expanded Financial Instruments note (see below).
Building Control Trading Account - Disclosure in Note 2 to the Accounts (Building Control Trading Account) has omitted Employee Expenditure of £174k. This required re-instatement.
Capital Adjustment Account - We noted an error in note 22(b) - Capital Adjustment Account, where £430k is analysed incorrectly as capital grants applied when it is actually part of capital receipts applied (also affects capital financing at note 14).
Usable Capital Receipts - Error in note 22(c) - There are minor errors in the analysis of Usable Capital Receipts. Under 'Sources of Capital Receipts' Cash was overstated by £40k, Sale of Land & Buildings is understated by £20k and Other Receipts was also understated by £20k.
Financial Instrument Disclosures - The Council had not disclosed financial instruments according to accounting standards. Specific areas that required further disclosure were: <ul style="list-style-type: none"> - Investments at 'Fair Value'. - Disclosure of policies on the councils exposure to financial risks (e.g. interest rates). - Bad debt provision.

E Summary of Unadjusted Errors

Unadjusted (Non-Material) Errors	
Finding	Impact
Fixed Asset Revaluations - Two assets that were improved and revalued in the year (triggering both revaluation reserve and additions entries in note 14) were double counted to the value of £59,000. Thus Fixed Assets (L&B) and the revaluation reserve are both overstated by £59,000.	Reduce Revaluation Reserve £59k Reduce Fixed Assets £59k
Rental Income - A difference of £62k was detected between the General Ledger and the Academy System used to administer rent collection (the Academy system presented the higher figure). £18k was attributable to an identified timing difference but the remaining £44k difference could not be resolved before the closing deadline at year end. The discrepancy was thought likely to be linked with the splitting of the Academy database as part of the stock transfer. It was not considered material in a total gross rent income of £15m and was brought forward into accounting year 2008/09 to be resolved.	Reduce Rental Income £44k Reduce Rental Income Debtors £44k
Bad Debt Provision - Council Tax - The bad debt provision for Council Tax was based on ageing of debt and the collection history. A detailed calculation was performed by the Council to determine the collection rate over the last 14 years. After further inspection of the calculation we identified that 100 percent of debt relating to 2001/02 and 2002/03 financial years was provided, but none of debt on the system relating to years prior to this had been provided for. The amount of prior year debt not provided for was £141k, representing an understatement of the provision.	Increase Council Tax Bad Debt Provision (I&E) £141k Increase Council Tax Bad Debt Provision (Balance Sheet) £141k
Pension Assets - The Audit Commission Auditor of the Hertfordshire County Pension Scheme informed us of a non-material understatement of pension fund assets relating to the Council of £52k. The amount is not material, therefore no adjustment was deemed necessary.	Increase Pension Scheme Assets £52k Decrease Net Pension Scheme Liability £52k
Statement of Recognised Gains & Losses - In the Statement of Recognised Gains and Losses (STRGL), the balance of 'Pensions Creditor, Collection Fund & Other Reserves' is £439k. Within this amount, we consider that £143k of income received in advance from non-governmental third parties for community facilities (section 106 income) should have been treated as 'income received in advance' in the balance sheet. We consider that it does not represent a true 'gain' as this depends on future expenditure in line with conditions which have yet to be fully specified, and therefore should not be accounted for through the STRGL.	Increase Income Received in Advance £143k Decrease Cash £143k

F Audit Fee Update

Audit area	Planned fee 2007/08	Actual fee 2007/08
Audit		
Financial statements	49,500	49,500
Questions from local government electors	-	-
Use of resources (including BVPP)	19,000	19,000
Data quality and PI's	12,000	12,000
Whole of government accounts	2,900	2,900
National Fraud Initiative	-	-
Planning & Reporting	26,200	26,200
<i>Total audit fee</i>	109,600	109,600
Inspection		
Relationship management	3,050	3,050
Direction of Travel	3,050	3,050
Service inspection	-	-
Health Inequalities	2,786	2,786
Total inspection fee	8,886	8,886
<i>Total audit and inspection fee</i>	118,486	118,486
Certification of claims and returns	31,500	31,500
Voluntary Improvement work	-	-
Total	149,986	149,986

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 £31,500.

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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