

Financial Statements Report

Date

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# **Report on the 2004/05 financial statements to the Audit & Governance Committee**

**West Berkshire Council**

**Audit 2004/2005**

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## Introduction

- 1 Professional auditing standards require auditors to report certain matters arising from the audit of the financial statements to 'those charged with governance':
  - expected modifications to the audit report;
  - unadjusted non-trifling misstatements;
  - material weaknesses in accounting and internal control systems;
  - qualitative aspects of accounting practice and financial reporting;
  - matters required by other auditing standards to be reported to those charged with governance; and
  - other matters that we wish to draw to your attention.
  - We have agreed with the Council that the communications required under these auditing standards would be with the Audit and Governance Committee. This report sets out for the Committee's consideration the matters arising from the audit of the financial statements for 2004/05.

## Status of the audit

- 2 Our work on the financial statements is now substantially complete, although there are still some outstanding queries to be resolved. In particular, the following work is has yet to be concluded:
  - Verification of the adjustment A in respect of the minimum revenue provision calculation following implementation of the new Prudential code;
  - Treatment of the Council's share of the land compensation claim settlement for the land purchased in Bracknell by the former Berkshire County Council; and
  - Identification and treatment of the difference between the opening and closing net debit on the old business rates system (*BRATES*) and the new local taxation system (*SX3*).
- 3 In addition, there are a number of minor issues we are pursuing with officers which are unlikely to have a material impact on the Council's accounts. Should any further matters arise in concluding the outstanding work that require reporting, we will raise them with the Chair of this Committee.
- 4 Subject to the satisfactory conclusion of the work outstanding, and the receipt of:
  - signed letter of representation (a draft is attached at Appendix 2); and
  - revised financial statements incorporating agreed amendments.we anticipate being able to issue an unqualified opinion (a draft report is attached at Appendix 1).

## Matters to be reported to those charged with governance

- 5 We have the following matters to draw to the Audit and Governance Committee's attention.

### Expected modifications to the audit report

- On the basis of our audit work we currently propose to issue a standard report including an unqualified opinion (see draft at Appendix 1), subject to the resolution of the treatment of the land compensation.

### Unadjusted misstatements

- Our audit identified the following non-trifling misstatements in the financial statements that management has decided not to adjust:
  - The Council has included an amount of £984,000 in creditors in respect of housing benefit monies due to the government department. However, the pre-audit housing benefit claim shows a balance due of £233,000 indicating an over provision of £751,000. The Council are reviewing the basis of the accounting entries to ascertain the reasons for the discrepancy and to ensure full compliance with the revised CIPFA guidance issued recently.
- We are also required to consider reporting adjusted misstatements to you where these are material and are relevant to your governance responsibilities. We draw your attention to the following material misstatements that management has agreed to adjust:
  - Debtors and overdrawn cash balances were both overstated by c£2 million in respect of unallocated cash receipts. These were posted to debtors instead of a reduction to the cash suspense accounts as a result of a timing issue in identifying the correct allocation of suspense items.
  - Depreciation was overstated by £1,314,000 due to difficulties in obtaining the appropriate reports from the new accounting system; and
  - Overdrawn pension reserve has been adjusted from £2 million to £25 million following the audit of the Royal County of Berkshire LG Pension Fund and the actuary's re-calculation of the distributed assets.

### Material weaknesses in accounting and internal control systems

- Our audit did not identify any material weaknesses in systems of accounting and financial control other than those that have already been reported by both internal and external audit.

## **Qualitative aspects of accounting practices and financial reporting**

- Our audit identified a number of areas within the financial statements which were not compliant with the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (SORP). In particular we identified:
  - Omission of some disclosure notes;
  - Omission of relevant accounting policies; and
  - Balance sheet accounts not fully up-dated to reflect new requirements.

Although these items are not individually significant it is important that in future the Council fully complies with the SORP requirements.

## **Other matters that we wish to draw to your attention**

- The 2004/05 accounts were prepared and submitted a month before the due date of 31 July 2005 and the Council are to be commended for achieving this earlier deadline. Working papers produced to support the financial statements were generally of good quality. However this area is a key component of the Audit Commission's use of resources assessment and the Council will need to ensure that:
  - there is a continued drive to improve the quality of working papers; and
  - comprehensive and cross-referenced working papers are available at the commencement of the audit.

