

**DRAFT COPY**

Grant Thornton UK LLP  
Enterprise House  
115 Edmund Street  
Birmingham  
B3 2HJ

29 September 2010

Dear Sirs

**South Derbyshire District Council**  
**Financial Statements for the Year Ended 31 March 2010**

We confirm to the best of our knowledge and belief that the following representations are made on the basis of appropriate enquiries of other officers and members with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the following representations to you in respect of your audit of the above financial statements.

- i We acknowledge our responsibilities for ensuring that the financial statements are prepared which give a true and fair view of the financial position of the Council in accordance with the SoRP and for making accurate representations to you.
- ii As far as we are aware:
  - a there is no relevant audit information of which you are unaware
  - b we have taken all steps that we ought to have taken to make ourselves aware of any relevant audit information and to establish that you are aware of that information
- iii We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.
- iv All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly recorded in the accounting records and reflected in the financial statements.
- v All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.
- vi We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Where it was necessary to choose between estimation techniques that comply with the 2009 SoRP, we selected the estimation technique considered to be the most appropriate to the Council's particular circumstances for the purpose of giving a true and fair view. Those estimates reflect our judgment based on our knowledge and

experience about past and current events and are also based on our assumptions about conditions we expect to exist and courses of action we expect to take.

- vii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for FRS 17 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).
- viii The financial statements are free of material misstatements, including omissions.
- ix We acknowledge our responsibility for the design and implementation of internal control to prevent and detect error and fraud.
- x We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xi We are not aware of any irregularities, including fraud, involving management or employees of the Council. We are not aware of any instances of actual or possible non-compliance with laws, regulations, contracts, agreements or the Council's constitution that might result in the Council suffering significant penalties, other loss or affecting the financial statements. No allegations of such irregularities, including fraud, or such non-compliance have come to our notice.
- xii All related parties have been identified to you and there were no transactions with related parties other than those disclosed in the financial statements.
- xiii Except as stated in the accounts:
  - a there are no unrecorded liabilities, actual or contingent
  - b none of the assets of the Council has been assigned, pledged or mortgaged
  - c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure
- xiv There are no claims, legal proceedings or other matters which may lead to a loss falling on the Council or which could result in the creation of an unrecorded asset that should be disclosed in the financial statements.
- xv The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- xvi We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements, other than as required by the restatement of accounts under International Financial Reporting Standards in accordance with the 2010 Code.
- xvii No significant events having an effect on the financial position of the Council have taken place since the balance sheet date which necessitates revision of the figures included in the financial statements or inclusion of a note thereto.

- xviii We have not adjusted the misstatements brought to our attention in the ISA260 report, with the exception of the adjustment to recognise the successful outcome of the Fleming VAT claim appeal, as we do not consider them to be material to the financial statements.
- xvii We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the statement of accounts.

### Approval

The approval of this letter of representation was minuted by the Audit Sub Committee at its meeting on 29 September 2010

Signed on behalf of South Derbyshire District Council.

.....

.....

Name Frank McArdle

Name: Jayne Jones

Position Chief Executive

Position Director of Corporate Services

Date 29<sup>th</sup> September 2010

Date 29<sup>th</sup> September 2010



**Grant Thornton**

## **South Derbyshire District Council**

**Audit of Accounts 2009-10  
Annual Report to those Charged with Governance**

24 September 2010

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# 1 Executive Summary

## Purpose of the report

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 This report has been prepared for the benefit of discussion between Grant Thornton UK LLP and the Audit Sub-Committee of South Derbyshire District Council (the Council). The purpose of this report is to highlight the key issues arising from the audit of the Council's financial statements and value for money opinion work for the year ending 31 March 2010.
- 1.2 This report meets the mandatory requirements of International Standard on Auditing 260 (ISA 260) to report the outcome of the audit to 'those charged with governance', designated as the Audit Sub-Committee. The requirements of ISA260, and how we have discharged them, are set out in more detail at Appendix A.
- 1.3 The Council is responsible for the preparation of financial statements which record its financial position as at 31 March 2010, and its income and expenditure for the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Council's financial statements present a true and fair view of the financial position.
- 1.4 Under the Audit Commission's Code of Audit Practice we are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Audit conclusions

### Financial Statements Opinion

- 1.5 The Council produced its draft 2009/10 accounts in advance of the 30 June 2010 deadline and presented them to the Finance and Management Committee on 29th June 2010. It is pleasing to report that the overall quality of the Council's working papers to support to support the 09/10 accounts was of a continuing good standard.
- 1.6 We anticipate providing an unqualified opinion on the Council's financial statements, following the acceptance of this report by the Audit Sub-Committee on the 29th September 2010.
- 1.7 Further details of the outcome of our financial statements audit are given in Section Two and Appendix B (adjustments to the financial statements).

