

Huntingdonshire District Council

Audit of Accounts 2005/06: Communication of audit matters to those charged with governance

September 2006

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1 Executive summary

Background and purpose of the report

- 1.1 Huntingdonshire District Council (the Council) is responsible for the preparation of financial statements which record its financial position as at 31 March 2006 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 fairly' the financial position of the Council. Our detailed findings are set out in section two.
- 1.2 Under the Audit Commission's new code of audit practice, which became effective from 2005/06 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. To reach this conclusion we have carried out the Use of Resources judgements and Data Quality Management arrangements review using criteria prescribed by the Audit Commission, as well as a review of the latest Comprehensive Performance Assessment (CPA) and Direction of Travel statements. Our detailed findings are set out in section three.
- 1.3 The Audit Commission's Statement of Responsibilities for the audit of both the financial statements and in relation to arrangements for securing economy, efficiency and effectiveness in the use of resources have been re-produced in full in Appendices G and H and reflect the full scope of our audit.
- 1.4 This is the first year of our reporting under *International Standard on Auditing (UK and Ireland 260) – Communication of audit matters with those charged with governance* (ISA 260) which requires us, as the Council's external auditors, to report to those charged with governance (for this Council the function is carried out by the Corporate Governance Panel) certain matters before giving an opinion on the financial statements. Prior to this year, we reported to those charged with governance under UK Auditing Standards, which have been superseded by the International Standards on Auditing (UK and Ireland). We have also chosen this report to communicate our findings on our formal conclusion of whether the Council has put in place proper arrangements to achieve economy, efficiency and effectiveness in its use of resources.
- 1.5 This report summarises the principal matters arising from our audit. The issues raised have been discussed with the Head of Financial Services and his team and other members of staff as appropriate.
- 1.6 We are also required by the Audit Commission to report on the actual audit fee charged against planned audit fees reported to those charged with governance and comment on reasons for any variances against the plan. Further details have been included in Appendix C.
- 1.7 The principal purposes of communication to those charged with governance are to:
 - Reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and those charged with governance;

- Share information to assist both the auditor and those charged with governance fulfil their respective responsibilities; and
- Provide to those charged with governance constructive observations arising from the audit process.

Reporting to those charged with governance

- 1.8 We agreed with the Council that these communications would be discharged through a report to the Corporate Governance Panel on 27 September 2006.

Audit conclusions

- 1.9 We are required to reach conclusions in two areas as part of our audit work. This section summarises those conclusions. Further details of the basis of each of these conclusions are set out in sections two and three of this report.

Accounts opinion

- 1.10 We anticipate providing an unqualified opinion on the Council's accounts.

Use of resources conclusion

- 1.11 We anticipate providing an unqualified conclusion on the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources, subject to the satisfactory completion of the outstanding audit work.

Current status of the accounts audit

- 1.12 We were presented with draft financial statements at the Corporate Governance Panel meeting on 27 June 2006. The members of the Corporate Governance Panel reviewed and approved the draft accounts on 27 June 2006.
- 1.13 We have performed our final accounts audit in accordance with the Audit Commission's Code of Audit Practice, the 2005 Local Government Statement of Recommended Practice ('the SORP') issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and applicable auditing standards. Our approach follows that set out in our audit plan discussed with the Council.
- 1.14 The appointed day for electors to ask the auditor questions on the accounts this year is 29 September 2006. We have received no questions or objections from the public in relation to the accounts to date.

Matters outstanding in respect of the accounts audit

- 1.15 At the date of writing this report, the following matters relating to the accounts audit were still outstanding:
- (a) checking of final annual accounts disclosure and presentation adjustments agreed as part of the audit;
 - (b) audit testing in a number of areas including fixed asset disposals and debtor balances;
 - (c) reconciliation of bank and cash balances to the draft financial statements;
 - (d) confirmation in respect of the outcomes of the audit of the Cambridgeshire County Council pension fund from the pension scheme auditor, and
 - (e) review of the Council's Corporate Governance Statement.

- 1.16 In addition we have still to complete our audit finalisation procedures which will include:
- review of the final version of the statement of accounts;
 - receipt of a management representation letter; and
 - updating our Post Balance Sheet Events review to the date of signing the accounts.
- 1.17 Finally, we are required to provide an audit opinion on the consolidation pack that is to be completed as part of Whole of Government Accounts. We will complete this work once the accounts audit has been finalised and in time for the 6 October 2006 deadline.

