



Accountants &
business advisers

Three Rivers District Council

**Report of the auditor to those
charged with governance**

August 2006

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1 Introduction

- 1.1 Our Audit and Inspection Plan 2005/06 outlined the work that we would be carrying out in order to meet our Code of Audit Practice and other statutory responsibilities for the audit of Three Rivers District Council (“the Council”).
- 1.2 This includes a requirement for us to provide:
- an opinion on the Financial statements
 - a conclusion on the arrangements for securing economy, efficiency and effectiveness in its use of resources.

Reporting to those charged with governance

- 1.3 We have completed our audit of the financial statements and in accordance with *International Standards on Auditing (UK and Ireland) 260* (“ISA 260”) we report to those charged with governance the findings, conclusions and recommendations from our audit work.
- 1.4 We also report to those charged with governance our findings to date (31 August 2006) in relation to our use of resources responsibilities, though we have not yet concluded our work. Any further significant findings in this area will be communicated in a supplementary report to those charged with governance.
- 1.5 As part of our completion process this report will be subject to a detailed review by an independent partner. At the time of writing, this review has yet to be completed and we will therefore inform Members of any comments arising at the meeting.
- 1.6 The following sections detail our key findings in respect of the audit and recommendations for improving governance are provided in the attached action plan. These recommendations have been discussed with appropriate Officers and responses are included in the plan.
- 1.7 We also confirm that we are not aware of any relationships that may bear on our independence and objectivity as auditor and that our independence declaration, included in the Audit and Inspection Plan 2005/06, has remained valid throughout the period of the audit.
- 1.8 We would highlight that in this report we do not provide a comprehensive statement of all weaknesses that may exist in the accounting and control systems or arrangements to secure economy efficiency and effectiveness, but only those matters which have come to our attention as a result of the audit procedures performed. Also, the audit is not designed to identify all matters that may be relevant to those charged with governance.

Status of our report to the Authority

- 1.9 This report has been prepared for Members and Officers information only and is not intended to include every matter that may have come to our attention. We accept no responsibility for any reliance that might be placed on it for any purpose by third parties.

Acknowledgement

- 1.10 We would like to thank the staff of the Authority for the co-operation and assistance provided to us during the audit.

2 Accounts

Responsibilities of the Council

- 2.1 The published Financial statements are an essential means by which the Council 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 Council to:
- put in place systems of internal control to ensure the regularity and lawfulness of transactions
 - maintain proper accounting records
 - prepare financial statements that present fairly the financial position of the body and its expenditure and income.
- 2.2 The audited body is also responsible for preparing and publishing with its Financial statements a statement on internal control.

Responsibilities of the auditor

- 2.3 Auditors are required to audit the Financial statements 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.
- 2.4 An audit is designed to provide reasonable assurance that the Financial statements *present fairly* are free from *material misstatement*. The audit opinion is itself based on a combination of fact and judgement and, consequently, the Financial statements cannot be characterised as either 'absolute' or 'correct', but are materially correct.
- 2.5 Materiality is an expression of the relative significance or importance of a particular matter in the context of Financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of the reader of the Financial statements. Materiality is not capable of general mathematical definition as it has both qualitative and quantitative aspects.

Scope of our work

- 2.6 In completing our responsibilities, we consider a number of aspects which may have an impact on our ability to issue an unqualified opinion. These aspects include:
- review the adequacy of financial systems for accounting for transactions
 - review internal controls that are designed to prevent or detect and correct misstatements in the accounts
 - review the arrangements for preparing the Financial statements
 - select and test transactions and balances
 - assess the significant estimates and judgements made by the Council body in preparing the Financial statements
 - consider the adequacy of presentation and disclosures included in the Financial statements.

- 2.7 Auditors also review whether the Statement on Internal Control 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 Financial statements and through their work in relation to the body's arrangements for securing economy, efficiency and effectiveness in the use of its resources.
- 2.8 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.

Reporting to those charged with governance

- 2.9 In accordance with the requirements of International Standards on Auditing 260 ("ISA 260"), auditors are required to communicate relevant matters relating to the audit with those charged with governance. The content of this report forms part of our reporting on the results of our final accounts audit to those charged with governance.
- 2.10 In particular we are required to report:
- Qualitative aspects of accounting practices and financial reporting;
 - Final draft letter of representation to be agreed by management and those charged with governance;
 - Uncorrected misstatements;
 - Expected modifications to the audit report;
 - Material weaknesses in accounting and internal control systems identified during our work;
 - Matters required to be communicated by other ISAs; and
 - Any other audit matters of governance interest.
- 2.11 Our comments in these areas are set out below.

Qualitative aspects of accounting practices and financial reporting

The Accounts preparation process

- 2.12 The draft accounts were submitted to the Audit Committee on 28 June 2006, in line with the statutory deadline. The audit was scheduled to start on 19 July to give sufficient time to prepare the information required for the audit. As part of our planning for the year end audit we had prepared a detailed document request which outlined the information we would require to complete the audit on the basis set out in our audit plan. This document was discussed with senior Authority finance staff.
- 2.13 At the start of the audit we were provided with the schedules requested and supporting analysis for the key account areas, with additional information being provided as requested during the course of the audit.

Analytical review

- 2.14 Initial explanations for variances from the prior year were provided to us at the start of the audit. Some further support and analyses were requested shortly before the start of the audit, but these could not be completed immediately.

Testing of balances

- 2.15 As part of our audit approach all material balances were subject to specific audit testing and agreement, on a sample basis, to supporting documentation. The following matters have arisen from our work, which we feel appropriate to bring to your attention.

Fixed assets – Council House disposals

- 2.16 As with previous years, the Authority has disposed of a number of council house properties under the Right to Buy legislation. On review of the disposals during the year, we noted that a number of these had in fact been part disposals, made under the rent to mortgage scheme, where Three Rivers continues to retain ownership of part of the freehold.
- 2.17 Detailed review of the entries in respect of the seven sales under this scheme have indicated that, despite retaining between 40% and 74% of the value of the freehold, the Authority has removed the full value of the asset from fixed assets. The value of part of the houses disposed of is £252k of a total value of £775k. As the full value of the assets has been incorrectly removed from the value of year end fixed assets, there is an error of £523k in the value of fixed assets. We have discussed this with officers who have agreed to make the necessary amendment to the final accounts.