### Value for Money Conclusion

- 1.8 In providing our opinion on the financial statements, we are required to reach a conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion). We are pleased to report that we propose to issue an unqualified Value for Money conclusion and that the Council has continued to commit to and deliver continuous service improvement for the benefit of the community it serves.

- 1.9 Further information on the outcome of our Value for Money audit is contained in Section Two.

### **The way forward**

- 1.10 Matters arising from the financial statements and Value for Money audit have been discussed with the Head of Finance & Property. We also provide an Action Plan at Appendix C that summarises the key recommendations arising from our audit of the Council's accounts.

### **Use of this report**

- 1.11 This report has been prepared solely for use by the Council to discharge our responsibilities under ISA260 and the Code of Audit Practice, and should not be used for any other purpose. We assume no responsibility to any other person. This report should be read in conjunction with the Statement of Responsibilities and the Council's Letter of Representation.

### **Acknowledgements**

- 1.12 We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

**Grant Thornton UK LLP**

24 September 2010

## 2 Detailed Findings

### Introduction

- 2.1 This section provides a summary of findings arising from our audit of the financial statements and Value for Money (VFM) audit.

### Financial Statements Audit

#### Status of the audit

- 2.2 We carried out our audit in accordance with the Audit Approach Memorandum (AAM) presented to the Audit Sub-Committee on 24 February 2010. Our audit is substantially complete, subject to the following finalisation procedures:

- review of the final version of the financial statements
- obtaining and reviewing the Council's Letter of Representation
- updating our post balance sheet events review, to the date of signing the accounts.

#### Key risks

- 2.3 Our 2009/10 Audit Approach Memorandum set out the key risks relating to the audit of the financial statements. As part of our interim audit, we completed work in a number of areas to consider the audit risks identified and reported our findings in our Interim Audit Report. Our work at that time enabled us to conclude on a number of key risk areas. As part of our final accounts audit, we reviewed the remaining audit risks and have set out in Exhibit One, the outcome of work completed. Our review of the risks facing the Council has not identified any additional risk areas.

#### Exhibit One: 2009/10 Key audit risks

Risk identified in AAM	Conclusion
<b>Fixed Asset Register (FAR)</b> Reconciliation of the recently implemented CIPFA asset management system to the financial statements.	We are satisfied that as at 31 March 2010 the carrying value of tangible fixed assets shown in the asset management system reconciles in total to the financial statements.  We did however note reconciliation differences between the FAR and the individual asset categories disclosed within the Statement of Accounts. We have included a recommendation at Appendix C that this matter is resolved.



Risk identified in AAM	Conclusion
<p><b>Asset Valuations</b> Appropriate recording of asset values in the financial statements that reflect current market conditions.</p>	<p>We have confirmed that the approach taken by the Council to asset valuations is compliant with the SoRP. We have also assessed the general movement in asset values against expectations formed from our experience at other councils and national valuation information, to concluded that the Council's asset valuations appear to be fairly stated.</p>
<p><b>The Economic Climate</b> Impact on the Council's ability to manage its finances and risk of misstatement in the accounts related to asset valuations, treasury management, increased pension costs and debtor recoverability.</p>	<p>The Council has not observed any major adverse shift in levels of debtors or debt collection rates for general council tax and business rates debtors.</p> <p>A short term loan of £3million was however required to manage the Council's cash position towards the end of the financial year due to a combination of increased housing benefit payments and capital expenditure. This loan was repaid on 4th May 2010.</p> <p>The Council should continue to carefully monitor its cash position to ensure that short term borrowing requirements are appropriately managed.</p>
<p><b>Bad Debt Provision</b> Appropriateness of the Council's review of the percentage rates applied each year to calculate bad debt provisions, against current collection patterns.</p>	<p>Our audit procedures identified that the expected recovery percentages applied by the Council to calculate its bad debt provisions had been reviewed and updated during the year and could be directly linked to debt collection data.</p> <p>The calculation of the bad debt provision did, however, contain an error, understating the provision by £25,000. This is included as an unadjusted misstatement at Appendix B.</p>
<p><b>Presentation and Format of the Accounts</b> Compliance with financial reporting requirements as set out in the 2009 SoRP.</p>	<p>Our audit procedures identified a number of relatively minor disclosures amendments that were required to the financial statements. The adjustments, and a small number of unadjusted items, are detailed at Appendix B.</p>
<p><b>Corporate Services Partnering Project</b> Impact of the outsourcing of a range of corporate services, including the finance function.</p>	<p>Considering that the new arrangement were being implemented throughout the course of the final audit, we are pleased to report that the changes did not significantly impact on our ability to access audit evidence or key members of staff. We have agreed with officers that we will hold a debrief meeting in the next few months to discuss any improvement opportunities and how we will work together as arrangements become settled.</p>