Current status of the Use of Resources audit

Use of Resources Conclusion

- 1.18 We have completed the majority of our work on the Use of Resources and have been able to reach a provisional overall conclusion on the Council's arrangements for achieving economy, efficiency and effectiveness in its use of resources. Specifically, we have completed audit work in the following areas under the Use of Resources code objective:
- Best Value Performance Plan (BVPP);
 - Audit testing on the code criteria (see paragraph 3.2 for details) relating to securing strategic and operational objectives, performance management and consultation;
 - Data Quality management arrangements review; and
 - Use of Resources judgements.
- 1.19 We undertook our audit work in respect of the 2005/06 Best Value Performance Plan (BVPP) in December 2005, to review compliance against the criteria specified in the ODPM circular 03/2003 and related addendum as well as guidance from the Audit Commission. We issued an unqualified audit opinion on the plan with no recommendations made to either the Audit Commission or the Secretary of State. Audit of the 2006/07 BVPP, which contains 2005/06 performance data, is ongoing and will be reported to the Audit Commission by October 2006 in accordance with their deadlines.
- 1.20 We are required to review the Council's latest corporate assessment and direction of travel statement in order to satisfactorily reach our conclusion on the Code criteria one to three relating to securing strategic and operational objectives, performance management and consultation. In completing this work we are not required to re-perform the work of the corporate assessment team and the relationship manager, rather we are looking to place reliance on this work. At this stage there are no issues arising from this review that would impact on our Use of Resources conclusion.

Data Quality

- 1.21 The Audit Commission has mandated that a separate piece of audit work be completed to be able to form a satisfactory conclusion in respect of data quality. This piece of work involves a review of the corporate management arrangements in place at the Council to determine whether proper corporate management arrangements for data quality are in place, and whether these are being applied in practice.
- 1.22 Our review of data quality is ongoing, and our audit work to date suggests that the arrangements that the Council has in place to secure data quality are adequate.

Use of Resources Judgements

- 1.23 The use of resources judgement, designed by the Audit Commission, assesses how well councils manage and use their financial resources. The assessment focuses 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.
- 1.24 We reported the outcome of our audit work in this area to the Corporate Governance Panel in June 2006. Overall the Council achieved a score of three for the 2005-06 judgements, which represents an assessment of "performing well", above minimum standards, on the Audit Commission's scoring system. Further details are set out in Section 3 of this report.
- 1.25 We have identified a number of recommendations to assist the Council with its improvement agenda. The main areas covered included a need to continue to develop and embed risk management arrangements and developing an assurance framework to support the Statement on Internal Control.

Matters outstanding in respect of the Use of Resources conclusion

- 1.26 At the date of writing this report, the following matters relating to the Use of Resources conclusion were still outstanding:
- (a) completion of audit testing on the code criteria (see paragraph 3.2 for details) relating to securing strategic and operational objectives, performance management and consultation;
 - (b) completion of our review of the arrangements in place to secure adequate data quality; and
 - (c) a post balance sheet events review to update our findings in respect of our use of resources judgements and BVPP audit work completed in March 2006 and December 2005 respectively.

Use of this report

- 1.27 This report has been prepared solely for the use of the Council to discharge our responsibilities under the Audit Commission Code of Audit Practice and relevant standards on auditing. This report should not be used for any other purpose. No responsibility is assumed by us to any other person. This report should be read in conjunction with the Management Representation letter, which has also been submitted to this meeting.
- 1.28 This report includes only those matters of governance interest that have come to the attention of the auditor as a result of the performance of the audit. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly the audit does not ordinarily identify all such matters.
- 1.29 We would like to take this opportunity to remind the Corporate Governance Panel of the need to for the implementation of the recommendations arising out of this report (see Appendix B) and all other reports issued in the year (see Appendix C), to be monitored.

Acknowledgements

- 1.30 We should like to record our appreciation for the co-operation and assistance provided to us by officers at the Council during the course of our audit.

2 The audit of the accounts

Introduction

2.1 We summarise in this section our observations on the Council's overall financial position, and those matters, which we are required to report under ISA 260.

Overall financial results

2.2 Following the decision by the Government to cap the Council's budget requirement at £15.160million, the amount of expenditure to be funded from revenue reserves was increased by £387,000 to £2.2 million to offset the reduction of the Council's budget requirement by the same amount.

2.3 Net revenue expenditure was underspent by £1.9 million (10.8%) against the original budget and there were a number of adverse and favourable variances making up this net underspend. None of these variances were individually significant and were summarised in the Revenue Monitoring Outturn report as:

- £0.7 million lower net expenditure on staff and management costs together with other overheads;
- £0.4 million of additional staff and overhead costs being charged to capital and,
- £1.1 million of lower spending on service budgets of which £0.5 million relates to additional interest on investments.
- £0.3 million of higher spending on contingencies and technical items.

2.4 Thus the revenue deficit, funded from revenue reserves was reduced to just £227,000 as shown in the Consolidated Revenue Account.

2.5 The Council's capital expenditure for the 2005/06 financial year was £15.9 million (excluding non-specified investments) compared to the original budgeted expenditure of £18.5 million. The reason for the under spend against the capital programme was mainly due to deferrals of schemes into 2006/07.

2.6 Performance against budgets will form part of the evidence in the Use of Resources judgements 2006/07, in particular key lines of enquiry 2.1, 2.2, 2.3 and 3.1. Applying the judgement used in the 2005/06 Use of Resources work then the performance against budgets appears to be at least adequate, using Audit Commission definition. However there appear to be significant variances arising in year as set out above.

2.7 There was a deficit balance of £646,000 on the Collection Fund at 31 March 2006, which will be re-distributed to the precepting authorities in 2007/08.