Fixed assets – assets omitted from disclosure

- 2.18 Our review of the detailed fixed asset register has identified a further discrepancy with the recording of the value of fixed assets. On review it is apparent that the spreadsheet on which the Authority records the valuation has been incorrectly totalled, such that the value of a number of assets has been omitted.
- 2.19 The number of council houses omitted is significant, and have a total asset value (existing use) of £3,537k. We have discussed this with officers who, as the amount involved is significant, have agreed to make the necessary amendment to the final accounts. As there is no impact on the consolidated revenue account, and as the amount relates to tangible fixed assets, we do not regard the amendment as material.

Valuation of General Fund Properties

- 2.20 In common with many authorities, Three Rivers have a small number of social housing properties that are included within the General Fund rather than being within the HRA. As with properties in the HRA, these should be valued in line with the social housing multiplier that is applied to such assets.
- 2.21 Our review of these properties has shown that the multiplier has not been used for all social properties, and incorrectly used on other non social properties, such that the value of some individual assets is incorrect. We have reviewed the relevant valuations and calculated that there is a net overstatement of £296k to the value of fixed assets. This has been recorded as an unadjusted error in Appendix E.

Debtor with Department for Community and Local Government (DCLoG)

- 2.22 It has become apparent that the year end debtor balances included a significant increase in the value of the year end balance owing to the Authority by DCLoG, the amount increasing by £2.5m (from £664k to £3,164k). On investigation, it is apparent that the increase is attributable to the high level of NNDR pool payments, these being due to the Authority not submitting a NNDR2 return to DCLoG. This form, which is submitted during the year, allows the Authority to reduce its NNDR pool payments to take account of changes arising during the year, these being primarily to the rateable values of businesses in its area.
- 2.23 Although the authority had had some significant decreases in rateable value, lapses in some internal control processes led to the form not being submitted. As a result payments in excess of those required continued to be made, giving rise to the large year end debtor.

- 2.24 The Authority has performed a detailed review of the circumstances that led to the non submission of a NNDR2 form and has proposed amendments to the control processes to ensure this does not happen again. We have reviewed the content of this review and are satisfied that the actions proposed are appropriate and will strengthen the control processes in place.
- 2.25 This review has also sought to identify the potential financial impact that the control lapses have had on the Authority, although this has proven difficult to assess accurately due to the range of assumptions that have had to be considered within the calculation. We have reviewed the assessment and are satisfied that the Authority is going about determining this using a sensible methodology, although it is not complete at this stage. We will report to Members if any further issues are identified.
- 2.26 It should be noted that the Authority has, during August 2006, received payment of £2.8m from DCLoG in settlement of the amount outstanding.

Benefit Grant Claim

- 2.27 The tight timetable the Authority is required to follow to ensure its accounts are completed and approved within statutory deadlines results in the accounts including estimates of the amounts relating to Housing and Council Tax Benefits. As part of the audit we have considered the accuracy of these in relation to the completed grant claim.
- 2.28 As in prior years, this review has noted a difference between the estimates included and the final figures on the claim form, the difference this year being £167k. As an estimate, however, we do not regard the difference as an error for the purposes of our opinion on the financial statements.

Deferred premium

- 2.29 The Authority has previously incurred a significant premium on the early repayment of its outstanding debt, this having been carried forward in the accounts and amortised over the period during which the original debt was due to be repaid. However, we consider that the premium should have been written off to Revenue when the Authority became debt free. As a result we have included the incorrect amortisation of the deferred premium of £82k within the 2005/06 accounts in our schedule of unadjusted differences at Appendix E.

Bad debt provision

- 2.30 We have reviewed the bad debt provisions for all areas, (HRA, Sundry debtors, Benefit overpayments, NNDR and Council Tax) and we are satisfied that they have been calculated on appropriate bases. The current and prior year balances are shown in the table below:

	Arrears £'000	Provision £'000	Provision as a % of arrears £'000
HRA debtors - 2005/06	540	124	23%
<i>HRA debtors - 2004/05</i>	<i>527</i>	<i>150</i>	<i>28%</i>
Sundry debtors - 2005/06	232	36	15%
<i>Sundry debtors - 2004/05</i>	<i>192</i>	<i>36</i>	<i>19%</i>
Benefit overpayments - 2005/06	512	413	81%
<i>Benefit overpayments - 2004/05</i>	<i>445</i>	<i>374</i>	<i>84%</i>
NNDR debtors - 2005/06	788	414	53%
<i>NNDR debtors - 2004/05</i>	<i>1,201</i>	<i>1,082</i>	<i>90%</i>
Council Tax debtors - 2005/06	2,397	1,061	44%
<i>Council Tax debtors - 2004/05</i>	<i>2,440</i>	<i>1,018</i>	<i>42%</i>

- 2.31 As shown by the table, the level of provisions in each area is broadly consistent with the prior year, the only area where there is a significant change is NNDR. This change is due to the removal of approximately £525k of debts that had been fully provided for in 2004/05, adjusting the above figures for this gives a revised provision percentage of 82%. The remainder of the fall is attributable to a review of the calculation which has identified some small errors in calculation that have now been adjusted.

Building Control account

- 2.32 As required, the Authority operates a building control trading account through which the transactions in respect of the charging for the building control function, in accordance with the Building (Local Authority Charging) Regulations 1998, are recorded.
- 2.33 Whilst the overall trading account records a deficit, the portion of it relating to chargeable services has regularly recorded a surplus, with £25k being achieved in 2005/06, and a total surplus of £147k having arisen. Under the regulations, charges should only be raised with a view to recovering the costs of the service.
- 2.34 Given the level of surplus at Three Rivers, as well as the continued focus being put on the issue by DCLoG, the Authority should seek ways to remove the surplus, such as by either reducing charges or through its use to assist in improvements to the building control service.

VAT – South Oxhey

- 2.35 The Authority has previously had a difference of opinion with HM Customs and Excise (now HMRC) over the treatment of capital expenditure at the South Oxhey Centre which, if lost, would have resulted in the breach of its 5% partial exemption limit and a VAT cost to the Authority. Due to the potential significance of the sums involved, a note has previously been included in the accounts to explain the contingent liability and the amounts involved.
- 2.36 There has been no further correspondence with HMRC on this issue in the last year and, given the time limits to open up VAT claims, any potential liability is now likely to be time barred. As a result the Authority consider it appropriate to remove the note from the accounts, with which we agree.

Adequacy of disclosures

- 2.37 During the audit we identified some minor disclosure issues which had not been presented in accordance with the guidance in the SORP. We need to ensure that appropriate amendments have been made in the final accounts.

