Grant Thornton

Three Rivers District Council

Audit of Accounts 2008/09.

Annual report to those Charged with Governance 2008/09

September 2009

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Appendices

1 Executive Summary

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the objectivity of the engagement team
- nature and scope of the audit work
- the form of reports expected.

1.1 Purpose of Report

This report has been prepared for the benefit of discussion between Grant Thornton UK LLP and the Audit Committee of Three Rivers District Council ('the Authority'). The purpose of this report is to highlight the key issues arising from the audit of the Authority's statement of accounts for the year ending 31 March 2009.

The document is used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) (ISAUK) 260, and to report audit findings to "those charged with governance", designated as the Audit Committee.

The Authority is responsible for the preparation of a statement of accounts which records its financial position as at 31 March 2009 and its income and expenditure for the year then ended. We as auditors are responsible for undertaking an audit and reporting whether, in our opinion, the Authority's statement of accounts represents a true and fair view of the financial position.

Under the Audit Commission's Code of Audit Practice ('the Code') we are also required to reach a formal conclusion on whether the Authority 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 the course of this report.

1.2 Status of audit

We were presented with the draft statement of accounts on 26 June 2009. We have performed our final accounts audit in accordance with the Audit Commission's Code of Audit Practice and applicable auditing standards.

At the time of writing this report the audit of the Hertfordshire County Council Pension Scheme is yet to be completed by the Audit Commission. Confirmation is expected on 11 September 2009. This may impact upon the Authority's pension liability and disclosures in the accounts. There were a number of other minor completion points outstanding at this point, which are detailed in Section 2.2.

The fieldwork supporting the VFM conclusion is based on our Use of Resources (UoR) audit. This work has been completed sufficiently for us to provide our conclusion.

The appointed day for electors to ask the auditor questions on the accounts this year was 26 August 2009. However, we did not receive questions from the public on this date.

1.3 Overall conclusions

The Authority continues to prepare good quality accounts that are free from material misstatements and which are supported by good quality working papers. The accounts required a small number of changes to disclosures in the notes as a result of matters identified during the audit process and there are also a small number of minor misstatements which were not-adjusted on grounds of materiality. These are detailed in Section 2 of this report. We have also made a number of recommendations which are set out in Section 2 and summarised in Appendix D.

The key issue arising from the audit was that the bank reconciliation has not been balanced on a monthly basis during the year, following the retirement of the officer previously responsible in June 2008. This was noted in our 2007/08 audit report and continues to be an issue in 2008/09. A number of reconciling items remained at year end but this has been reduced to an un-reconciled difference of less than £4,000 and we were satisfied that the bank balance was not materially misstated as a result. However we consider the bank reconciliation is a fundamentally important control that, if not functioning correctly, exposes the Authority to the risk of potential fraud and material misstatement in the future.

Statement of accounts opinion

We anticipate providing an unqualified opinion on the Authority’s statement of accounts, prior to the statutory deadline of 30 September 2009.

Value for Money conclusion

In providing our opinion on the statement of accounts, we are required to reach a conclusion on the adequacy of the Authority's arrangements for ensuring economy, efficiency and effectiveness in its use of resources ('the Value for Money conclusion').

Our Value for Money conclusion is informed by our work on Use of Resources. In order for us to provide an unqualified conclusion, the Authority needs to achieve a score of at least 2 for each Key Line of Enquiry ('KLOE'). We are pleased to report that the Authority has met the requirements for all the scored KLOE. Therefore, we propose to give an unqualified Value for Money conclusion. Further details of the assessment are set out in Section 3 of this report.

1.4 The Way forward

We will continue to work with the Authority to ensure that outstanding issues are completed in time for the accounts opinion to be formally signed in accordance with the statutory deadline of 30 September 2009.

We are required to provide an audit opinion on the consolidation pack that is to be completed as part of the Whole of Government Accounts. This work is not covered by our opinion on the Authority's accounts. We will complete this work once the accounts audit has been finalised and in time for the 1 October deadline.