2.8 The Council has a medium term plan and financial forecast in place up to and including the 2016/17 financial year. The projections within the medium term financial strategy include allowances for inflation and savings targets.

- 2.9 As a result of the capping decision in 2005/06, the Council's medium term financial strategy limits future increases in Council Tax to the higher of 5% and the increase which would result from a 5% increase in budget requirements. This decision should reduce the risk of capping in the future.
- 2.10 The medium term financial plan includes significant savings of approximately £3.3 million by 2010/11 rising to £5.8 million by 2016/17 in order to achieve the current plan. The Council's financial position is at risk if these significant levels of savings are not achieved in forthcoming years. We do not have any particular concerns at this stage in respect of the ability of the Council to manage these risks but will continue to monitor the Council's arrangements for progress in delivering its savings plans.

Key issues

- 2.11 Under ISA 260, we are required to consider audit matters of governance interest that arise from the audit of the financial statements and communicate them with those charged with governance. The areas considered are as follows:
- (a) Relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement lead and audit staff
 - (b) The overall approach and scope of the audit including any limitations thereon, or any additional requirements;
 - (c) The selection of, or changes in, significant accounting policies and practices that have, or could have a material effect on the entity's financial statements;
 - (d) The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements;
 - (e) Audit adjustments, whether recorded or not by the entity that have, or could have a material impact on the entity's financial statements;
 - (f) Those uncorrected misstatements aggregated by the auditor during the audit that were determined by management to be not material by management both individually and in aggregate to the financial statements as a whole; and
 - (g) Other matters warranting attention by those charged with governance, such as material weaknesses in internal control, questions regarding management integrity, and fraud involvement by management.
- 2.12 We summarise our key audit findings in relation to the above areas in Table 1.

Table 1: Key audit findings

Ref	Area	Key messages
A	Independence	<p>We are able to confirm our independence and objectivity as auditors and would note the following:</p> <ul style="list-style-type: none"> • We are independently appointed by the Audit Commission; • The firm has been assessed by the Audit Commission

Ref	Area	Key messages
		<p>as complying with its required quality standards;</p> <ul style="list-style-type: none"> • The appointed auditor and client service manager are subject to rotation every 5 years; • We comply with the Auditing Practices Board's Ethical Standards; and • We have received fees for the statutory audit in 2005/06 of £82,000. The only other fees that we have received for non-code audit work relate to the certification of grant claims and returns, which the Audit Commission requires its appointed auditors, rather than a third party, to undertake on the grounds of efficiency. We have received no fees for work undertaken following questions from the public. • Details of our fees are set out in Appendix C.
B	Approach to the audit	<p>Our approach to the audit was set out in our 2005/06 audit plan. We have planned our audit in accordance with auditing standards and the Audit Commission's Code of Audit Practice. Other key factors to highlight include:</p> <ul style="list-style-type: none"> • We consider the materiality of items in the financial statements both in determining the approach to audit them and in determining the impact of any errors; • We have been able to place appropriate reliance on the key accounting systems operating at the Council for final accounts audit purposes. We provide details in Appendix B of any suggested improvements to systems arising from our Accounts Audit. • We aim to place reliance on the work of internal audit in accordance with the 'managed' audit approach. We are pleased to note that in 2005/06 we have been able to place reliance on the work of internal audit in respect of the key accounting systems. <p>No significant changes have been made to our audit approach in the year.</p>
C	Accounting policies and practices.	<p>We consider that the Council has adopted appropriate accounting policies in the areas covered by our testing. Accounting policies adopted were in accordance with the 2005 Local Government Statement of Recommended Practice ('the</p>

Ref	Area	Key messages
		<p>SORP') and arrangements in key judgement areas were satisfactory.</p> <p>We recommend that the Council reviews its wording of the depreciation policy included within the draft financial statements to ensure that it accurately reflects current practice.</p> <p>The Corporate Governance Panel confirmed that they are satisfied that the accounting policies adopted by the Council are the most appropriate for the Council, as required by FRS 18, at its meeting on 27 June 2006.</p> <p>The overall quality of the Council's working papers to support the 2005/06 accounts was good. After the completion of this audit, as our first year as auditors, we will undertake a review of the audit process with the Council with a view to identifying any opportunities to improve the flow of information between the Council and ourselves to strengthen arrangements even further, with a view to the Council improving on its score of 2 for Financial Reporting in future Use of Resources Judgements.</p> <p>We are satisfied that it is appropriate for the Council to produce its account on a going concern basis.</p> <p>We are satisfied that the relevant financial information disclosed in the Introduction to the accounts is consistent with the financial statements.</p>
D	Material risks and exposures	<p>The Council has confirmed in its management representations letter that it has no material risks and exposures at September 2006, which should be reflected in the financial statements.</p> <p>Our audit procedures have not identified any significant risks and exposures to the Council at September 2006.</p>
E	Audit adjustments	<p>Our audit has identified a number of adjustments which have been discussed and agreed with management. Details of these adjustments are provided in Appendix A.</p> <p>It is not unusual in a year when there has been a change in auditors for a number of adjustments to arise as a result of the new auditor's professional judgements and assessment of risk.</p>
F	Unadjusted errors	<p>We are pleased to note that, following discussions with management, all recommended adjustments have been made.</p>

Ref	Area	Key messages
G	Other matters	<p>We are required to report to the Corporate Governance Panel any other material weaknesses in internal control, questions regarding management integrity, or fraud involvement by management identified during our audit procedures.</p> <p>We have not identified any such matters, that we have not already reported, that require the attention of the Corporate Governance Panel.</p>

- 2.13 We have discussed these and other matters arising with the staff at the Council and have reflected their responses to the matters raised in the Action Plan attached at Appendix B.