Risk identified in AAM	Conclusion
<p><b>New Depot</b> Progress of this project throughout the year and appropriate recognition of the level of commitment the Council has at 31 March 2010 in the financial statements.</p>	<p>We note that the project is currently dependent upon planning consent being granted and terms being finalised with other landowners, therefore we are content that the Council do not need to recognise the project in the 2009/10 financial statements.</p> <p>When all conditions are satisfied, current timescales indicate that the Council will take ownership of the facility in early 2012.</p>

- 2.4 The Audit Sub-Committee should confirm that it is not aware of any additional material risk areas facing the Council, including significant fraud risks.

**Matters arising from the financial statements audit**

- 2.5 We were presented with the draft financial statements on 29th June 2010, in advance of the statutory deadline of 30 June 2010. The supporting working papers were also provided in accordance with the agreed timetable for audit.
- 2.6 Regular liaison meetings were held between the audit team and key finance officers prior to the preparation of the draft accounts, and throughout the audit fieldwork. This enabled early resolution of emerging issues. We would like to place on record our appreciation to those officers involved in this process.
- 2.7 Matters arising from the financial statements audit are set out below. Where appropriate, we have made recommendations for improvement, as set out in the agreed action plan at Appendix C.

**Exhibit Two: Matters arising during the course of our audit**

Matter identified	Conclusion
<p><b>Adjusting Post Balance Sheet Event - Fleming claims</b> The Council submitted two 'Fleming claims', for the recovery of VAT, prior to the 31 March 2010.</p> <p>During August 2010 the Council was notified that one of these claims had been agreed and settled. The second claim is still ongoing but the Council is optimistic that this will also be successful.</p> <p>The settled claim has resulted in a repayment of £139,000, with a further amount due of £124,000 for accrued interest.</p> <p>A contingent asset continues to be recognised in the financial statements for the unresolved Fleming claim that the Council is still awaiting clarification from HMRC, as detailed at Appendix B.</p>	<p>As the results of one claim is now known, this is classed as an adjusting post balance sheet event, as the settlement confirms conditions that existed at the year end date.</p> <p>We are pleased that officers have made the decision to adjust the Statement of Accounts, even though the success of the claim was only recently notified and we are grateful for officers' efforts in this area.</p> <p>The adjustment misstatement is shown at Appendix B.</p>
<p><b>Estimated Claims</b> The figure relating to subsidy income has been calculated on an estimated basis. An actual final claim figure is now available, which differs from the estimate.</p>	<p>The impact on the Collection Fund disclosure for Council Tax Benefit income is £53,000, which has not been adjusted for, as outlined at Appendix B.</p> <p>We have included a recommendation at Appendix C that the Council should include a review process for the housing benefit and council tax benefit subsidy return in the accounts production process for future years.</p>

**Misstatements**

- 2.8 Officers adjusted the accounts to reflect the late notification of the success of its Fleming claims.
- 2.9 Unadjusted misstatements identified during the course of our audit are set out at Appendix B, and, if adjusted, would have resulted in an decrease in the Income and Expenditure deficit of £13,000, with a corresponding increase to the General Fund Reserves Balance in the Balance Sheet, and thus the overall total Net Worth of the Council. Officers have not adjusted for these items as they are not material to the accounts. We agree this course of action, as the final level of un-adjustment does not have an impact on our audit opinion.
- 2.10 Members are required to formally consider officers' treatment of the accounting adjustments referred to in this report and minute their decision accordingly.