## **Next steps**

- 6 We are drawing these matters to the Audit and Governance Committee's attention so that you can consider them before the financial statements are approved and certified.
- 7 In particular, this provides the Committee with the opportunity to amend the financial statements for the unadjusted misstatements/significant qualitative aspects of financial reporting issues identified above. Should you chose not to amend the financial statements, we are required by SAS 610 to request from you a letter of representation explaining why you are not adjusting the financial statements. We ask that the letter specifically details the mis-statements and/or qualitative aspects of reporting to which it relates, either in the body of the letter or in a document appended to it.

## **Appendix 1 – Independent Auditor’s Report to West Berkshire Council**

I have audited the statement of accounts on pages A to F which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages X to Y.

This report is made solely to West Berkshire Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

### **Respective responsibilities of the Head of Resources and Commissioning and Auditor**

As described on page x the Head of Resources and Commissioning is responsible for the preparation of the statement of accounts in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2004. My responsibilities, as independent auditor, are established by statute, the Code of Audit Practice issued by the Audit Commission and my profession’s ethical guidance.

I report to you my opinion as to whether the statement of accounts present fairly the financial position of the Council and its income and expenditure for the year.

I review whether the statement on internal control on page x reflects compliance with CIPFA’s guidance ‘The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003’ published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider whether the statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of the Council’s corporate governance procedures or its risk and control procedures. My review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

I read the other information published with the statement of accounts and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

## **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the statement of accounts is free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion, I evaluated the overall adequacy of the presentation of the information in the financial statements.

## **Opinion**

In my opinion the statement of accounts presents fairly the financial position of West Berkshire Council as at 31 March 2005 and its income and expenditure for the year then ended.

## **Certificate**

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Mick West, District Auditor  
Unit 5, Isis Business Centre, Isis Business Centre  
Horspath Road, Cowley, Oxford OX4 2RD



## Appendix 2 – Draft letter of representation 2004/05 accounts

(Council Letter Head)

To: District Auditor

Date: (dated on, or shortly before the auditor signs the audit opinion)

(Please add in any other representations that you need to make to the Auditor to the list below and delete any that are not relevant to you)

Dear

### Letter of Representation

- 8 We are writing in connection with your examination of the statements of accounts of West Berkshire Council for the period ended 31 March 2005 for the purpose of expressing an opinion as to whether the financial statements present fairly the financial transactions of the council, the financial position at the year end and the income and expenditure for the year.
- 9 We confirm that the following representations are made on the basis of enquiries of Members and Officers 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:

### General

- 10 We have made available to you:
  - accounting and financial records and related data
  - minutes of the council and management meetings and related information.
- 11 All the transactions undertaken by the council have been properly reflected and recorded in the accounting records, in accordance with the Code of Practice on Local Authority Accounting, all applicable SSAPs/FRSs and other relevant guidance.

### Related party transactions

- 12 Registers of interest are complete and up to date in respect of members and key managers.
- 13 Guidance has been issued by the council to make members and key officers aware of the requirement to declare all interests relevant to the council, including interests of families, partners and entities controlled by them.

- 14 There are no other material transactions with related parties, other than those which have been properly recorded and disclosed in the financial statements.

### **Contingent liabilities**

- 15 There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:
- there are no significant pending or threatened litigation, other than those already disclosed in the financial statements.
  - there are no material commitments or contractual issues, other than those already disclosed in the financial statements.

### **Fixed Assets – impairments**

- 16 There are no material events or changes in circumstances that indicate a reduction in the value of the Council's fixed assets as defined in the Code of Practice on Local Authority Accounting.

### **Law, regulations and codes of practice**

- 17 There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finance or operation of the Council.
- 18 No matters have come to our attention which lead us to exercise our formal powers as Monitoring Officer and Responsible Financial Officer to report to the Council.

### **Post balance sheet events**

- 19 Since the date of approval of the financial statements by Members of the Council, there have been no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

### **Exercise of public rights**

- 20 The Council has complied with the provisions of the Audit Commission Act 1998 and the Accounts and Audit Regulations 2003 relating to public inspection of the accounts and documents relating thereto.

### **Adjustments to the accounts**

- 21 No adjustments to the accounts have been made after the date on which they were placed on deposit except with your consent.

### **Statement of Internal Control**

- 22 We have undertaken sufficient work to satisfy ourselves that we can, as Members, sign the requisite disclosures in respect of the Statement of Internal

Control in accordance with Regulation 4 of the Accounts and Audit Regulations 2003 and CIPFA guidance.

- 23 No material developments have occurred since the balance sheet date which should be disclosed in the Statement of internal Control.

Signed on behalf of West Berkshire Council

[Name]  
Monitoring Officer

[Name]  
Responsible Financial Officer

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