Next steps

- 2.14 We will continue to work with the Council to ensure that outstanding finalisation issues are completed in time for the accounts to be formally signed in accordance with the statutory deadline of 30 September 2006.

RSM Robson Rhodes LLP

September 2006

3 Use of resources conclusion

Background

- 3.1 The new Code of Audit Practice requires us to issue a conclusion on whether the Council has proper arrangements in place for securing economy, efficiency and effectiveness in the use of its resources.
- 3.2 The Use of Resources conclusion for local government bodies comprises an assessment of arrangements for twelve Code of Practice Criteria. These are linked to the Use of Resources judgements (UOR) and other work mandated by the Audit Commission as set out below:

Table 2: Link between Code criteria and audit work

Code Criteria “The Body has put in place....”		Auditor Assurances and work undertaken	Conclusion (has the Council achieved the required standards)
1	Arrangements for setting, reviewing and implementing its strategic and operational objectives	Review of latest corporate assessment and direction of travel statement.	TBC
2	Channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	Review of latest corporate assessment and direction of travel statement.	TBC
3	Arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	Review of latest corporate assessment and direction of travel statement.	TBC
4	Arrangements to monitor the quality of its published performance information, and to report the results to members.	Data Quality overall management arrangements review.	Yes
5	Arrangements to maintain a sound system of internal control.	Use of Resources judgements work on KLOE 4.2.	Yes
6	Arrangements to manage its significant business risks.	Use of Resources judgements work on KLOE 4.1.	Yes
7	Arrangements to manage and improve value for money.	Use of Resources judgements work on KLOE 5.2.	Yes
8	A medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	Use of Resources judgements work on KLOE 2.1	Yes
9	Arrangements to ensure that its spending matches its available resources.	Use of Resources judgements work on KLOE 3.1	Yes

Code Criteria “The Body has put in place....”		Auditor Assurances and work undertaken	Conclusion (has the Council achieved the required standards)
10	Arrangements for managing performance against budgets.	Use of Resources judgements work on KLOE 2.2	Yes
11	Arrangements for the management of its asset base.	Use of Resources judgements work on KLOE 2.3	Yes
12	Arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	Use of Resources judgements work on KLOE 4.3	Yes

3.3 A summary of our audit work completed to date under each of these Code criteria has been set out below.

Review of Corporate Assessment and Direction of Travel Statement

3.4 We are required to review the Council's latest corporate assessment and direction of travel statement in order to satisfactorily conclude on the Code criteria one to three above. In completing this work we are not required to re-perform the work of the corporate assessment team and the relationship manager, rather we are looking to place reliance on this work.

3.5 In this area of work, we are only assessing whether or not the arrangements are adequate. Therefore these tests are not designed to identify all matters relating to securing strategic and operational objectives, performance management and consultation that may be relevant to those charged with governance. To complete this work we will review the work to date of the Audit Commission Relationship Manager on the Direction of Travel Statement.

3.6 We are yet to complete our audit work in this area. Should there be any matters arising from this work that require reporting to the Corporate Governance Panel, we will notify you of these matters as soon as possible.

Data Quality Audit Work

3.7 The Audit Commission has mandated that a separate piece of audit work be completed to be able to form a satisfactory conclusion in respect of Code criteria four above. This piece of work involves a review to determine whether proper corporate management arrangements for data quality are in place, and whether these are being applied in practice.

3.8 We are required to assess the Council against five key themes, being governance, policies, systems and processes, people and skills and data use. There are a series of key lines of audit enquiry underpinning each of these themes, which form the basis for collecting evidence to support the conclusions drawn from the data quality audit work. The five themes are scored on a level from one (arrangements are below minimum requirements) to four (arrangements are well above minimum requirements).

3.9 We are only required to assess whether or not the Council has adequate arrangements, being a score of level two or above, to be able to provide an unqualified conclusion in respect of data quality.

- 3.10 Our review of data quality is ongoing, but there are no factors arising from our audit work that indicate that the arrangements the Council has in place to secure data quality are not adequate. Therefore we do not anticipate the Use of Resources conclusion to be qualified as a result of our data quality audit work. However, should there be any other matters arising from our review of data quality then we will notify you of these matters as soon as possible.
- 3.11 We anticipate providing a detailed report on our data quality work to the Corporate Governance Panel meeting to be held on 13 December 2006.

