

**AUDIT COMMISSION ISA 260 (UK&I) AUDIT AND AMENDED STATEMENT OF  
ACCOUNTS  
WDA/31/09**

**Recommendation**

That:

1. the Auditor's findings attached at Appendix 1 (to follow and possibly tabled on the day) to the report be noted;
2. Members note the recommendations contained within the auditor's report to strengthen the Authority's financial and governance arrangements and grant delegated powers of the Authority to the Director to finalise the proposed action plan;
3. the Treasurer of the Authority sign the letter of representation attached at Appendix 2; and
4. Members approve the amended Statement of Accounts 2008/09 attached at Appendix 3 and agree that it be signed by the Chairperson and the Treasurer on behalf of the Authority (to follow and possibly tabled on the day)

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**Report of the Director**

**1. Purpose of the Report**

- 1.1 To present Members with the findings, conclusions and recommendations resulting from the Audit Commission's review of the Authority's performance in compliance with ISA 260 (UK&I).

**2. Background**

- 2.1 The Code of Audit Practice 2005 requires the Audit Commission who act as the Authority's external auditor, to produce a "Report to Those Charged with Governance".
- 2.2 This covers all of the auditor's responsibilities under the Code and incorporates an audit of the accounts required by professional auditing standards and a value for money conclusion.
- 2.3 These findings inform the Annual Audit Letter which is a high level, concise report covering only the key issues arising from the audit and is published later in the year,.

**3. Report to those Charged with Governance**

- 3.1 The Audit Commission's report is being prepared and will follow when available as Appendix 1 to this report. The report will include the auditor's opinion in relation to:
- the Authority's financial statements 2008/09
  - a Value for Money conclusion in relation to 2008/09
- 3.2 The Auditor is likely to propose an unqualified opinion and value for money conclusion but this will depend upon the completion of the audit which was ongoing when this report was prepared. It is likely that the audit will be

concluded by the time of the Authority meeting and Members will be provided with a verbal update at that time.

- 3.3 The auditor's report is expected to highlight some areas of improvement for action by the Director and this report has been prepared on the basis of the recommendations contained within the draft report.
- 3.4 The auditor has made a number of recommendations for improvements to the way the Authority prepares its statement of accounts and in particular the way assets are categorised and valued. Implementing these recommendations will improve the quality of information in the Authority's financial statements.
- 3.5 The auditor has also made recommendations for improvements in the Authority's governance arrangements, including ensuring that the arrangements for the Authority's externally provided support services are formalised.

#### **4. Amendments to the Statement of Accounts 2008/09**

- 4.1 During the audit process, the Auditor has highlighted a number of amendments required to the Authority's Statement of Accounts 2008/09.
- 4.2 The most significant matters arising from the audit of accounts are as follows:
  - Revenue expenditure classified as capital.
    - The audit for 2007-08 highlighted amounts included as capital expenditure in relation to the procurement of new contracts. The report highlighted the risk that delays in the project may mean the treatment of these costs as capital expenditure would not be appropriate as it may not be possible to attach the expenditure to a tangible asset.
    - During 2008-09 spending on the procurement has continued to be classified as capital, the procurement has not progressed as expected and at this stage there is no asset. In this circumstance FRS15 makes it clear that it is not appropriate to consider the procurement costs as capital. Following the audit expenditure of £1.8m has been reclassified, moving it from capital to revenue expenditure.
    - The amendment of capital to revenue expenditure has also meant that external borrowing to fund the expenditure is

reduced by £1.8m, as borrowing may only be used to fund capital expenditure. The overall effect of this amendment is that the Authority's financial performance for the year moves from a surplus of £3.2m to a surplus of £1.4m and in consequence the General Fund balance will reduce from £8.3m to £6.5m.

- There are a number of amendments to the accounts to reflect the change in categorisation.
- Group accounts
  - The authority's statement of accounts includes Group Accounts which consolidate the financial activity of the Authority with those of the companies controlled by the Authority.
  - The audit of the Authority accounts includes a review of the Group Accounts consolidation. As part of this exercise the auditor identified a number of amendments that were required before an unqualified opinion could be issued on the accounts.
- 4.3 An amended Statement of Accounts 2008/09 is attached at Appendix 3 for Members' approval. Members are also asked to approve that it be signed by the Chairperson and the Treasurer on behalf of the Authority.
- 4.4 Members are also requested to approve that the Treasurer sign a letter of representation on behalf of the Authority, which provides assurances that the financial statements present a fair and accurate representation. The proposed letter of representation is attached at Appendix 2.

## **5. Risk Implications**

- 5.1 The Authority has a statutory duty to publish audited accounts each year and failure to do so would lead to a qualified opinion by the Authority's external auditors.

## **6. HR Implications**

- 6.1 There are no HR implications associated with this report.

## **7. Environmental Implications**

- 7.1 There are no environmental implications associated with this report.

## **8. Financial Implications**

- 8.1 The amendment changing capital expenditure to revenue will lead to a reduction in the General Reserve of £1.8m.

## **9. Conclusion**

- 9.1 Members are asked to approve the amended Statement of Accounts 2008/09, note the recommendations contained within the auditor's report to strengthen the Authority's financial and governance arrangements and grant delegated powers to the Director to finalise the proposed action plan appended to the Auditor's report.

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The background documents to this report are open to inspection in accordance with Section 100D of The Local Government Act 1972 - Nil.