1.5 Acknowledgements

We would like to record our appreciation for the positive co-operation and assistance provided to us by the finance department and other staff at the Authority during the course of our audit.

Grant Thornton UK LLP

4 September 2009

2 The Accounts Opinion

2.1 Introduction

This section provides a summary of our findings arising from the audit of the statement of accounts. This includes matters arising from our evaluation of key controls and comment on the Authority's overall financial position.

2.2 Status of the audit

We carried out our audit in accordance with the audit plan presented to the Audit Committee in March 2008. Our audit is substantially complete.

The following finalisation procedures are outstanding:

- Receive confirmation from the auditors of the Hertfordshire County Pension Fund, that we can place reliance on the figures presented in the Authority's financial statements, which were provided by the County's Actuaries. This is expected on the 11th September 2009.
- Obtain and review the Authority's letter of management representation.
- Update our post balance sheet events review, to the date of signing the accounts.
- Review of the final version of the statement of accounts, including the Annual Governance Statement, to ensure that agreed adjustments have been made.
- We are awaiting receipt of bank confirmation letters from Britannia Building Society & West Bromwich Building Society.

2.3 Audit Opinion

Statement of accounts Opinion

We expect to issue an unqualified audit opinion on the Authority's statement of accounts. This is subject to the approval of the statement of accounts by the Audit Committee on 9 September 2009 and completion of our finalisation procedures.

A number of issues arose during the course of the audit which, whilst not considered material to the reported financial performance, should be considered by the Audit Committee. These are set out below.

Where appropriate, we have made recommendations for improvement, as set out in the agreed action plan at Appendix C.

2.4 Financial Performance

The Authority has reported an Income and Expenditure account deficit of £3.64 million which is in line with the revised medium term financial plan. In 2007/08 the Authority reported a deficit of £295.77 million, which was exceptionally large due to the transfer of housing stock that took place in that year.

The Statement of Movement on the General Fund Balance adjusts the I&E deficit to exclude specific costs, which are determined by statute, in order to calculate the impact on the Council's General Fund. This statement shows that the Authority has delivered a net surplus which increases the general fund by £5.18 million. The Authority revised its budget during the year in order to set council tax for 2009/10, including a projected increase in the general fund of £5.02 million and therefore the variance against actual outturn was 3.2% in excess of the revised target (0.4% of gross budget).

The Authority managed revenue expenditure within the revised budget for the year. We were also pleased to note that expenditure against the capital budget was delivered broadly in line with delivery plans for the year, which reflects an improvement on the level of under-spend and rephrasing which has been reported in prior years.

2.5 Issues Arising in the Year

There are a number of matters arising in the year which should be considered by those charged with governance when approving the financial statements. These are set out below:

We were pleased to note that in addition to the cyclical programme of asset revaluations, officers also undertook an impairment review of land and buildings not subject to revaluation in year. This helped to ensure that asset values reflected the downward movement in prices as a result of the economic downturn. Impairments to asset values have been recognised appropriately in the statement of accounts.

Local Authority investment management practices have come under close scrutiny following the collapse of the Icelandic Banks. The Authority's investment policy is to invest in domestic banks and building societies and officers continue to monitor credit ratings and future prospects of financial institutions that the Authority is authorised to invest in, in order to minimise the risk of losses, whilst securing competitive returns. The Audit Commission has required us to complete a review of Treasury Management arrangements at the Authority, which will incorporate the work undertaken by the Council as appropriate. We are due to report back to the Audit Commission on our findings in October 2009.

Following Audit Commission guidance, we have also reviewed members and officers expense claims and have performed testing where appropriate. The application of expenses and allowances was found to be consistent with accepted practice and the policies set out in the Council Constitution.

We noted that the Council had successfully applied to the Secretary of State for Communities and Local Government (DCLG) for permission to close the HRA account, following the transfer of its Housing Stock in March 2008. The residual elements of the HRA have been transferred to the Authority's main financial statements for 2008/09.