Letter of representation

- 2.38 Auditors are required to obtain written confirmation of certain representations from management before an audit report is issued, such as acknowledgment of responsibility for the fair presentation of the financial statements in accordance with the applicable financial reporting framework and responsibility for the design and implementation of internal control to prevent and detect error.
- 2.39 The auditor should also obtain written representations from management on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist, such as confirmation of disclosure of related party transactions.
- 2.40 Members of the Audit Committee, in accepting the Financial statements, are expected to make appropriate enquiries to satisfy themselves that they are able to make these representations prior to approving of the representations to the auditor.
- 2.41 The final draft of the letter of representation has been attached as Appendix D.

Uncorrected misstatements

- 2.42 Auditors are required to inform those charged with governance of those uncorrected misstatements aggregated by the auditor during the audit that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
- 2.43 The Audit Committee will be required to acknowledge the reasons provided by management for not adjusting these misstatements, and to provide a representation that it considers that the uncorrected misstatements are not material. The Audit Committee has responsibility for approving the Financial statements, and as such the power to direct management to make any necessary adjustment if it is believed that any misstatements are material in nature to the understanding of the Financial statements.
- 2.44 We set out at Appendix E all of the non-trivial misstatements which were noted during the course of our audit and the aggregate of the unadjusted misstatements.

Audit report

- 2.45 Subject to receiving an updated copy of the accounts which reflect our suggested changes and the clearance of a number of outstanding matters on the audit, there are no matters arising from our work to date that are likely to prevent us issuing an unqualified audit opinion on the Financial statements. At the date of drafting this report the key matters still outstanding are listed below:
- Final clearance of issues in relation to fixed assets as outlined above.
 - The receipt of the outstanding related party transaction information in respect of three councillors.
 - Follow up of the issue identified from the letter from the auditors of the Herts County Council pension fund.
 - The receipt of two investment confirmation letters.
- 2.46 We will provide an oral update on these matters at the presentation of this report to the Audit Committee.

Accounting and internal control systems

Assessment of systems reliance

- 2.47 Our approach to the audit of the financial systems has involved considering key control areas for each system and satisfying ourselves that they are operating as intended and are sufficient to prevent material misstatements within the accounts. In assessing the reliability of systems as a basis for providing financial information, we have prepared systems notes for each financial system and we have evaluated the controls within those systems, with particular focus on assessing whether the controls in place to mitigate significant risks are suitably designed and operating as intended to meet their objective.
- 2.48 Where possible, we have placed reliance on Internal Audit's work and thereby avoided unnecessary duplication of audit effort on the systems work relevant to our audit opinion. To ensure this approach was valid, we have undertaken the following:
- Reviewed Internal Audit's working papers and reports.
 - Re-performed Internal Audit's evaluation of controls and a sample of their testing of the effectiveness of controls, to ensure that Internal Audit's conclusions are soundly based and that we do not disagree with them.
 - Considered the robustness of the financial systems on the evidence of this work.

Conclusion

- 2.49 Overall we have concluded that the key financial systems are adequate as a basis for preparing the Financial statements, although some control weaknesses have been noted which required additional external audit effort at our final visit:
- Within the Housing and Council Tax benefits system, the system of quarterly checking of the accuracy of a proportion of live cases has not been evidenced for a period of time. This required us to perform some additional work to verify the accuracy of the overall level of benefit expenditure.
 - There has not been a regular reviewed reconciliation of the Income per the Housing Rents system to the details within the general ledger. This required a detailed review of the year end reconciliation.
 - We noted that the required invoice request forms are not always present to support the raising of debtor invoices, particularly for amounts related to the Council's maintenance department. This required a detailed review of income levels, including cut-off, to verify amounts are in the correct period.
- 2.50 The key findings from our systems review are reported in Appendix A. We have also repeated the findings of Internal Audit where we consider them to be significant control weaknesses that are material to our opinion on the accounts. Most of the recommendations we have raised relate to improving the evidencing of control processes to enable us to maximise the efficiency of the audit.

Matters required to be reported by other ISAs

- 2.51 There are no other matters arising from our work that we are required by other ISAs to bring to those charged with governance.

Other audit matters of governance interest

Review of internal Audit work papers and conclusions

- 2.52 We have completed our review of Internal Audit's working papers and reports and note that all of the systems that we consider material to our opinion have been reviewed and reported upon by Internal Audit. Our review of the work carried out by Internal Audit highlighted that for most of the key controls that we identified as material to our opinion on the accounts, we were able to rely on their work.
- 2.53 However, in some areas, the level of reliance we could place on Internal Audit's work was reduced, with the work not completely addressing the control objectives we have identified for the individual systems, largely as a result of the change in external audit approach in the year as a result of the new ISAs. As a result we have undertaken some additional work to obtain the necessary evidence of the existence, effectiveness and operation of those controls not covered by Internal Audit.

Statement on Internal Control

- 2.54 We have reviewed the Statement on Internal Control (SIC) in which the Council has reported on internal control issues. We are satisfied that the disclosures are not inconsistent with the evidence provided by Internal Audit to support the effectiveness review and our knowledge of the Council.
- 2.55 There are no other matters arising from our work that we wish to bring to the Audit and Governance Committee's attention.

Fraud risk assessment

- 2.56 Under ISA240 we have a responsibility to give specific consideration to the potential risk of material misstatement of your Financial statements due to fraud and error, including the risk of fraudulent financial reporting.
- 2.57 The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect fraud and corrupt practices lies with management and 'those charged with governance'.
- 2.58 In order to identify the fraud risks, and the controls you have put in place to mitigate those risks, we have:
- discussed your anti fraud and corruption arrangements with officers, and 'those charged with governance';
 - considered the extent to which the work of Internal Audit is designed to detect material misstatements in the Accounts arising through fraud; and
 - made inquiries regarding instances of actual fraud you have identified.
- 2.59 As a result of the above work, we have not identified further fraud risks that have affected our audit programme for the Financial statements.

3 Use of Resources

- 3.1 The new Code requires us to be satisfied that proper arrangements have been made by the Authority to secure economy, efficiency and effectiveness in the use of resources (value for money conclusion).

Responsibilities of the Council

- 3.2 It is the responsibility of the Council 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. To achieve this, councils are expected to have robust corporate performance management and financial management arrangements as part of the system of internal control.

Responsibilities of the auditor

- 3.3 Auditors are required to review the arrangements to secure economy, efficiency and effectiveness. In meeting this responsibility auditors should review the audited body's corporate performance management and financial management arrangements and report on these arrangements.
- 3.4 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.
- 3.5 Auditors of specified local government bodies (best value authorities) also have a responsibility to consider, and report on, the audited body's compliance with statutory requirements in respect of the preparation and publication of its best value performance plan.

