

AUDIT COMMITTEE	AGENDA ITEM No. 3
27 SEPTEMBER 2010	PUBLIC REPORT

Cabinet Member(s) responsible:	Resources portfolio holder, Cllr Seaton	
Contact Officer(s):	John Harrison, Executive Director of Strategic Resources Steven Pilsworth, Head of Corporate Services	☎ 452398 ☎ 384564

EXTERNAL AUDIT: 2009/10 REPORT TO THOSE CHARGED WITH GOVERNANCE AND STATEMENT OF ACCOUNTS

R E C O M M E N D A T I O N S	
FROM : John Harrison, Executive Director Strategic Resources	Deadline date : 27 September 2010
The Audit Committee is asked to:-	
<ol style="list-style-type: none"> 1. Receive the “2009/10 Report to those charged with governance” from PricewaterhouseCoopers (PwC), the Council’s external auditors. 2. To approve the Chief Finance Officer’s recommendation in paragraph 4.5 that the unadjusted items in the report are adjusted in 2010/11. 3. Receive and approve the audited Statement of Accounts 2009/10 	

1. ORIGIN OF REPORT

- 1.1. This report is submitted to Audit Committee following completion of the External Audit on the Statement of Accounts 2009/10 by PricewaterhouseCoopers (PwC). This report is required to be considered by the Audit Committee on behalf of the Council by 30th September 2010.
- 1.2. This report follows on from the consideration and approval of the Council’s Statement of Accounts by this Committee on 28th June 2010.
- 1.3. This report is submitted by the Council’s Section 151 Officer, the Executive Director Strategic Resources, as part of his statutory duties.

2. PURPOSE AND REASON FOR REPORT

The purpose of this report is for the Audit Committee to:

- Receive and note the “2009/10 Report to those charged with governance” from PwC on behalf of the Council.
- To make any necessary recommendations in light of the report
- To receive and approve the audited Statement of Accounts.

3. TIMESCALE

Is this a Major Policy Item / Statutory Plan?	NO	If Yes, date for relevant Cabinet Meeting	N/A
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4. 2009/10 REPORT TO THOSE CHARGED WITH GOVERNANCE

4.1. The External auditors have a statutory requirement to report to members under the Audit Commission’s Code of Audit Practice and International Standard of Auditing (UK and Ireland) (ISA(UK&I) 260 – “Communication of audit matters with those charged with governance”. The report is known as the ISA 260.

4.2. The report for 2009/10 from PricewaterhouseCoopers, our External Auditors is attached at Appendix 1.

4.3. There are a number of sections within the report as follows:

a) Executive summary – Describes the purpose of the report and key findings.

b) Financial Statements

Accounts – States that the audit is complete.

Accounting Issues – This section details two issues (these are considered in greater detail in 4.4):

- Accounting for Private Finance Initiative (PFI) schemes
- Cash Balances

c) Systems of Internal Control

No material weaknesses are reported.

d) Accounting Practices

This section provides PwC’s view on various qualitative aspects of the Council’s accounting policies and financial reporting.

e) Value for Money in the Use of Resources

Updates on Use of Resources work. Whilst the Comprehensive Area Assessment (CAA) has now been abolished PwC are still required by the Code of Audit Practice to provide a conclusion on the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources.

4.4. The following table provides further detail on the Accounting Issues raised in the PwC report, and the actions the Council has / will undertake:

PwC Report	Management Action
<p>In 2009/10 a change to the recommended accounting practice meant the Council was required to bring Private Finance Initiative (PFI) scheme onto its balance sheet.</p> <p>An error was found with the technical accounting treatment of an element of the PFI scheme.</p>	<p>The Council was required to use the original PFI operator’s model in order to calculate the accounting transactions required to make this technical adjustment. An assumption was made with regards to how the Council’s prepayments (made in 2006/07 and 2007/08) had been included within the operator’s model. This led to the Council’s assets and liabilities being overstated in the draft accounts.</p> <p>The Council has amended the accounts in response to this error. As this was a technical change in accounting treatment this error is unlikely to reoccur.</p>
<p>The Council incorrectly included £204k within its cash balance.</p>	<p>Historically, the Council collected monies on behalf of Cross Key Homes. This arrangement was amended in a prior year so that the cash received no longer entered into the Council’s bank account directly although it was still handled by the Council. The accounting interface was not updated to reflect this change in process.</p> <p>This led to an overstatement of assets and liabilities in the Council’s balance sheet.</p>

PwC Report	Management Action
	An amendment has now been made to the Council's bank reconciliation process, and investigation are being undertaken to change interface outputs from the Council's cash collecting system.

4.5. PwC, in Appendix 1, identify two unadjusted misstatements:

- Clearance of duplicate cheque - £30k
- Cash balance incorrectly included within debtors - £15k

It is recommended that these are not adjusted in the 2009/10 accounts as their effect both individually and in aggregate is not material to the financial statements either taken as a whole or in connection with the ability properly to assess the performance and/or the financial position of the Council.

5. MANAGEMENT REPRESENTATION LETTER

5.1. The Executive Director Strategic Resources, as Chief Finance Officer, is required to make representations on behalf of the Council in a number of areas in relation to the preparation of the Statement of Accounts. The letter is attached at Appendix 2 for review by Audit Committee and a copy will be signed by the Executive Director Strategic Resources following this committee meeting.

6. STATEMENT OF ACCOUNTS 2009/10

- 6.1. The production of a timely Statement of Accounts, which is free from material error, is a key test of the robustness of financial processes and underpins the financial standing of an organisation.
- 6.2. As noted in the PricewaterhouseCoopers (PwC) report, the Council has established a good track record of preparing quality draft accounts and electronic working papers and this good practice has continued for the 2009/10 accounts. This has subsequently enabled the audit process to be completed efficiently with the number of additional auditor queries kept to a minimum.
- 6.3. The draft Statement of Accounts was approved by Audit Committee on 28th June 2010 and has subsequently been the subject of external audit by PwC.
- 6.4. The Audit culminated in a clearance meeting on 15th September 2010, which included PwC's Engagement Manager and the Council's Executive Director Strategic Resources. The meeting is the opportunity for PwC to outline their key findings and for the Section 151 Officer to challenge those findings where necessary.
- 6.5. Following the external audit a few amendments have been made to the draft Statement of Accounts, which is a credit to all the staff involved in their production and the Audit Committee for their robust challenge. Thanks are extended to all staff who contributed to the closure process, either directly or indirectly.
- 6.6. The audited Statement of Accounts for 2009/10 is attached at Appendix 3.

7. CONSULTATION

The draft PwC report was discussed with the Executive Director Strategic Resources at the final audit clearance meeting on 15th September 2010.

8. ANTICIPATED OUTCOMES

As set out in the report.

9. REASONS FOR RECOMMENDATIONS

Para 2.2.19 of the Constitution requires the Audit Committee to “review the annual statement of accounts, specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.”

10. ALTERNATIVE OPTIONS CONSIDERED

The Statement of Accounts has been prepared in accordance with the SORP and hence there are no alternative formats.

11. IMPLICATIONS

There are no legal or financial implications of this report.

12. BACKGROUND DOCUMENTS

(Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)

Council Constitution