**Other accounts issues arising**

- 2.11 In addition to the matters raised above, there were a number of presentational changes that arose during the course of our audit and these have been made to the accounts. These adjustments are summarised at Appendix B.

### **Financial Statements Opinion**

- 2.12 We anticipate providing an unqualified opinion on the Council's financial statements, following approval of the accounts by the Audit Sub-Committee on 29 September 2010.

### **Financial performance**

- 2.13 In 2009/10, the actual outturn was a reduction in overall net revenue expenditure of approximately £793,000 compared to budget.
- 2.14 The level of general reserves at 31 March 2010 was £639,000 above the original budget estimate. Even after allowing for the £200,000 that the Council estimates will need to be rolled forward to meet the interim costs associated with the pay and grading review, general reserves are £400,000 higher than anticipated in the Medium Term Financial Plan.
- 2.15 Despite this, the Medium Term Financial Plan still highlights a budget deficit in 2011/12 and a significant shortfall in capital resources to meet future commitments. Although, ongoing efficiency savings have already been identified to fund this deficit, and planned work is ongoing to realise capital receipts, the effect of the anticipated reduction in Central Government funding from 2011/12 is not yet known.
- 2.16 The Council will therefore need to carefully consider the implications of the Central Government funding reductions, as they become known, for its medium term revenue and capital spending plans. It does, however, have a good base to respond to this challenge, given the efforts already made to put in place efficient structures and working arrangements

### **Evaluation of key controls**

- 2.17 We reported the results of our interim audit to Audit Sub-Committee on 16 June 2010 including improvement opportunities identified from our review of relevant elements of the Council's control environment.
- 2.18 Additional recommendations have been identified during the course of our final audit visit which are detailed at Appendix C.

### **Annual Governance Statement**

- 2.19 We have examined the Council's arrangements and processes for compiling the Annual Governance Statement (AGS). In addition, we read the AGS to consider whether the statement is in accordance with our knowledge of the Council.
- 2.20 We have concluded that the Council has good arrangements in place to compile the AGS and provide a strong audit trail for the Chief Executive and Leader to sign the statement.

### **IFRS**

- 2.21 From 2010/11 the Council is required to produce its financial statements under IFRS based on an IFRS Code of Practice on Local Authority Accounting prepared by CIPFA. As part of our procedures, we have discussed with the relevant officers their readiness for conversion to IFRS and the preparation they have undertaken to date.
- 2.22 The Council has considered the requirements of IFRS transition and intends to commence the detailed work necessary to restate the 2009/10 accounts and prepare the 2010/11 accounts under IFRS in October 2010.

- 2.23 We will continue to work with the Council's finance team to ensure that arrangements are in place to prepare an IFRS transition plan and we will monitor progress against this plan throughout the remainder of 2009-10 and into 2010-11. We will also continue to discuss with the Council the required accounting treatments under IFRS, where this will not compromise our independence, through sharing our experiences of IFRS transition from other public sector bodies and the commercial sector.

### **Value for Money**

- 2.24 The Audit Commission's Code of Audit Practice requires us to assess whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In discharging this responsibility, we are required to review and, where appropriate, examine evidence that is relevant to the Council's corporate performance management and financial management arrangements.
- 2.25 Our 2010 Value for Money conclusion has been informed by work carried out on Use of Resources up until the abolition of Comprehensive Area Assessment, and other local risk based work carried out in accordance with our 2009/10 Audit Plan.
- 2.26 On the basis of the work completed, we propose to issue an unqualified Value for Money conclusion. We also note a positive 'direction of travel' in the areas we assessed, which is indicating of the Council's commitment to continually improve its arrangements to deliver the highest standards of value for money within its resources.
- 2.27 The key developments in the Council's arrangements include:
- Improvement in understanding of costs and performance: In addition to the corporate performance monitoring framework, for the last 3 years, officers have demonstrated that the Council has utilised an Institute of Public Finance (IPF) report that analyses and compares spending and performance to review areas where costs appear high.
  - Improvements in achieving efficiencies: The Council has continued to seek and evaluate new ways of delivering services to achieve efficiencies, for example outsourcing its support services and collaborating with other councils. This should deliver substantial efficiencies in the future.
- 2.28 In common with most Councils, the most significant area for further development in the Council's arrangements is:
- Improving the effectiveness of workforce planning arrangements: The Council needs to ensure that its workforce plan is designed to improve efficiency, productivity and value for money outcomes against local priorities.