2.6 Internal Control Issues

We have undertaken sufficient work on key financial controls for the purpose of designing our programme of work for the statement of accounts audit. Our evaluation of the Authority's key financial control systems did not identify any control issues presenting a material risk to the accuracy of the statement of accounts.

We have reviewed the work of Internal Audit and concluded that the scope and conduct of the testing was appropriate for us to rely on in understanding key financial systems of the Authority. We have therefore taken assurance from the work of internal audit to support our responsibilities in documenting and understanding material systems used to prepare the statement of accounts. There were no significant issues that would impact on our planned audit strategy as reported to the Audit Committee in June 2009.

We performed a high level review of the general IT control environments as part of the overall review of the internal control system and concluded that there were no material weaknesses within the IT arrangements that could adversely impact our audit of the accounts.

A number of systems and internal control issues arose from our audit which are noted below:

Bank Reconciliation.

The bank reconciliation has not been balanced on a monthly basis during the year, following the retirement of the officer previously responsible in June 2008. This had been noted in the 2007/08 audit report and continued to be an issue during 2008/09. In addition we noted that there was a systematic weakness in procedures that resulted in electronic payments not being matched to receipts, which had made the reconciliation difficult to complete. As a result of these issues, a number of reconciling items remained at year end. After year end, the unreconciled difference had been reduced to less than £4,000 and we were satisfied that the bank balance was not materially misstated as a result. We have also satisfied ourselves that the discrepancies do not present evidence of attempted fraud. However, we consider that the bank reconciliation is a fundamentally important control that, if not functioning correctly, exposes the Authority to the risk of potential fraud and material misstatement in future periods.

We recommend that the bank accounts are fully reconciled at the earliest opportunity and that weaknesses in the system are addressed as a matter of priority.

Sundry Debtors.

During our testing of sundry debtors, an invoice of £19,750 (reference no 7101298481) relating to T.Mobile was paid by the debtor on the 31 March 2009 and the payment had cleared through the bank account. However we found that the amount had remained within the sundry debtors balance. We were satisfied that this was not indicative of a systematic error with material impact on the debtor value disclosed. However, the Authority should investigate why this occurred to identify if there are any control implications around the closure of the accounts, particularly in the context of weaknesses in the bank reconciliation process noted above.

We recommend that the Authority investigate how an invoice of £19,750 (reference no 7101298481 relating to T.Mobile) was paid on the 31 March 2009 and had cleared through the bank but remained accounted for under sundry debtors in the accounts.

2.7 Adjusted Misstatements

There were no material misstatements identified during the course of the audit.

We identified the following non-material adjustments which finance officers have agreed to amend:

- NNDR receipts from pool was incorrectly disclosed as £4.84 million in the notes to the accounts whereas the I & E, Cashflow Statement and government notification indicated that the value should be £4.95 million (a £111,000 difference).
- There was an error in the presentation of the cashflow in that cash paid to and on behalf of employees was overstated by £0.46 million, and the operating cash payments cash flow was understated by £0.46 million. Note that this error only affects the cash flow statement and has no implications for other parts of the financial statements.
- We noted that in note 32 Financial Instruments, the Authority had disclosed Investments and Cash Overdrawn, but had not disclosed Trade Creditors under Borrowings, and Trade Debtors under Investments, as is required in the SORP.
- We recommended that the disclosure on accounting policy note 18 under the heading Impairment, be expanded to provide more detail.
- Review of the related party note in the draft accounts states that in at least one case the annual declaration of interests, had not been correctly updated for 2008/09, indicating that the disclosure was not up to date. We have asked the Authority to adjust this note accordingly.

All adjusted misstatements are scheduled at Appendix B. The aggregate of these adjustments has not impacted on the Income and Expenditure account deficit or on General Fund balances. This is consistent with prior year performance on the number and nature of audit adjustments identified.