Scope of our work

- 3.6 In undertaking this work, auditors:
- review arrangements against specified Audit Commission criteria in the Use of Resources
 - review arrangements against specified Audit Commission criteria for Data Quality
 - undertake a review of corporate assessments and other external inspection reviews
 - undertake targeted reviews in response to local risks against corporate performance and financial management arrangements.

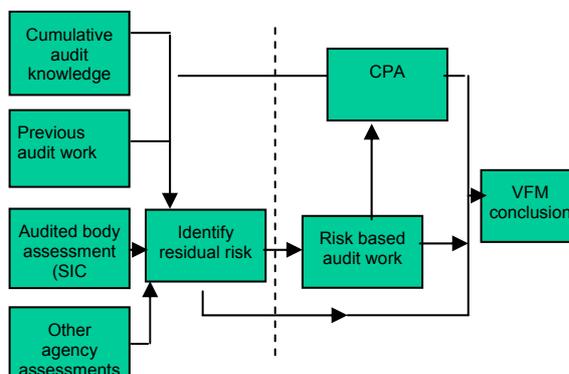
Reporting to those charged with governance

- 3.7 Auditors are required to communicate relevant matters relating to the review of the arrangements to secure economy, efficiency and effectiveness to those charged with governance. In particular we are required to report:
- the findings and conclusions from the audit
 - significant matters have come to their attention that prevent them from concluding that the audited body has put in place proper arrangements
 - the proposed value for money conclusion and an explanation for any qualifications
 - an action plan including any recommendations with management's responses and indicative target dates for implementation

- reference to the statutory report on the BVPP.

Value for money conclusion

- 3.8 For the first time this year, we are required to give an audit opinion providing an overall conclusion on whether you have proper arrangements in place to secure value for money (VFM). The process for compiling our VFM conclusion is shown in the diagram below:



- 3.9 Our VFM conclusion is based on considering the results of work against the twelve criteria identified by the Audit Commission. These cover work in three principal areas:

- National risk - Key lines of enquiry (8 criteria)
- Data Quality (1 criteria)
- Corporate Assessment (3 criteria)

- 3.10 It also draws on the results of risk based local audit work as well as the consideration of the Authority's processes underpinning its review of the effectiveness of its controls as described in its Statement on Internal Control.

National Risk – Key lines of enquiry

- 3.11 In addition to our local risk based planning, the Audit Commission can specify work to be carried out by auditors on a national basis. For 2005/06, the Audit Commission specified that we review your arrangements against their Key Lines of Enquiry (KLoE) criteria.

- 3.12 The KLoE assessment of the Council's arrangements for its use of resources was completed in February 2006 and a detailed report of findings was provided in March 2006.

- 3.13 This assessed how well the council manages and uses its financial resource and focused on the importance of having sound and strategic financial management to ensure that resources are available to support the Council's priorities and improve services. Relevant KLoE areas were judged from "1" as inadequate arrangements to "4" for performing strongly.

- 3.14 It covers:

- financial reporting
- financial standing
- value for money
- financial management
- internal control

- 3.15 Overall, the Council achieved a use of resources score of 2 as "performing at the minimum requirements". The individual scores against the eleven assessment criteria are shown in the table on the following page.

- 3.16 Within the five themes noted above there are eleven individual assessment criteria, although as noted in paragraph 3.9 above, only eight of these assessments are relevant to the auditors' value for money conclusion. The eight that are taken into account when providing the conclusion are noted in the table as "Opinion criteria".

Ref	Assessment criteria	Score
FINANCIAL REPORTING		
Non opinion 1.1	Publication of annual accounts in accordance with relevant standards and timetables	2
Non opinion 1.2	Promoting external accountability	2
score		2
FINANCIAL MANAGEMENT		
Opinion criteria 2.1	Financial strategy is sound and designed to deliver strategic priorities	2
Opinion criteria 2.2	Performance against budgets is properly managed	2
Opinion criteria 2.3	The Council's asset base is well managed	1
Score		2
FINANCIAL STANDING		
Opinion criteria 3.1	Spending is managed within the available resources	2
Score		2
INTERNAL CONTROL		
Opinion criteria 4.1	Significant business risks are properly managed	2
Opinion criteria 4.2	There is a sound system of internal control	3
Opinion criteria 4.3	There are arrangements to ensure probity and propriety in the conduct of business	2
Score		2
VALUE FOR MONEY		
Non opinion 5.1	Does the Council achieve good value for money	2
Opinion criteria 5.2	The Council manages and improves value for money	2
score		2

- 3.17 We have previously issued a detailed report on the findings of our work on KLOE, and summarised these in the Annual Audit and Inspection Letter presented to Members in April 2006. We have therefore not repeated them within this report.
- 3.18 However, the work was undertaken during October to December 2005 and as such some of the judgements were assessed against arrangements in place for 2004/05, including the preparation of the Financial statements for that year. We have revisited these arrangements and noted that progress has since been made against many of these areas and this will be taken into account when reviewing the KLoE for use of resources during 2006/07.
- 3.19 As the Council has received a score of one against one of the opinion criteria, there is potential for the value for money opinion to be qualified. However, given the above noted timing of the work on the KLOE, we have reviewed the progress made in this area to assess the need to qualify the value for money opinion.
- 3.20 The score of one arose partly due to the Authority not having an up to date asset management plan and sufficient information on the level of backlog maintenance in respect

of its non housing land and buildings. We are aware, following our work as noted in paragraph 3.18 above, that the Authority has completed an update of the asset management plan, and that this includes details of backlog maintenance for the non housing land and buildings (£490k). As a result of this, and considering the overall balance of arrangements in place over use of assets, we consider that the Value for Money conclusion should not be qualified in this respect.

Data quality

- 3.21 As part of the new arrangements for review of performance indicators, auditors must assess the management arrangements in place with respect to this and conclude on a level ranging from 1 (inadequate) to 4 (performing above target).
- 3.22 Upon review of the self assessment and vouching to supporting evidence, to the extent that we have concluded our work it is likely that the Authority will be adjudged a Level 2 (adequate arrangements). This provisional conclusion is driven by the fact that data quality issues are known and understood by the Council, and there are generally strong collection processes in place, although at the date of review there was no formal Data Quality Strategy in place to show that there was Council-wide commitment to data quality and this is the single most important issue to address. We will inform those charged with governance if our provisional score alters.
- 3.23 Key officers are aware of the need to introduce and embed a Data Quality policy. Once prepared and approved, it will need to be rolled out and the Council should try to ensure that the principles are understood, communicated and actioned by all members of the Council.