Your recent corporate services contract with Northgate is, however, in good evidence of the Council's forward thinking regarding its workforce.

- 2.29 Whilst the Council's medium term financial plans and strategy are considered to be sound, the Council will need to continue to ensure that a flexible approach is taken in respect of future financial planning. With the on-going requirement to make significant savings across the activities of the Council, the need to identify and deliver new ways of increasing productivity and improving efficiency will become ever more critical.

**Next steps**

- 2.30 The Audit Sub-Committee is required to approve the financial statements for the year ended 2009-10. In forming its conclusions the Committee's attention is drawn to the adjustments to the accounts and the required Letter of Representation.

## 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 to fulfil their respective responsibilities.
- To provide to those charged with governance constructive observations arising from the audit process.

ISA 260 Reporting requirements	Key messages
<p><b>Independence</b></p>	<p>We are able to confirm our independence and objectivity as auditors and draw attention to the following points:</p> <ul style="list-style-type: none"> <li>• We are independently appointed by the Audit Commission.</li> <li>• The firm has been assessed by the Audit Commission as complying with its required quality standards.</li> <li>• The senior statutory auditor and client service manager are subject to rotation in line with the Audit Commission's requirements.</li> <li>• We comply with the Auditing Practices Board's Ethical Standards.</li> <li>• We have not provided any non audit services in 2009-10.</li> </ul>

ISA 800 Requirements to the Audit	Key Issues/Notes
<p><b>Audit Approach</b></p>	<p>Our approach to the audit was set out in our 2009-10 Audit Approach Memorandum. 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:</p> <ul style="list-style-type: none"> <li>• We consider the materiality of items in the financial statements in determining the audit approach and in determining the impact of any errors.</li> <li>• We have been able to place appropriate reliance on the key accounting systems operating at the Council for financial statement audit purposes.</li> <li>• In 2009-10 we have considered the work of internal audit in developing our approach to the Council's key accounting systems.</li> </ul> <p>The Council has adopted appropriate accounting policies in the areas covered by our testing. Accounting policies are in accordance with the SoRP 2009.</p>
<p><b>Accounting Policies</b></p>	<p>The Audit Sub-Committee should confirm that it is satisfied that the accounting policies adopted are the most appropriate, as required by FRS 18.</p> <p>We have considered the Council's financial plans and consider it appropriate for the Council to continue to account on a going concern basis.</p>
<p><b>Material Risks</b></p>	<p>The Audit Sub-Committee should confirm that it is not aware of any additional material risk areas facing the Council, including significant fraud risks.</p> <p>We have requested from the Council a Letter of Representation to confirm that there are no additional material risks and exposures as at September 2010, which should be reflected in the financial statements.</p> <p>We have also perform our own audit procedures to ensure that all significant risks and exposures to the Council have been recognised in the accounts as at September 2010. We will focus on accounting provisions and cash flow forecasting over the next 12 months.</p>



Audit Committee 2009/10	Key findings
<b>Audit Adjustments</b>	<p>We have discussed with management the adjustment to the accounts, primarily to improve the fair presentation of the financial statements, as well as the clarity and presentation of disclosure notes.</p> <p>These adjustments are summarised at Appendix B.</p>
<b>Unadjusted Errors</b>	<p>We have identified a number of unadjusted errors to the accounts which requires reporting to those charged with governance. These adjustments are summarised at Appendix B.</p> <p>The Audit Sub-Committee needs to satisfy itself of the appropriateness of the approach taken by management not to adjust and to minute its decision.</p>
<b>Other Matters</b>	<p>We reported the results of our interim audit to Audit Sub-Committee on 16 June 2010 including improvement opportunities identified from our review of relevant elements of the Council's control environment.</p> <p>A number of additional recommendations have been identified during the course of our final audit visit which are detailed at Appendix C.</p>

## B Adjustments to the financial statements

### Adjusted misstatements

Adjustment in £'000s	Report reference	I&E Acc <sup>1</sup>	Long Term Assets	Current Assets	Current Liabilities	Long Term Liabilities	Net Worth
Draft Statement of Accounts		(3,634)	148,241	6,123	(7,499)	(33,985)	112,880
Not recognising the successful outcome of one of the Fleming VAT claim appeals	2.7	263		263			263

### Unadjusted misstatements

We have 5 unadjusted matters to report as a result of our work, which are set out in the table below.