2.8 Unadjusted Misstatements

There were a number of unadjusted misstatements which were not processed by management on grounds of materiality. We do not consider these to have a significant baring on the validity of the reported accounts, however it is important that those charged with governance satisfy themselves that these misstatements do not warrant adjustment prior to approving the financial statements. These are:

- Grants & contributions deferred on the face of the balance sheet is £3.27 million but the detailed working papers indicated that this should be £3.28 million (a difference of £14,000). This is due to a historic error carried forward from prior years. See recommendation below.
- The net increase in the revaluation reserve as result of the revaluation and impairment of assets in year (note 22a) is £1.27 million but in the Statement of

Recognised Gains & Losses (STRGL) the figure for Surplus Arising on the Revaluation of Fixed Assets is £1.15 million, a difference of £116,000. This is due to an additional item (a loss of £116,000) which has been incorrectly included under this heading in the STRGL. The amount relates to grants from third parties which were received and accounted for through the I&E account and transferred to a reserve to fund future capital expenditure (a reserve in the bottom half of the balance sheet), but elements of which have been utilised in year on capital expenditure (via Grants and Contributions Deferred in the top half of the balance sheet). This has created an imbalance in the STRGL. While this is not considered to materially affect the fair presentation of the accounts, it reflects incorrect accounting treatment.

We recommend that the Council review and amend accounting policies for accounting for grants from third parties, including section 106 income, in order to ensure that subsequent expenditure on capital and revenue elements are correctly treated. Where amounts are initially treated as revenue grants, an appropriate adjustment should be made in the accounting record, where expenditure is capitalised (or vice versa) in order to avoid the occurrence of balancing items in the STRGL. This may require detailed analysis of amounts received in prior years including the £116,000 balancing item currently disclosed in the STRGL under Surplus Arising on the Revaluation of Fixed Assets in the 2008/09 accounts.

- During our review of fixed assets we noted there had been a revision to the accounting treatment of land and buildings transferred from the HRA account, at Gade View Gardens and 16 Bridlington Road. Gade View Gardens is currently disclosed in the balance sheet as Non-Operational Assets, Other. Bridlington Road is currently disclosed in the balance sheet as Operational Assets, Council Dwellings. These assets were former social housing assets which had been excluded from the LSVT transfer of housing stock to Thrive Homes. Both these assets carried nil valuations at the start of the year due to an initial expectation that they would be included in the transfer. However, having been retained by the Council, they have been restated at values of £1.7m and £130.000 respectively, reflecting their open market value. This indicates that the assets were undervalued in the prior year. As this is not considered to have a fundamental impact on the presentation of the accounts, adjustment to the prior year fixed asset balances is not required.

2.9 Annual Governance Statement ('AGS')

We have examined the Authority's arrangements and process for compiling the AGS. In addition, we read the AGS and consider whether the statement is in accordance with our knowledge of the Authority. Our audit has not identified any proposed adjustments.

2.10 Next Steps

The Audit Committee is required to approve the annual accounts of the Authority for the year ended 2008/09.

Finally, we would like to draw to the attention of those charged with governance further significant changes to the basis on which the statement of accounts will be prepared in future years. The most significant of which is the full implementation of International Financial Reporting Standards ("IFRS") into the 2010/11 accounts. It is important that authorities start planning now, as there will be significant changes to the accounts under IFRS. Our experience in other sectors shows that audited bodies that are well prepared for the transition to IFRS have fewer amendments to their accounts than those who are not. 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.

3 The Value for Money Conclusion

Scoring scale:
1 - Below minimum requirements - inadequate performance
2 - Meets the basic requirements - in line with national expectations
3 - Consistently above expected requirements – performing well
4 - Well above minimum requirements – performing strongly

3.1 Introduction

This section sets out the basis for our Value for Money conclusion and summarises our work on Use of Resources (UoR) to date. In 2008/09 a new basis for the assessment was introduced for the UoR Assessment. It is important to note that the basis for the assessment has changed and therefore the scores are not directly comparable with prior years.

3.2 Our Conclusion

Based on the Use of Resources assessment, we propose to give an unqualified value for Money conclusion. A score of 2 is the prevailing score nationally for organisations subject to the assessment and this score is in line with other district councils within the County of Hertfordshire.