Corporate assessment and other external inspections

- 3.24 As noted, three further key lines of enquiry in relation to the corporate assessment are specified by the Audit Commission to be considered as part of the work on our value for money conclusion.
- 3.25 As part of our work in providing the value for money conclusion we are able to make reference to the results of the most recent corporate assessment, as updated by the direction of travel statement, as long as it is less than 3 years old. We were therefore able to utilise these assessments by the Audit Commission towards assessing the following criteria.
- Arrangements for:
 - a) establishing strategic and operational objectives; and
 - b) determining policy and making decisions
 - Arrangements for ensuring that services meet the needs of users and taxpayers, and for engaging with the wider community.
 - Assess the arrangements for monitoring and reviewing performance, including arrangements to ensure data quality.
- 3.26 In each of these cases we are required to assess whether the criteria was met or not. We have been able to use the corporate assessment to decide the criteria were met.

Other risk based audit work

- 3.27 The 2005/06 Outline Audit Plan identified that we would undertake the following local risk-based work to address the specific issues applicable to the Authority. The key conclusions from this work were as follows:

Risk	Conclusions
<p>There has been unplanned slippage on the capital programme in recent years and there remains a significant backlog on housing repairs and maintenance work which will increase budgetary pressures in future years.</p>	<ul style="list-style-type: none"> • The Authority has continued to try and progress the completion of capital works to try and remove the unplanned slippage. • It has put procedures in place to identify slippage during the year so as to ensure prompt action is taken to address issues and this has resulted in a reduced level of slippage. • Work has been completed on identifying the level of backlog maintenance that exists within the Authority on non Housing assets.
<p>The Authority refocused resources on priority areas in the 2005/06 budget setting process. However, despite extra resource for priorities Approximately 50% of performance indicators did not meet the targets set for 2004/05. This suggests that further work is required to ensure that the targets set are both realistic and achieved in practice.</p>	<ul style="list-style-type: none"> • The Authority has continued to take steps to improve its performance management arrangements, ensuring there is quarterly reporting of indicators to Officers and Members and linking the indicators with specific service and corporate objectives. • The links between performance and risk management have been developed and strengthened, such that the quarterly performance reports produced for the policy panels include consideration of the risk associated within failing to improve performance and meet targets. • Initial review of performance indicators for 2005/06 indicate that the Authority has achieved significant further improvements in performance in key areas. • The Authority continues to develop its system of performance management and associated indicators, and we understand that a new computer based system, that allows tracking of performance, will be implemented during 2007.
<p>The Authority has tendered for the provision of Leisure Facilities Management. There is a need to ensure this process has been robust and that the contract terms agreed may generate value for money for the Council over its life.</p>	<ul style="list-style-type: none"> • The Authority has, as a result of the tender process, selected Hertsmere Leisure as the provider of the leisure facilities management. • The contract awarded is for two principal sites, with the extension to further sites in the District being dependent on the contractor's performance with the first sites over a two year period. • On review of supporting papers, the process appears to have been robustly performed, with the decision on the award taking into account several factors, and not being based solely on the tender price. • It is apparent from the supporting documentation that appropriate consideration has been given to ensuring that Three Rivers achieve value for money and that this has been part of the overall structure of the contract.
<p>Local authorities are required to achieve annual efficiency savings of 2.5% in accordance with the Gershon review and to report these savings to ODPM.</p>	<ul style="list-style-type: none"> • Further review and discussion by the Audit Commission on the role of auditors in relation to Gershon efficiency statements, resulted in auditors not being responsible for performing a detailed review / audit of the statements. • As a result we have not performed any detailed work on the statement, although as part of the work on KLOE we have considered the Authority's arrangements for preparing the statement and monitoring performance and have assessed that these appear appropriate.

3.28 The results of this work have contributed to our overall value for money conclusion by providing additional assurance over the Authority's level of performance against the relevant criteria.

Best Value Performance Plan 2005/06

- 3.29 The audit of the Best Value Performance Plan 2005/06 (“BVPP”) was completed in 2005 and we reported that the Council had prepared and published its BVPP in all significant respects in accordance with section 6 of the Local Government Act 1999 and statutory guidance issued by the Government. An unqualified opinion was issued on 20 December 2005.

Overall Value for money conclusion

- 3.30 Our overall conclusion is that the Authority has appropriate arrangements in place to secure value for money.
- 3.31 A draft of our proposed Auditors’ Report on economy, efficiency and effectiveness is included at appendix F.

4 Fee information

- 4.1 We are required to disclose an analysis of the proposed and actual audit fees for the year and provide an explanation for any significant variations for each element of our work.
- 4.2 The proposed audit fees were set out in the Audit and Inspection Plan 2005/06 at the start of the year.

Audit plan 2005/06	Proposed fees £	Actual fees £
Accounts	39,660	42,310
Use of Resources		
- UoR judgments	20,140	22,170
- Other risks	6,590	6,590
- BVPP / BVPIs	12,320	12,320
	39,050	41,080
Planning and reporting	20,110	20,110
Total assurance fees	98,820	103,500
Grants and certification returns	30,708	30,708
Total audit fees	129,528	134,208

- 4.3 An additional amount of £4,680 has been charged for additional work on the final accounts and the completion of the Use of Resources Key Line of Enquiry work. The increase in the fee for the accounts is attributable to the need to ensure risks noted from the prior period are fully addressed, whilst that for the KLOE work is attributable to the increased length of time to complete the work.
- 4.4 Within the KLOE there were a number of overlaps with planned work categorised above as CPA/improvements and some of the other risks highlighted within the outline audit plan for 2005-06. This work was used for both the original intention as well as the Use of Resources judgements, thereby reducing the overall cost impact on the audit fee.
- 4.5 A number of the grant claim audits are currently in progress or do not require certification until 31 December 2006 and therefore the actual fee remains an estimate of the expected final position.
- 4.6 The Use of Resources review of Data Quality arrangements has been completed within the 2006/07 Audit and Inspection Plan fee.