Adjustment in £'000s	Report reference	I&E Acc <sup>2</sup>	Long Term Assets	Current Assets	Current Liabilities	Long Term Liabilities	Net Worth
Draft Statement of Accounts		(3,634)	148,241	6,123	(7,499)	(33,985)	112,880
Miscalculation of the bad debt provision for invoiced housing benefit overpayment debtors	n/a	(25)		(25)			(25)
Understatement of the accrual for March 2010 concessionary fares	n/a	(15)			(15)		(15)
Incorrect treatment of reconciling items on the March 2010 VAT reconciliation.	n/a			26	(26)		0
Adjustment of subsidiary claim from estimate to actual	n/a	53		53			53
Council dwellings not accurately reflecting a late addition	n/a		16		(16)		0
<b>Final Statement of Accounts</b>		<b>(3,621)</b>	<b>148,257</b>	<b>6,177</b>	<b>(7,556)</b>	<b>(33,985)</b>	<b>112,893</b>

<sup>1</sup> Income and Expenditure Account

If adjusted, these misstatements would result in the reported Income & Expenditure Account deficit decreasing by £13,000 from £3,634,000 to £3,621,000.

**Disclosure omissions**

Our review identified a number of additional disclosures and amendments to existing disclosures before we could conclude that the financial statements were materially compliant with CIPFA's Statement of Recommended Practice. The following table sets out the key disclosure amendments identified through our audit.

Issue identified and amendments made	
1	<p><b>Recent Announcements</b></p> <p>The recent announcement that pension increases will be linked to the Consumer Prices Index (CPI) from April 2011, as apposed to the previous links to the Retail Price Index (RPI), has resulted in an additional Post Balance Sheet Event disclosure being made in the financial statements.</p>
2	<p><b>Explanatory Foreword</b></p> <p>We recommended the following improvements to enhance the Explanatory Foreword, which have been updated by Council officers:</p> <ul style="list-style-type: none"> <li>• additional narrative within the 'Treasury Management Performance' section providing an explanation of what the Council's target London Interbank Bid Rate (i.e. the rate at which a bank is willing to borrow from other banks) benchmark is;</li> <li>• updated narrative within the 'Capital Financing' section outlining that on 5th July the Housing Minister announced that the Growth Point Funding had been safeguarded;</li> <li>• narrative highlighting that legislation has changed the overriding requirement of the accounts to give a 'true and fair' view (rather than 'presents fairly') of the financial position and transactions of the Council; and</li> <li>• explanation that five note disclosures have been removed from the accounts as permitted by the 2009 SoRP, i.e. S137 expenditure; expenditure on publicity; the building control account; Business Improvement District Schemes; and income under the Local Authorities Goods and Services Act.</li> </ul>
3	<p><b>Officers Emoluments</b></p> <p>The number of employees in 3 of the remuneration bandings in Note 8, Officers' Emoluments have been amended as follows:</p> <ul style="list-style-type: none"> <li>• the number of employees in the remuneration band £50,000 to £54,999 has been amended from 3 to 0;</li> <li>• the number of employees in the remuneration band £55,000 to £59,999 has been amended from 5 to 3; and</li> <li>• the number of employees in the remuneration band £60,000 to £44,999 has been amended from 0 to 5.</li> </ul>