3.3 Provisional Scores

In order for us to provide an unqualified conclusion, the Authority needed to achieve a score of at least 2 for each Key Line of Enquiry (KLOE). This criteria has been achieved and our proposed assessment for the Authority is summarised by KLOE 'Theme' in table 1.

Please note that the scores set out in table 1 are provisional at this stage as they are subject to national moderation by the Audit Commission. Also note that KLOE within Theme 3 will be assessed on a 3 year cycle for district councils and therefore KLOE 3.1 and 3.2 were not assessed in 2008/09.

Table 1: Provisional UoR Scores

1. Managing Finances	**2009**
1.1 Financial Planning & Delivering Priorities	3
1.2 Understanding Costs	2
1.3 Reporting Finances & Performance	2
Theme Score	**2**

2. Governing the Business	**2009**
2.1 Commissioning & Procurement	2
2.2 Data Quality	2
2.3 Principles of Governance	2
2.4 Risk & Internal Control	2
Theme Score	**2**

3. Managing Other Resources	2009
3.1 Use of Natural Resources	Not Assessed
3.2 Asset Management	Not Assessed
3.3 Managing People	2
Theme Score	**2**

Overall UoR Score	2009
	2

3.4 Key Messages

The outcome of our Use of Resources audit will be reported once the national quality control process has been completed. However, we consider it helpful to raise the following points at this stage, in order to help the Authority to move towards level 3 performance in these areas in 2009/10 where this is considered appropriate. These specific areas have been raised as, in our view, they reflect areas that the Council should focus on for the 2009/10 assessment.

KLOE 1.3 Internal Management Information

We found that the Authority produced detailed and comprehensive management information to the relevant Scrutiny Committees for monitoring purposes. However two areas of development were noted:

- Financial information, performance against key service performance indicators and risk management were reported separately and on different timetables, with minimal analysis provided to link the areas together. Under UoR, there is an expectation that at level 3, organisations will regularly present integrated management information to members, to demonstrate how expenditure is contributing to service outcomes as experienced by local residents. For example, the impact that an increase (or decrease) in the annual budget is having on associated performance targets (e.g. National Indicators), and the risk associated with not achieving these targets. This type of information should enhance the ability of elected members to direct resources to priority areas, either at the planning stage, or through intervention during the year. It also allows the Authority to better understand and communicate the extent to which it is achieving good value for money.
- The level of information provided to committee members tended to be highly detailed and complex, both in regard to the budget monitoring information in year, and annual budget and service planning information. The level of analysis undertaken, and the way that budget monitoring is geared to refreshing of the medium term financial plan on a regular basis, reflect well on the Authority's depth of planning. However, the detailed manner in which this is presented may obscure the clarity of the information which could ultimately impact on the Members ability to make effective decisions. There is an expectation that a level 3 organisation will make use of highly summarised information 'dashboards',

which focus on the key risks and help facilitate focused and timely decision making. The detailed analysis can be provided to inform action in specific areas.

KLOE 2.2 Data Quality

We noted that, although improvements had been made in recent years and basic procedures are adequate, the Authority continued to lack a consistent and robust approach to ensuring data quality, particularly in regard to performance data reported against the new National Indicators. This is a dominant KLOE in the UoR assessment and therefore continued level 2 performance in this KLOE could prevent the achievement of an overall level 3, regardless of good performance in other areas. The integrity of the performance data reported against National Indicators is vital as it is the primary source of evidence we have for the quality of services the Authority provides. The recent Internal Audit report from Deloitte & Touch LLP sets out a number of areas for improvement (e.g. more robust data checking within the services) and we also recommend that the KLOE guidance is reviewed in order to understand how performance will be assessed.

KLOE 3.1 Use of Natural Resources

This KLOE will be assessed for the first time in 2009/10 at district councils and we recommend that the KLOE guidance is reviewed in order to understand the basic criteria against which this will be assessed. Emphasis for level 3 performance will be placed on outcomes, and the Council will be expected to be able to demonstrate not just that plans for a sustainable environment are in place, but also that tangible outcomes have been achieved, for example, a year on year reduction in carbon emissions.