Use of Resources Judgements

- 3.12 The results of our Use of Resources judgements audit work were reported to the Corporate Governance Panel in March 2006. A summary of the scores has been re-produced in Table 3:.

Table 3 - overall Use of Resources theme scores

Use of Resources Theme	Score
1 Financial reporting	2
2 Financial management	3
3 Financial standing	3
4 Internal Control	2
5 Value for money	3

- 3.13 In order for an unqualified Use of Resources conclusion to be provided in respect of the relevant Code criteria a local government body should achieve the minimum standards at Level two under the relevant Use of Resources judgements.
- 3.14 A score of at least 'two' was achieved in each of the key lines of enquiry that are relevant to the Use of Resources conclusion. The main areas for improvement identified from our original review were:
- The need to continue to strengthen and embed risk management arrangements throughout the Council, and
 - The development of an assurance framework to provide information to support the Statement on Internal Control.
- 3.15 We are yet to complete our finalisation procedures in this area, which involves obtaining an update on the key lines of enquiry relevant to the Use of Resources conclusion. We will complete this work in September 2006, and will report to you should there be any matters that require your attention.

Use of Resources Conclusion

- 3.16 Having completed our work on the audit of the Council's accounts and undertaken the work required to assess the criteria set out above, we anticipate that we will provide the Council with an unqualified conclusion on its arrangements for securing economy, efficiency and effectiveness in the use of its resources, subject to the satisfactory completion of the audit work detailed above.

Audit of the Best Value Performance Plan

- 3.17 There currently remains a requirement for all councils to produce a Best Value Performance Plan (BVPP) and for auditors to undertake a compliance audit.
- 3.18 We assessed the BVPP for compliance against the criteria specified in the ODPM circular 03/2003 and related addendum as well as guidance from the Audit Commission.
- 3.19 Our audit confirmed that in all significant respects the Council prepared and published its BVPP in accordance with the law and regulations governing it. Accordingly we issued an unqualified audit opinion on the plan with no recommendations made to either the Audit Commission or the Secretary of State.

Appendix A – Accounts adjustments agreed

Finding	Summary of adjustment agreed
Adjustments that affect results reported in the main financial statements	
None	
Classification adjustments that affect the manner in which results are disclosed in the financial statements – these adjustments have no impact on the Council’s reserves position or on reported CRA performance	
Fixed Assets – Disposals	
<p>A non-operational asset with a net book value of £489,000 held as surplus for disposal was disposed of during March 2006.</p> <p>This asset was not removed from the Fixed Asset Register (FAR) and is included within the Fixed Assets values in the draft financial statements. Fixed assets are overstated by £489,000.</p>	<p>The disposals should be reflected in the financial accounts.</p> <p>Dr Fixed Asset Restatement Account £489,000 Cr Non-operational Assets £489,000</p>
Consolidated Balance Sheet (CBS) – Intangible Assets	
<p>During 2005/6, £12,526,000 of long-term investments managed by two investment fund-holders were capitalised by the Council as non-specified investments. These have been included within intangible fixed assets on the CBS.</p> <p>This is consistent with the accounting treatment in 2004/5, which we understand was agreed with their previous auditors.</p> <p>We do not consider that the investments meets the criteria of an intangible asset and should be reclassified as long-term investments.</p>	<p>Reclassify non-specified investments as long term investments to reflect their nature.</p> <p>Dr Long Term Investments £12,526,000 Cr Intangible Assets £12,526,000</p>

Finding	Summary of adjustment agreed
Consolidated Revenue Account (CRA)	
<p>The transfer from the underspending reserve has been overstated in the draft Consolidated Revenue Account (CRA) by £131,000. The actual amount transferred was £122,000.</p> <p>This adjustment therefore increases the earmarked reserve for underspendings by £131,000 but increases the use of general reserves by £131,000 to £358,000.</p>	<p>Reduction of transfer from underspending reserve by £131,000 to £122,000.</p> <p>Adjustments as a result of this misstatement are also required to the Consolidated Balance Sheet (CBS) and Statement of Total Movement in Reserves.</p>
Note 1 to the CBS, Fixed Assets	
<p>A reconciliation of the figures included within the CBS for each category of assets was undertaken to the Council's Fixed Asset Register. We have identified a number of classification adjustments to the disclosures in the accounts.</p>	<p>The following reclassifications should be made within the fixed asset disclosure note:</p> <p><u>Operating Assets</u></p> <ul style="list-style-type: none"> - Bus Stations Dr £60,000 (£679,000) - Transportation Cr £60,000 (£685,000) - County parks and recreation grounds Dr £11,000 (£959,000) - Parks and Open Spaces Improvements Cr £11,000 (£691,000) - Vehicles and Plant Dr £10,000 (£2,539,000) - Computer and Office Equipment Cr £10,000 (£206,000) <p><u>Non-Operational Assets</u></p> <p>Balance brought forward incorrect in Note 1:</p> <ul style="list-style-type: none"> - Estates Dr £104,000 (£2,266,000) - Industrial properties Cr £104,000 (£5,038,000) <p><u>Intangible Assets</u></p> <p>Balance brought forward in Note 1; reduction of £8,000 required.</p>
Disclosure adjustments that only require changes to the notes to the accounts	
<p>A number of disclosure adjustments have been agreed to improve clarity and presentation of the accounts which do not affect the reported financial position.</p>	
Capital commitments	
<p>Audit testing has identified that capital commitments as at 31 March 2006 have been overstated within Note 1 to the draft CBS.</p>	<p>Capital commitments figure reported as part of Note 1, Assets, to the CBS to be restated from £3 million to £2.762m.</p>