Appendix A – Action Plan

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
Accounts Opinion					
The following recommendations arose from our / Internal Audit's review of the Authority's key financial system, Financial statements and relevant supporting documentation.					
Systems					
<p>Housing and Council Tax Benefits</p> <p>Our review of the system indicated that the quarterly checks on the accuracy of a proportion of the current live cases of benefit had not been performed since December 2005. In addition, the files evidencing the previous checks could not be reviewed as they had been misplaced. As there is no evidence of checking having been performed there is a risk that benefit claims are continue to be paid for the incorrect amounts.</p>	<p>The Authority should ensure that the process of quarterly checking of invoices is recommenced and that the documentation evidencing the review is retained.</p>	High			
<p>Housing Rents</p> <p>Our review of the Housing rents system has indicated that the reconciliation between the number or rental properties within the system and those recorded in the fixed asset register had not been recently completed. This reconciliation is important to ensure that the Authority is accurately recording all housing rental income it is due to receive.</p>	<p>The Authority should ensure that the reconciliation of the number of properties, between the Housing Rents system and Fixed asset register, is performed on a regular basis.</p>	Medium			

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
<p>Income and Debtors</p> <p>We have noted that the invoice request forms required to support the raising of sundry debtor invoices are often not completed. We are aware that this is, in part, attributable to the maintenance department not using the forms, but have also identified some other omissions. There is a risk that the Authority will not record all of the income that it is due to receive, or issue invoices incorrectly.</p>	<p>All departments should be required to use the standard invoice request forms when seeking to raise an invoice for a sundry debtor.</p>	<p>Medium</p>			
<p>Payments and Creditors</p> <p>Our system review has shown that the current procedures for processing any disputed invoices (which do not match the indicated GRN/PO on Radius), may lead to the amount being excluded from the creditors system. This gives a risk that creditors may be omitted from payment runs as they do not form part of the electronic processing. There is also potential for the amounts to be omitted from the year end accounts.</p>	<p>The Authority should ensure that these invoices are identified and included in payment runs or the final accounts as necessary.</p>	<p>Medium</p>			
<p>Accounts</p>					
<p>Fixed Assets – inclusion</p> <p>A review of council house disposals under the Right to Buy legislation has shown that a number of these had in fact been part disposals, where Three Rivers continues to retain ownership of part of the freehold. Detailed review of the entries in respect of these sales indicated that, despite retaining between 40% and 74% of the value of the freehold, the Authority has removed the full value of the asset from fixed assets.</p>	<p>The Authority should ensure that all future sales completed under the legislation are appropriately reflected within the accounts.</p>	<p>High</p>			

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
<p>Fixed assets - inclusion</p> <p>Review of the detailed fixed asset register has identified a discrepancy with the recording of the value of fixed assets, as the valuation has been incorrectly totalled such that the value of a number of assets has been omitted. The value of council houses omitted is (at the existing use valuation) £3,537k.</p>	<p>The Authority should perform a detailed review of the year end valuation of fixed assets to ensure that all assets have been included.</p>	Medium			
<p>Fixed assets Valuation GF properties</p> <p>Three Rivers have a small number of social housing properties included within the General Fund rather than within the HRA. These should be valued in line with the social housing multiplier that is applied to such assets. Our review has shown that the multiplier has not been correctly used on the relevant properties, such that the value of some individual assets is incorrect.</p>	<p>The Authority should perform a review of the social housing properties within the General Fund to ensure the valuations are appropriate.</p>	Medium			
<p>Balance with DCLoG</p> <p>It has become apparent that control failures have resulted in the Authority paying too much NNDR Pool payments to the DCLoG, and incurring a potential loss of income during the year. If changes to control processes are not implemented there is a risk that this may recur.</p>	<p>The Authority should ensure the changes in processes identified by its review are fully implemented.</p>	High			
<p>Building Control Account</p> <p>The Authority operates a building control trading account through which the transactions in respect of the building control function are recorded. Whilst the overall trading account is in deficit, the portion relating to chargeable services has regularly recorded a surplus, £25k arising in 2005/06, giving a recent total surplus of £147k. Under regulations, charges should only be raised with a view to recovering the costs of the service.</p>	<p>Three Rivers should seek ways to remove the surplus, such as by either reducing charges or through its use to assist in improvements to the building control service.</p>	High			

Appendix B – Use of resource recommendations

We have previously provide the recommendations in respect of the Key Line of Enquiry work to members through a detailed report, hence these have not been repeated here.

The area in which work is continuing is Data quality, and we will be issuing a separate report on the findings in this area to Audit Committee once this work has been completed.

Appendix C – Follow up of previous recommendations

Recommendations	Priority	Responsibility	Timing	Action to Date	Resolved	Revised Implementation Date
Previous recommendation – 2004/05						
Our review of implementation of previous recommendations identified the following progress.						
Systems - Debtors segregation of duties Although the small nature of the department makes segregation of duties difficult, attempts should be made to segregate roles as much as possible, or additional controls should be included within the system to compensate.	Medium	Senior Income Officer	March 2006	Have been some further issues with segregation of duties, with further devolution of responsibility now occurring.	Yes	N/A
Systems - Debtors Reconciliation A reconciliation should be performed each month with supporting documentation and the review should be evidenced promptly.	Low	Exchequer Services Manager	August 2005	Debtor reconciliations are being performed in most instances although we have noted some instances where their completion has been delayed.	Partial	
Systems – Payroll new starters All starter details should be authorised prior to the entry onto the payroll system, and only authorised forms should be used to update the system.	Medium	Personnel and Training Officer	December 2005	Payroll details are now receiving appropriate authorisation prior to entry to the system.	Yes	N/A
Systems – Payroll Procedure notes Procedure notes should be updated for all changes in process at the earliest opportunity.	Medium	Personnel and Training Officer	December 2005	Procedure notes have been reviewed and copies provided to all appropriate staff.	Yes	N/A
Systems – Cash and bank Safe keys We recommend that the safe keys should be retained in separate locations.	Medium	Customer Services Manager	September 2005	Safe keys are now being appropriately retained,	Yes	N/A
Systems – NNDR mandatory relief We recommend that a periodic reconfirmation of the validity of mandatory relief be performed.	Medium	Revenues Manager	December 2005	The Authority now performs a periodical confirmation of mandatory relief validity.	Yes	N/A