KLOE 3.2 Asset Management

Again, this KLOE will be assessed for the first time in 2009/10 at district councils and we recommend that the KLOE guidance is reviewed in order to understand the basic criteria against which this will be assessed. Emphasis for level 3 performance will be placed on outcomes, and the Council will be expected to be able to demonstrate not just that it has efficient plans for effective asset management which delivers value for money, but also that tangible outcomes have been achieved. For example, demonstrating that surplus land and buildings have been identified and sold in year, contributing to the general fund, or redeveloped to meet local needs, according to a defined estates strategy.

3.5 The Way forward

The outcome of our Use of Resources audit will be reported in full in a separate report to be presented to the Audit Committee in November 2009. This will include guidance on the level 3 requirements across all three KLOE themes.

A Reporting requirements of ISA 260

The principal purpose of the ISA 260 report is:

- To reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and those charged with governance.
- To share information to assist both the auditor and those charged with governance fulfil their respective responsibilities.
- To provide to those charged with governance constructive observations arising from the audit process.

Matters Reported under ISA 260

Area	Detail
Independence	We are able to confirm our independence and objectivity as auditors and draw attention to the following points: • 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 every 5 years • We comply with the Auditing Practices Board's Ethical Standards. • We have not charged fees for additional services in excess of the main audit fee (£107,000 excluding VAT).

Area	Detail
Audit Approach	Our approach to the audit was set out in our 2008/09 audit plan and our audit strategy document for the year ending 31 March 2009. 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 statement of accounts 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 Authority for final accounts audit purposes. • In 2008/09 we have been able to place reliance on the work of internal audit in respect of understanding and documenting key accounting systems.
Accounting Policies	We consider that the Authority has adopted appropriate accounting policies in the areas covered by our testing. Accounting policies were in accordance with the 2008 local government Statement of Recommended Practice. The Audit Committee should confirm that it is satisfied that the accounting policies adopted are the most appropriate, as required by FRS 18. We have considered the Authority's financial plans in regard to the appropriateness for the Authority to account on a going concern basis and find this to have been appropriate.
Material Risks	We have requested from the Authority a letter of management representations, to state that there are no additional material risks and exposures as at the date of the audit report, which should be reflected in the statement of accounts. We will also perform our own audit procedures to ensure that all significant risks and exposures to the Authority have been recognised in the accounts as at the date of the audit report.

Area	Detail
Audit Adjustments	We have discussed with management a number of adjustments to the accounts primarily to improve the fair presentation of the statement of accounts as well as the clarity and presentation of disclosure notes. These adjustments are summarised in Appendix B.
Unadjusted Errors	From the audit results mentioned previously we have identified no unadjusted errors. These are disclosed in Appendix C.
Other Matters	No other matters have been noted.

B Appendix: Adjustments to the Statement of Accounts

The following table presents all significant adjustments made to the accounts arising from the audit process which have been processed and agreed with Officers in the Authority.

Adjustment Type

- **Misstatement** - A change to the value of a balance presented in the statement of accounts.
- **Classification** - The movement of a balance from one location in the accounts to another.
- **Disclosure** - A change to the way in which a balance is disclosed or presented in an explanatory note.

Adjustment type	Accounts balance	Impact on statement of accounts
Disclosure	Notes to the Accounts	NNDR receipts from pool was incorrectly disclosed as £4.84 million in the notes to the accounts whereas the I & E, Cashflow Statement and government notification indicated that the value should be £4.95 million (a £111,000 difference).
Disclosure	Cashflow Statement	There was an error in the presentation of the cashflow in that cash paid to and on behalf of employees was overstated by £0.46 million, and the operating cash payments cash flow was understated by £0.46 million. Note that this error only affects the cash flow statement and has no implications for other parts of the financial statements.
Disclosure	Notes to the Accounts	We noted that in note 32 Financial Instruments, the Authority had disclosed Investments and Cash Overdrawn, but had not disclosed Trade Creditors under Borrowings, and Trade Debtors under Investments, as is required in the SORP

Adjustment type	Accounts balance	Impact on statement of accounts
Disclosure	Notes to the Accounts	Review of the related party note in the draft accounts states that in at least one case the annual declaration of interests, had not been correctly updated for 2008/09, indicating that the disclosure was not up to date. We have asked the Authority to adjust this note accordingly.
Disclosure	Notes to the Accounts	We recommended that the disclosure on accounting policy note 18 under the heading Impairment, be expanded to provide more detail.