Finding	Summary of adjustment agreed
Deferred Charges	
<p>Whilst in accordance with the SORP , deferred charges have not been included on the face of the CBS, they have been included within Note 1 to the CBS, Fixed Assets,.</p> <p>The SORP requires that movements of deferred charges are disclosed in the notes to the accounts. However, as they are not assets this should be disclosed as a separate note.</p> <p>The SORP suggests that this information should be disclosed after assets and before financing of capital expenditure.</p>	<p>The year-on-year movement of deferred charges should be disclosed as a separate note to the CBS.</p>
The Collection Fund	
<p>The SORP requires that the following is disclosed as a note to the Collection Fund:</p> <p style="padding-left: 40px;">The name of each authority which made a significant precept or demand on the fund and the amount for each authority.</p> <p>This information is not included as a note to the Collection Fund within the draft financial statements.</p>	<p>To ensure compliance with the SORP, this information should be presented as a note to the Collection Fund for those authorities with a precept which is considered to be significant.</p>
Accounting Policies – Depreciation	
<p>Testing undertaken on the calculation of depreciation highlighted that the information included within accounting policy 11 on depreciation does not accurately reflect current practice at the Council.</p> <p>For instance, some buildings have an Useful Economic Life (UEL) in excess of 40 years and some equipment is depreciated over a period of longer than 10 years.</p>	<p>Explanations considered to be reasonable have been provided where there appear to be differences between stated depreciation policies and depreciation in practice.</p> <p>However, an amendment should be made to the wording of the policy to ensure it accurately reflects Council practices.</p>
Cashflow Statement	
<p>The SORP requires a note to the cashflow statement reconciling items included under the Financing and Management of Liquid Resources section to the opening and closing balance sheets. This note has not been included within the draft financial statements.</p>	<p>A note should be included that reconciles items included under the Financing and Management of Liquid Resources section to the opening and closing balance sheets.</p>

Finding	Summary of adjustment agreed									
Pensions Liability										
<p><u>Note 5 to the CRA – Pensions and movements in net pensions asset/liability</u></p> <p>A disclosure note relating to assumptions in respect of commutation adjustments relating to the change to the Local Government Pension Scheme (LGPS) has not been included in the draft financial statements as required by LAAP Bulletin 65. This bulletin was issued after the Council had approved its accounts.</p>	<p>The Council should disclose that the approach taken by the actuaries in arriving at the estimation of the valuation of the Council's retirement scheme is that no allowance for the change to the LGPS has been made. Standard wording recommended for this disclosure is included within LAAP Bulletin 65.</p>									
Note 5 to the CBS, Leases										
<p>The 2005/6 payment for operating leases has been overstated by £201,000.</p>	<p>2005/6 payment for operating leases to be amended to £23,000.</p>									
<p>Note 4 to the Consolidated Revenue Account (CRA) Trading Undertakings</p> <p>The figures included in Note 4 for turnover and surplus for industrial and commercial properties were misstated in the finalised 2004/5 accounts and require amendment.</p>	<p>An adjustment is required to Note 4. 2004/5 figures should be shown as restated with amounts as follows:</p> <table border="0" data-bbox="810 1016 1391 1128"> <thead> <tr> <th></th> <th style="text-align: right;">Turnover</th> <th style="text-align: right;">Surplus</th> </tr> </thead> <tbody> <tr> <td>Industrial properties</td> <td style="text-align: right;">£514,000</td> <td style="text-align: right;">£168,000</td> </tr> <tr> <td>Commercial Properties</td> <td style="text-align: right;">£160,000</td> <td style="text-align: right;">£49,000</td> </tr> </tbody> </table>		Turnover	Surplus	Industrial properties	£514,000	£168,000	Commercial Properties	£160,000	£49,000
	Turnover	Surplus								
Industrial properties	£514,000	£168,000								
Commercial Properties	£160,000	£49,000								
Disclosure of fixed assets										
<p>Non-operational assets have not been broken down into the categories required by the SORP. Surplus Assets held for Disposal should be identified separately in the notes to the accounts.</p>	<p>Fixed assets should be re-categorised into headings that comply with the SORP.</p>									
Note 2 to the CRA – Leisure Centre Management Committees										
<p>There is a understatement of £29,000 between the figure included in Note 2 to the CRA for deficit funding for individual leisure centres and that included in the Leisure Centre accounts.</p>	<p>Note 2 to be revised to reflect actual figures from Leisure Centre accounts.</p>									
Note 7 to the CRA, Transfer from the Capital Financing Account										
<p>Deferred charges for 2004/5 have been overstated by £545,000 in Note 7, Transfer from the Capital Financing Account. Depreciation has been understated by the same amount.</p> <p>The correct charge for depreciation has been included within Note 6 to the CRA, Asset Management Revenue Account Movements.</p>	<p>Adjustments to be made to reflect correct breakdown per 2004/05 accounts.</p>									