Recommendations	Priority	Responsibility	Timing	Action to Date	Resolved	Revised Implementation Date
Systems – NNDR Exception Reports We recommend that the use of exception reports is introduced on a more systematic basis.	Medium	Revenues Manager	October 2005	The Authority now performs regular exception reporting runs.	Yes	N/A
Systems – Internal Audit timetable We recommend that the Authority monitors the delivery of internal audit work against the planned timetable and notifies us in advance of any delays that could impact on our work. We further recommend that progress against the plan is reported to the Resources Policy Panel, which has taken on the role of an Audit Committee.	High	Exchequer Services Manager	January 2006	There are now regular meetings held with the external auditor and the progress against plan is reviewed. The Internal Auditor also attends the Audit Committee.	Yes	N/A
Accounts - Fixed asset accounting We recommend that the accounts close down instructions are updated to include more explanation of the factors to be considered when valuing assets and that a specific process is put in place to check that there has been no change in asset use since the previous year.	High	Accountancy Practice / Council's Valuer	March 2006	Although amendments made to the close down instructions, valuations continue to be performed prior to expenditure being incurred, and have therefore not been considered within the valuation.	No	
Accounts - Sundry Debtor We recommend that the process for ensuring adequate income cut-off around the year end is reviewed to ensure that balance sheet errors are identified before the accounts are prepared.	High	Accountancy Practice	March 2006	Additional guidance has been included in the closedown procedures to reduce the existence of errors.	Yes	N/A
Accounts - Bad debt provisions The Authority should ensure that the figures recorded in the accounts reflect the calculated bad debt provisions.	Medium	Accountancy Practice	March 2006	All bad debt provisions have been revised to match the figures calculated	Yes	N/A

Recommendations	Priority	Responsibility	Timing	Action to Date	Resolved	Revised Implementation Date
Accounts - Deferred premium The Authority should, as part of its closure of the accounts in 2005/06, ensure that the deferred premium is completely written off to Revenue.	High	Accountancy Practice	March 2006	The deferred premium has been completely written out of the accounts during 2005/06.	Yes	N/A
Accounts - NNDR reliefs We recommend that the Authority should test software updates in future, prior to their release.	Medium	Exchequer Services Manager / ICT Manager	Ongoing	Software updates have been reviewed prior to their implementation.	Yes	N/A
Accounts - Bank reconciliation That when conducting all future bank reconciliations the Authority should ensure that it uses the correct month end balance.	Medium	Senior Income manager	October 2005	Correct month end balances have been used in the year end reconciliations.	Yes	N/A
Accounts - Statement on Internal Control ("SIC") As part of the further development of its risk management arrangements, the Authority should identify other sources of assurance over the effectiveness of the internal control system and ensure that these are included in the SIC.	High	Director of Corporate Resources / Exchequer Services Manager	December 2005	The SIC has been updated for all sources of assurance that the Authority has been able to identify.	Yes	N/A
Accounts - Academy system The Authority should seek to ascertain from Academy the reasons for the differences and the amendments required within the system to remove them.	Medium	Exchequer Services Manager	November 2005	Funding has been approved to assist in solving the issue, although differences remain at present.	No	
Previous recommendation – 2003/04 Our review of implementation of previous recommendations identified the following progress.						
Systems – IT Back-ups We recommend that the Authority introduces a process to periodically check the integrity of back-up processes.	High	Denis Adams	-	We have noted that the process has been strengthened for some of the systems, but not for all, in particular Housing Rents.	Partial	

Recommendations	Priority	Responsibility	Timing	Action to Date	Resolved	Revised Implementation Date
Systems – Debtors Income recognition We recommend that when invoices for non-periodic income are raised they include the dates the services are provided to more easily assist in determining accurate income cut-off.	High	Susan Townshend	-	Notes on the need to ensure dates are included to allow allocation of income to the correct period have been included in closedown procedures. Some errors are still occurring.	Partial	
Systems – Debtors Exception reports The use of exception reports should be considered where possible, to assist in the monitoring of sundry debtors.	Medium	Susan Townshend		The system still does not generate exception reports, with reliance being placed on other control processes to identify issues.	No	
Systems – Cash segregation of duties We recommend that the segregation of duties be considered such that cashiers have no involvement with the debtors system.	Low	Susan Townshend	-	Work in 2005/06 has identified that this continues to be an issue.	No	
Systems – Council Tax exception reports We recommend that the Authority investigates producing exception reports from the system and ensures that the process of review and authorisation is evidenced on the report.	Medium	Susan Townshend	-	The system still does not produce exception reports, with reliance being placed on the daily and monthly reconciliation processes to identify issues.	No	
Systems – Housing rents exception reports We recommend that the use of exception reports is introduced on a more systematic basis.	Medium	Helen Ratcliffe	-	The system still does not produce exception reports, with reliance being placed on other control processes to identify issues.	No	
Systems – Housing rents procedure notes We recommend that the procedure notes are updated periodically to cover all areas of operation.	Medium	Helen Ratcliffe	-	The procedure notes have still not been updated for recent changes.	No	

Recommendations	Priority	Responsibility	Timing	Action to Date	Resolved	Revised Implementation Date
Systems – Risk assessment Whilst risks are considered in all reports that go to Members, there is little evidence that the risk assessment has resulted in a change in behaviour. It currently appears to be an add on to the decision making process rather than something influencing day to day management	Medium	Susan Townshend	June 2005	A revised risk management strategy has been implemented and has assisted in changing behaviour and embedding risk management as a process within the Authority.	Yes	N/A
Systems – Monitoring of financial systems No performance measures are in place for monitoring financial systems and some important weaknesses identified by Internal and External audit have not been resolved quickly.	Medium	David Gardner / Sue Townshend / Resources Policy Panel	September 2005	Issues identified by Internal and External audit are reported to Audit committee who review progress against the detailed recommendations arising.	Yes	N/A
Systems – Internal audit quality plan A quality plan should be produced and agreed between the IA provider and the Authority. This should set out the service that will be provided and the performance indicators that the service will be measured against.	High	Sue Townshend	April 2004	This has been developed as part of the 2005/6 plan, and is discussed on a monthly basis by Internal Audit and the Authority.	Yes	N/A
Systems – Internal audit risk assessment As part of the 2004/05 tendering process the Authority should ensure that the Internal Audit contract should include a requirement to carry out an annual risk assessment, where possible, taking account of the key risks identified from the risk management process and the need for independent assurance in these areas.	High	Susan Townshend	-	The agreed contract for Internal Audit services includes the need for an annual assessment of risk and this has been performed..	Yes	N/A
Systems – Internal audit conclusions On completion of a test, a conclusion regarding the effectiveness of the control being tested should be documented.	Medium	Head of Internal Audit	-	We have noted some improvement in this, although there are still cases where Internal Audit have not concluded on the effectiveness of the controls tested within our key control evaluations.	Partial	