C Appendix: Summary of Unadjusted Misstatements

The following table presents errors arising from the audit process which have not been adjusted on the grounds of Materiality.

Adjustment type	Accounts balance	Impact on statement of accounts
Misstatement	Grants & Contributions Deferred on the face of the balance sheet.	Grants & contributions deferred on the face of the balance sheet is £3.27 million but the detailed working papers indicated that this should be £3.28 million (a difference of £14,000). This is due to a historic error carried forward from prior years.
Classification	Statement of Recognised Gains & Losses (STRGL)	The net increase in the revaluation reserve as result of the revaluation and impairment of assets in year (note 22a) is £1.27 million but in the Statement of Recognised Gains & Losses (STRGL) the figure for Surplus Arising on the Revaluation of Fixed Assets is £1.15 million, a difference of £116,000. This is due to an additional item (a loss of £116,000) which has been incorrectly included under this heading in the STRGL. The amount relates to grants from third parties which were received and accounted for through the I&E account and transferred to a reserve to fund future capital expenditure (a reserve in the bottom half of the balance sheet), but elements of which have been utilised in year on capital expenditure (via Grants and Contributions Deferred in the top half of the balance sheet). This has created an imbalance in the STRGL. While this is not considered to materially affect the fair presentation of the accounts, it reflects incorrect accounting treatment.

Adjustment type	Accounts balance	Impact on statement of accounts
Misstatement	Operational Assets, Council Dwellings. Non-Operational Assets, Other (Prior year).	During our review of fixed assets we noted there had been a revision to the accounting treatment of land and buildings transferred from the HRA account, at Gade View Gardens and 16 Bridlington Road. Gade View Gardens is currently disclosed in the balance sheet as Non-Operational Assets, Other. Bridlington Road is currently disclosed in the balance sheet as Operational Assets, Council Dwellings. These assets were former social housing assets which had been excluded from the LSVT transfer of housing stock to Thrive Homes. Both these assets carried nil valuations at the start of the year due to an initial expectation that they would be included in the transfer. However, having been retained by the Council, they have been restated at values of £1.7m and £130.000 respectively, reflecting their open market value. This indicates that the assets were undervalued in the prior year. As this is not considered to have a fundamental impact on the presentation of the accounts, adjustment to the prior year fixed asset balances is not required.

D Appendix: Audit Recommendations

The following table presents recommendations arising from the audit.

Recommendation	Priority	Management Response	Responsible Officer	Action Date
We recommend that the bank accounts are fully reconciled at the earliest opportunity and that weaknesses in the system are addressed as a matter of priority.	High	Agreed	Head of Finance	Sept 2009

Recommendation	Priority	Management Response	Responsible Officer	Action Date
We recommend that the Council review and amend accounting policies for accounting for grants from third parties, including section 106 income, in order to ensure that subsequent expenditure on capital and revenue elements are correctly treated. Where amounts are initially treated as revenue grants, an appropriate adjustment should be made in the accounting record, where expenditure is capitalised (or vice versa) in order to avoid the occurrence of balancing items in the STRGL. This may require detailed analysis of amounts received in prior years including the £116,000 balancing item currently disclosed in the STRGL under Surplus Arising on the Revaluation of Fixed Assets in the 2008/09 accounts.	High	Agreed	Head of Finance	Jun 2010
We recommend that the Authority investigate how an invoice of £19,750 (reference no 7101298481 relating to T.Mobile) was paid on the 31 March 2009 and had cleared through the bank but remained accounted for under sundry debtors in the accounts.	Medium	Agreed	Head of Finance	Oct 2009