Appendix B – Action Plan

Finding	Action required for 2005-06 Accounts	Other system improvement required	Management response	Implementation Date
<p>Fixed Asset Disposals As a result of the audit, the Council has identified that a non-operational asset included within the draft 2005/6 Consolidated Balance Sheet (CBS) was disposed of for a sum of £489,000 during March 2006. This asset was not removed from the Fixed Asset Register (FAR) and its net book value is included within the draft Consolidated Balance Sheet (CBS).</p>	<p>Appropriate adjustments should be made to Fixed Assets as shown in the CBS and to the Fixed Asset Restatement Reserve. Any adjustments made will require tracing through to the Statement of Movement in Reserves.</p>	<p>Weaknesses have been identified in the processes in place for maintaining the FAR. The Council should review its procedures in this area to ensure that all disposals are notified promptly to finance to ensure that the balance sheet is correctly stated.</p>	<p>Agreed</p>	<p>December 2006</p>
<p>Prepayment calculations A review of pre-payments identified that in some cases they had been incorrectly calculated (an error rate of 14.5% in the 48 items sampled). The value of the error has been extrapolated at £15,000 across all prepayments and is not material</p>	<p>None – amount is not material.</p>	<p>The Council should include specific guidance on the calculation of prepayments in the accounts closedown processes in future years.</p>	<p>Agreed</p>	<p>March 2007</p>

Finding	Action required for 2005-06 Accounts	Other system improvement required	Management response	Implementation Date
<p>Journal authorisation</p> <p>From review of year-end journals it was noted that there is no authorisation or review process in place at the Council. Journals can be posted by all accountancy staff.</p> <p>There is therefore an increased risk of errors or other misstatement arising from journal processing.</p>	None	We consider that journal entries should be subject to independent review and approval.	<p>Not Agreed</p> <p>Journals can only be processed by accountancy staff who work in small teams under the supervision of a Principal Accountant. They are experienced and competent staff. In the circumstances and given the number of journals processed per year the level of risk is low and the resources required for effective checking not warranted.</p>	
<p>Prior year adjustment</p> <p>The Council has processed a prior year adjustment for its deferred credit liability for 2004/5. An adjustment of £51,000 has been made to prior year reported figures following the receipt of a contribution towards capital expenditure, thereby reducing the amount of deferred credit liability outstanding and</p>	Additional disclosures should be made in the accounts to reflect the restated figures for 2004/05.	The Council should consult with external audit when considering future prior year adjustments to ensure they meet the requirements of the SORP.	Agreed	Ongoing

Finding	Action required for 2005-06 Accounts	Other system improvement required	Management response	Implementation Date
<p>increasing the capital finance account by £51,000. This adjustment does not meet the requirements of the SORP.</p>				
<p>Fixed asset disclosures</p> <p>The CBS should only include two lines in respect of Assets, these being intangible fixed assets and intangible fixed assets.</p> <p>Note 1, Assets, should contain the detail which is currently disclosed within the draft CBS. The additional information as disclosed in the draft Note 1 is unnecessary in terms of information required to be provided within the Council's financial statements and is not clear to the reader.</p>	None	The balance sheet and note 1 should be reviewed and the format amended in future years to ensure that information presented is easily understood by the reader.	Agreed	March 2007
<p>Disclosure of long term debtors</p> <p>An amount of £143,000 relating to a loan to St Neots Town Council has been included in long-term debtors. £8,893 of this loan is due for repayment in 2006/7 and should be included in current debtors.</p> <p>Note 7 to the Consolidated Balance Sheet, Debtors, includes a balance of £120,000 due for loans to employees repayable within five years. Part of this debtor should, therefore, be classified as a long-term debtor.</p>	None	The Council should consider in future years whether long term debtor balances are significantly material to warrant the split between current and long term debts.	Agreed	March 2007

Appendix C – Audit fee update and reports issued in year

Audit area	Plan 2005/06	Actual 2005/06
Accounts	35,000	TBC
Performance	47,000	TBC
Total Code of Audit Practice fee	82,000	TBC
Grant claim certification	25,000	See below
Additional voluntary work (under section 35)	N/a	N/a
Total	107,000	TBC

Grant claim certification work will be completed between September and December 2006.

Reports and opinions issued in the year

Report title	Date issued
Best Value Performance Indicators – Audit Opinion on 2004/05 outturn	October 2005
Best Value Performance Plan Audit Opinion – 2005/06	November 2005
Use of Resources 2005/06 Judgements report	March 2006
Audit and Inspection Plan 2006/07	June 2006
Annual Audit letter – 2004/05	March 2006

Appendix D – Statement of Responsibilities in respect of the audit of the financial statements

The financial statements, which comprise the published accounts of the audited body, are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources.

