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Dear Steve

Correction to 2007/08 financial statements

On 9 April 2009, William Jacobs notified me of a potential error within the 2007/08 financial statements that had come to light as a result of work done to close down the 2008/09 statements. As this had a significant impact on the general fund balances, he asked me to liaise with Alice Brander to ascertain the details, and to report on whether I agreed with Alice's interpretation of the accounting transactions and the implications for the Council.

After obtaining initial information from Alice, I have sought further guidance within the Audit Commission, and also met with William, Alice and Steve Lawrence on 1 June 2009. I have also referred to the SORP applicable to the 2007/08 accounts, the SORP for 2008/09 and LAAP bulletin 81 (issued April 2009) which clarify the correct accounting treatment for deferred grants and deferred charges.

As a result I agree the transactions within the 2007/08 accounts were incomplete. There were two transactions omitted. Both of these related to the reversal of deferred charges out of the I&E.

The first omission related to a grant received in 2006/07 which had been taken to the balance sheet, but was now taken through the I&E as required by the revised SORP. This was brought into the I&E above the line as required, and should then have been reversed out below. This was not done.

The second omission related to the grant funding element of deferred charges. Entries bringing in deferred charges into service accounts and writing it out to the CAA through the SMGFB were obvious on the face of the statements. However, grant funding income was also included above the line (as required by the SORP), but this was not reversed out below. The need to net off any income from expenditure for deferred charges has been clarified by the latest SORP and LAAP bulletin.

The net impact of the two errors is that the general fund balance was overstated by £707k, and the CAA understated by a corresponding amount.

At the 1 June 2009 meeting, William asked why our audit procedures did not highlight the omissions from the statements.

In answering this, it is important to consider our responsibilities as appointed auditors. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). In doing this, we are not expected to look at all transactions, or to identify all errors within the statements. We are required to form an opinion on whether the accounts present fairly.

As with all our audit work, the extent of work we undertook to deliver our opinion was based on a risk assessment of the likelihood of material errors in the financial statements. I set out below the approach we followed during 2007/08 relating to both completeness of the statements and capital transactions.

For risks of completeness within the statements, we consider controls operating within key financial systems that feed figures into the statements for specific risks and carry out testing on the financial statements specified by the Audit Commission. In 2007/08 we identified a particular risk around the completeness of debtor income and carried out additional testing in areas where income was less than that budgeted for. We also identified a potential weakness in the approval of journal entries, and examined a sample of year end journals for reasonableness, etc.

On top of work to address the risks identified around completeness, we also carried out work around overall completeness of financial statements, and completed the SORP compliance checklist issued by the Audit Commission. We also reviewed completion of key system reconciliations.

None of this work identified any issues or risks relating to capital transactions.

For capital balances within the statements, we took a number of factors into account in reaching a risk assessment. The capital accountant, Steve Lawrence, is very experienced and has a good track record of accurate interpretation of SORP requirements for capital accounting. Whilst capital accounting is by its nature complicated, with a history of sound accounting at the Council we assessed this as a low risk area.

The detail of the work undertaken is set out in an appendix to this letter.

2007/08 was also a year where the changes to the SORP were relatively small. The Council managed the extremely complicated changes in 2006/07 well and this also supported a low risk approach.

I can confirm that the work carried out was in line with international auditing standards and consistent with Audit Commission procedures.

Yours sincerely

Anne Ockleston
Audit Manager

cc Maria Grindley, District Auditor

Appendix: work carried out on capital transactions during 2007/08 opinion audit

CAA

- movements on the Capital Adjustment Account were reviewed to ensure that they had either been tested elsewhere and were consistent with other entries within the statements, or they were supported by working papers produced by the capital accountant.
- the account's opening balance was checked to ensure it comprised the 2006/07 closing balance on the capital financing account and the write down of the 2006/07 closing balance on the Fixed Asset Restatement Account

This work did not highlight any concerns around accounting entries in the CAA.

Government Grants

- Government grants were reviewed to ensure that the grants shown on the face of the I&E were not attributable to specific services (as required by SORP).
- The deferred grants note was reviewed to ensure the deferred grants related to capital projects and were written down to the I&E in year in line with accounting policies.

This work did not highlight any concerns around the treatment of grants within the financial statements.

SMGFB

- The transactions within the SMGFB were reviewed for consistency with SORP, and with figures tested elsewhere within the statements e.g. for the disposal of fixed assets. Where these had not been tested e.g. deferred charges, the working paper supporting the transaction was obtained and checked for consistency the transactions with other statements e.g. CAA

This work did not highlight any risks around capital transactions.

The omitted transactions would have impacted on the SMGFB so it is worth noting the SORP guidance notes applicable at that time:

SORP extract

5.28 The amounts in addition to the Income and Expenditure Account surplus or deficit for the year that are required by statute and non-statutory proper practices to be charged or credited to the General Fund in determining the movement on the General Fund Balance for the year are:

- Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year
- • Depreciation and impairment of fixed assets (in England this should exclude depreciation charged to HRA services)

- • In England only the excess of depreciation charged to HRA services over the Major Repairs Allowance element of Housing Subsidy
- • Government Grants Deferred amortisation matching depreciation and impairments
- • Amounts treated as revenue expenditure in accordance with the SORP but which are classified as capital expenditure by statute (ie Deferred Charges in England and Wales)
- • Net gain or loss on sale of fixed assets
- • Amount by which finance costs calculated in accordance with the SORP are different from the amount of finance costs calculated in accordance with statutory requirements
- • Amount by which pension costs calculated in accordance with the SORP (ie in accordance with FRS 17) are different from the contributions due under the pension scheme regulations

The need to ensure that transactions which did not match depreciation and impairments (which would have covered improvement grants) was not specifically stated, and has been clarified in the recent bulletin issued.