Recommendations	Priority	Responsibility	Timing	Action to Date	Resolved	Revised Implementation Date
<p>Systems – Internal audit control coverage</p> <p>In prior years we noted that Internal Audit's work did not cover the evaluation of some of the key controls that we considered to be material to our opinion on the accounts.</p> <p>We met with Internal Audit to discuss our requirements before finalising our 2004/05 audit plan, to ensure the most effective use of the combined audit resource.</p>	Medium	Head of Internal Audit	-	The change in our approach for 2005/06 has resulted in an in the level of controls covered by Internal Audit. However, their remain instances where the work carried out by Internal Audit did not sufficiently meet the control objective to allow us to conclude on the effectiveness of the control.	Partial	
<p>Accounts - Stock control procedures</p> <p>When performing future stock takes the Authority should ensure that a check is carried out against the stock quantities counted and the valuation of stock lines at cost.</p> <p>In the absence of a perpetual inventory stock system, stock counts should be undertaken at the Authority's year end.</p>	Medium	Accountancy Practice	March 2006	The stock takes for 2005/06 have been performed at the end of the year, and procedures have been revised to ensure that verification will be performed and certified.	Yes	N/A
<p>Accounts - Fixed Asset register</p> <p>A detailed fixed asset register should be compiled for all assets owned by the Council and periodically compared to the physical assets.</p>	High	Accountancy Practice	March 2006	The Authority has compiled an asset register for the plant and equipment assets that are owned by the Authority.	Yes	N/A
<p>Accounts - FRS17 information</p> <p>The Authority should ensure that, as part of the preparation of the accounts, it ensures it has sufficient comfort over the source data used by the Actuary in calculating the FRS17 disclosures.</p>	Medium	Director or Corporate Resources	March 2006	The Authority has, as part its year end procedures, performed a review of the FRS17 information for reasonableness, including that of the figures for staff who have left the Authority.	Yes	N/A
<p>Accounts - Closedown procedures</p> <p>We recommend that appropriate resource is allocated to preparing for the audit in future years and that there is monitoring of the detailed accounts timetable to identify any issues at an early stage.</p>	High	Accountancy Practice	March 2006	The Authority has achieved the earlier closedown of the accounts and ensured they were prepared for the audit. Whilst some improvements can be made, these are minor.	Yes	N/A

Recommendations	Priority	Responsibility	Timing	Action to Date	Resolved	Revised Implementation Date
<p>Accounts - Housing Benefit estimates</p> <p>We recommend that the basis for estimating the benefits claim balance in the year end accounts is reviewed in the light of actual claims in recent years.</p>	Medium	Exchequer Services Manager	March 2006	The basis for the estimation has been reviewed, although due to the timing of the claim preparation and the draft accounts there are likely to be continuing differences and an increased difference has been noted this year.	Partial	N/A
<p>Accounts - Grant claims</p> <p>In previous years we have recommended that the Authority should appoint a co-ordinator to monitor the preparation and submission of all grant claims to the relevant government departments and we would reiterate this recommendation.</p>	Medium	Accountancy Practice	March 2006	The Authority has yet to appoint a co-ordinator for the grants process.	No	

Appendix D – Draft Letter of Representation

PKF
Farringdon Place
20 Farringdon Road
London
EC1M 3AP

27 September 2006

Dear Sirs

Accounts of Three Rivers District Council for the year ended 31 March 2006

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of other officers and members of the Authority, the following representations given to you in connection with your audit of the Authority's Financial statements for the year ended 31 March 2006.

1. Completeness of information

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Authority have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and committee meetings (held during the year and up to the date of this letter) have been made available to you.

2. Compliance with law and regulations

We are not aware of any possible or actual instances of non-compliance with law or regulations which are central to the operations of the Authority, or which would otherwise have a potentially material effect on the Financial statements.

3. Transactions with related parties

We are satisfied that the disclosure in the Financial statements of related party transactions is appropriate and complete and contains all the elements necessary for an understanding of the Accounts.

4. Fraud

We acknowledge our responsibility for the design and implementation of internal control to prevent and detect fraud and we have disclosed to you the results of our assessment of the risk that the Financial statements could be materially misstated as a result of fraud.

We have disclosed to you our knowledge of fraud or suspected fraud affecting the Authority and of any allegations of fraud or suspected fraud affecting the Financial statements communicated to us by employees, former employees, analysts, regulators or others.

5. Contingent liabilities

We are not aware of any significant contingent liabilities, including pending claims, proceedings or litigation involving the Authority.

6. Unadjusted differences

We confirm that we have not adjusted for the misstatements listed in the appendix to this letter. We consider that the adjustments would not influence the users of the accounts and therefore do not consider that the unadjusted misstatements are material.

7. Subsequent events

There have been no events since the balance sheet date which necessitate revision of the figures included in the Financial statements, or inclusion of a note thereto. Should material events occur, which may necessitate revision of the figures included in the Accounts or inclusion of a note thereto, we will advise you accordingly.

8. Statement of Internal Control

We are satisfied that the Statement of Internal Control appropriately reflects the circumstances of the Authority and that the stated actions to enhance the controls will be undertaken.

Yours faithfully

Director of Corporate Resources
Signed on behalf of Three Rivers District Council

Appendix E – Uncorrected misstatements

The table below details the potential unadjusted differences recorded during the audit that have not been adjusted for currently within the Financial statements:

Unadjusted differences	Income £'000	Expenses £'000	Assets £'000	Liabilities £'000	Reserves £'000
Adjustment to reflect the writing off of the premium on early redemption of debt that was incorrectly deferred in the accounts		(81)			81
The over valuation of general fund properties as a result of the application of the incorrect percentage to arrive at existing use value.			(296)		296
Total Unadjusted Differences	-	(81)	(296)	-	377
Net under / overstatement of I&E = £81k					

Appendix F – Draft Auditors Report

Independent auditor's/auditors' report to the Members of Three Rivers District Council

Opinion on the financial statements

We have audited the financial statements and pension fund accounts of Three Rivers District Council for the year ended 31 March 2006 under the Audit Commission Act 1998. The financial statements comprise the Consolidated Revenue Account, the Housing Revenue Account, the Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement and the related notes. The financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Three Rivers District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 the financial position of the Authority and its income and expenditure for the year. We review whether the statement on internal control reflects compliance with CIPFA's guidance (insert title and date). We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

We read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended.

Signed _____ Date _____

PKF (UK) LLP
Farringdon Place, 20 Farringdon Road, London, EC1M 3AP

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

The authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor's Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent me/us from concluding that the authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We are required by section 7 of the Local Government Act 1999 to carry out an audit of the authority's best value performance plan and issue a report:

- certifying that we have done so;
- stating whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and we are satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, in all significant respects, Three Rivers District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006.

Best Value Performance Plan

We issued our statutory report on the audit of the authority's best value performance plan for the financial year 2005/06 on 20 December 2005. We did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Certificate

We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Signed _____ Date _____

PKF (UK) LLP
Farringdon Place, 20 Farringdon Road, London, EC1M 3AP