It is the responsibility of the audited body to:

- put in place systems of internal control to ensure the regularity and lawfulness of transactions;
- maintain proper accounting records; and
- prepare financial statements that present fairly the financial position of the body and its expenditure and income.

The audited body is also responsible for preparing and publishing with its financial statements a statement on internal control.

Auditors audit the financial statements and give their opinion, including:

- (a) whether they present fairly the financial position of the audited body and its expenditure and income for the year in question; and
- (b) whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards.

Subject to the concept of materiality, auditors provide reasonable assurance that the financial statements:

- (a) are free from material misstatement, whether caused by fraud or other irregularity or error;
- (b) comply with statutory and other applicable requirements; and
- (c) comply with all relevant requirements for accounting presentation and disclosure.

Auditors examine selected transactions and balances on a test basis and assess the significant estimates and judgements made by the audited body in preparing the statements.

Auditors evaluate significant financial systems, and the associated internal financial controls, for the purpose of giving their opinion on the financial statements. Where auditors identify any weaknesses in such systems and controls, they will draw them to the attention of the audited body, but they cannot be expected to identify all weaknesses that may exist.

Auditors review whether the 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. 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.

Appendix E – Statement of Responsibilities in relation to arrangements for securing economy, efficiency and effectiveness in the use of resources

It is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them. Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:

- establishing strategic and operational objectives;
- determining policy and making decisions;
- ensuring that services meet the needs of users and taxpayers and for engaging with the wider community;
- ensuring compliance with established policies, procedures, laws and regulations;
- identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working;
- ensuring compliance with the general duty of best value, where applicable;
- managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body;
- monitoring and reviewing performance, including arrangements to ensure data quality; and
- ensuring that the audited body's affairs are managed in accordance with proper standards of financial conduct, and to prevent and detect fraud and corruption.

The audited body is responsible for reporting on these arrangements as part of its annual statement on internal control.

Auditors have a responsibility to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In meeting this responsibility auditors should review and, where appropriate, examine evidence that is relevant to the audited body's corporate performance management and financial management arrangements, as summarised above, and report on these arrangements. Auditors 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.

Auditors are responsible for reporting annually their conclusion, having regard to relevant criteria specified by the Audit Commission, as to whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Auditors report if significant matters have come to their attention that prevent them from concluding that the audited body has put in place proper arrangements.

However, auditors are not required to consider whether aspects of the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources are effective.

In planning their audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, auditors consider and assess the relevant significant business risks. These are the significant operational and financial risks to the achievement of the audited body's statutory functions and objectives, which apply to the audited body and are relevant to auditors' responsibilities under the Code, and the arrangements it has put in place to manage these risks. The auditor's assessment of what is significant is a matter of professional judgement and includes consideration of both the quantitative and qualitative aspects of the item or subject matter in question. Auditors discuss their assessment of risk with the audited body.

When assessing risk auditors consider:

- the relevance and significance of the potential business risks faced by all bodies of a particular type;
- other risks that apply specifically to individual audited bodies;
- the audited body's own assessment of the risks it faces; and
- the arrangements put in place by the body to manage and address its risks.

In assessing risks auditors have regard to:

- evidence gained from previous audit work, including the response of the audited body to previous audit work;
- the results of assessments of performance carried out by the Commission;
- the work of other statutory inspectorates; and
- relevant improvement needs, identified in discussion with the Commission or other statutory inspectorates.

Where auditors rely on the reports of statutory inspectorates as evidence relevant to the audited body's corporate performance management and financial management arrangements, the conclusions and judgements in such reports remain the responsibility of the relevant inspectorate or review agency.

In reviewing the audited body's arrangements for its use of resources, it is not part of auditors' functions to question the merits of the policies of the audited body, but auditors may examine the arrangements by which policy decisions are reached and consider the effects of the implementation of policy. It is the responsibility of the audited body to decide whether and how to implement any recommendations made by auditors and, in making any recommendations, auditors should avoid any perception that they have any role in the decision making arrangements of the audited body.

While auditors may review audited bodies' arrangements for securing economy, efficiency and effectiveness in the use of resources, they cannot be relied on to have identified every weakness or every opportunity for improvement. Audited bodies should consider auditors' conclusions and recommendations in their broader operational or other relevant context.

Auditors are not required to report to audited bodies on the accuracy of performance information that the audited bodies publish. Auditors' work is limited to a review of the systems put in place by the audited body to collect, record and publish the information, in accordance with guidance issued by the Commission. Nor are auditors

required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by those audited bodies that are required to prepare best value performance plans.

Audit work in relation to the audited body's arrangements to ensure that its affairs are managed in accordance with proper standards of financial conduct, and to prevent and detect fraud and corruption, does not remove the possibility that breaches of proper standards of financial conduct, or fraud and corruption, have occurred and remained undetected. Nor is it auditors' responsibility to prevent or detect breaches of proper standards of financial conduct, or fraud and corruption, although they will be alert to the possibility and will act promptly if grounds for suspicion come to their notice.