<b>Issue identified and amendments made</b>	
4	<p><b>Contingent Assets/Liabilities</b> Narrative has been added to Note 40, Contingent Liabilities and Assets, to provide an estimate of the financial effect, and an indication of the uncertainties relating to the amount or timing of any inflow/outflow, to the Council of the following:</p> <ul style="list-style-type: none"> <li>• the Council's housing benefit and council tax benefit subsidy return being qualified in 2008/09, thereby resulting in a likely clawback;</li> <li>• the change in legislation in August 2010 resulting in the statutory fee of £22 in respect the Land Charges Register being revoked - this means that the charges and income received for personal searches dating back to 2005 are potentially recoverable; and</li> <li>• the Council's one remaining outstanding Fleming VAT claim being submitted to HMRC but as yet not being settled.</li> </ul>
5	<p><b>Minor Issues</b> Other disclosure issues were identified in the financial statements. The more significant revisions were as follows:</p> <ul style="list-style-type: none"> <li>• the narrative within Note 37, Provisions, has been updated to more accurately reflect the position of the suspended benefit cases;</li> <li>• additional narrative has been added to Note 4, Trading Services to clarify the reason for the reduction in the asset value of the George Holmes Estate; and</li> <li>• a small number of presentational issues, casting errors and typographical errors.</li> </ul> <p>Disclosures were not revised in a few areas including:</p> <ul style="list-style-type: none"> <li>• the Annual Governance Statement has not been re-worded to clarify that Comprehensive Area Assessment has been abolished and Use of Resources is no longer ongoing;</li> <li>• narrative has not been inserted into Note 1, Restated Comparative Figures, outlining the monetary effect on the accounts of the changes in accounting policies;</li> <li>• throughout the financial statements, where the 2008/09 comparative figures have been restated, a heading has not been added to all relevant tables stating this fact; and</li> <li>• Note 24, Short Term Borrowing, has not been enhanced by disclosing that the short term loan of £3m was borrowed from Durham County Council.</li> </ul>

## C Action Plan

	Issue and Risk	Recommendation	Priority H/M/L	Council response
1	<p><b>Asset Management System</b> Although as at 31 March 2010 the carrying value of tangible fixed asset shown in the asset management system reconciles in total to the financial statements, during the course of our testing, we noted that the FAR presented for audit did not directly reconcile to the Tangible Fixed Asset note for each category of fixed asset presented in the financial statements. This can be attributed to ongoing software issues following the implementation of the asset management system in 2008/09.</p>	<p>The Council should investigate and resolve the reconciliation differences to ensure that when the 2010/11 financial statements are prepared, the FAR presented for audit reconciles exactly to the Tangible Fixed Asset note for each category of fixed asset.</p>	High	<p>The software company will be contacted with a view to clearing down this balance before 2010/11 accounts are finalised.</p>

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2	<p><b>Estimated Claims</b> It is general practice for the accounts figures relating to government department returns and claims to be based on estimates, as final returns are sometimes unavailable at the time of accounts production.</p> <p>Following submission of the final claims, it is best practice to review any movement from estimates and assess the impact on the financial statements.</p> <p>Following submission of the Council's housing benefit and council tax benefit subsidy return for 2009/10, the movement from the estimated position for Council Tax Benefit income has not been assessed for the impact on the financial statements.</p>	<p>The Council should include a review process for the housing benefit and council tax benefit subsidy return in the accounts production process for future years.</p>	Medium	<p>During the final accounts process, Northgate Financial Services to be requested to notify the Head of Finance of any changes when the claim is submitted for authorisation at the end of May.</p>
3	<p><b>Journal Authorisation</b> There are currently no pre or post authorisation checks being performed on journals posted to Agresso. This could result in inappropriate or erroneous journals being processed and is considered to be a fundamental control.</p>	<p>The Council should introduce and comply with journal authorisation procedures.</p> <p>For example, the Council should consider restricting access to journal entries below specific grades of staff and over a certain value, and should require independent approval for journals above predetermined thresholds.</p>	High	<p>All journals where one transaction is over £50,000 to be referred to Head of Finance for prior approval.</p>

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4	<p><b>VAT Reconciliation</b> The VAT reconciliation has a number of reconciling items, totalling £16,000 as at 31 March 2010, many of which have remained on the reconciliation for a significant period of time.</p>	<p>It is recommended that the Council review their VAT reconciliation, with a view to clearing the historic items.</p>	Medium	Agreed
5	<p><b>Rent Allowances/Academy</b> There is an unreconciled difference between Academy and the general ledger for rent allowances paid of £44,000.  All underlying systems should be reconciled to the financial ledger on a periodic basis.</p>	<p>We recommend that the Council identify the reason for the variance between the general ledger and Academy, and then resolve the issue to ensure that both the general ledger and Academy are consistent going forward.</p>	Medium	<p>This will be reviewed and resolved before the accounts are finalised for 2010/11.</p>



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