



St Neots Town Council

Audit of Accounts 2009-10
Annual Report to those Charged with Governance

September 2010

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1 Executive Summary

Purpose of the report

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the objectivity of the engagement team
- nature and scope of the audit work
- the form of reports expected.

- 1.1 This report has been prepared for the benefit of discussion between Grant Thornton UK LLP and the Full Council of St Neots Town Council (the Council). The purpose of this report is to highlight the key issues arising from the audit of the Council's financial statements for the year ending 31 March 2010.
- 1.2 This report meets the mandatory requirements of International Standard on Auditing 260 (ISA 260) to report the outcome of the audit to 'those charged with governance', designated as the Full Council. The requirements of ISA260, and how we have discharged them, are set out in more detail at Appendix A. This report also represents our Annual Audit letter to the Council.
- 1.3 The Council is responsible for the preparation of financial statements which record its financial position as at 31 March 2010, 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 a true and fair view of the financial position.
- 1.4 Under the Audit Commission's Code of Audit Practice 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 work prescribed by the Audit Commission.

Audit conclusions

Financial Statements Opinion

- 1.5 We were presented with draft financial statements and accompanying working papers in advance of the deadline date of 30 June 2010. The working papers were of a good standard and enabled an efficient audit to take place.
- 1.6 We confirm no formal objections were raised on the accounts during the course of our audit.
- 1.7 We anticipate providing an unqualified opinion on the Council's financial statements, following approval of the accounts by the Town Council on xx September 2010
- 1.8 Further details of the outcome of our financial statements audit are given in Section Two.

Use of Resources Conclusion

- 1.9 In providing our opinion on the financial statements we are required to reach a conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).
- 1.10 Our Value for Money Conclusion is informed by our work on the UoR assessment. In order for us to provide a positive conclusion, the Council has to achieve a 'yes' judgement against relevant Key Line of Enquiry (KLOE) criteria as determined by the Audit Commission. At the time of writing this report, we expect to issue an 'except for' VFM conclusion.
- 1.11 The key messages from our review of the Council's use of resources arrangements are:
- The Council does not currently have a medium term financial plan. There is a Forward Plan in place that covers the period 2007-2011, but this contains limited detail on future financial plans. The Plan in its current format does not meet the requirements of a medium term financial plan and is not considered to be an effective tool for managing the Council's finances.
 - The Council does not consider its financial information alongside related non-financial performance information.
 - Key information is not readily available through the Council's website. For instance, the Council's accounts and our Report to those Charged with Governance for 2008/09 are not available via the website.
- 1.12 Further information on the outcome of our Use of Resources audit is contained in Section Two.

The way forward

- 1.13 Matters arising from the financial statements audit have been discussed with the Town Clerk and Responsible Finance Officer. We have made a number of recommendations, which are set out in the action plan at Appendix C. These have been agreed with the Council.

Use of this report

- 1.14 This report has been prepared solely for use by the Council to discharge our responsibilities under ISA260, and should not be used for any other purpose. We assume no responsibility to any other person. This report should be read in conjunction with the Statement of Responsibilities and the Council's Letter of Representation.

Acknowledgements

- 1.15 We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP

September 2010

2 Detailed Findings

Introduction

- 2.1 This section provides a summary of findings arising from our audit of the financial statements. This includes matters arising from our evaluation of key controls and comment on the Councils overall financial position.

Status of the audit

- 2.2 We carried out our audit in accordance with the Audit Approach Memorandum issued to the Council on 17 May 2010. Our audit is substantially complete, subject to the following finalisation procedures:
- review of the final version of the financial statements
 - obtaining and reviewing solicitors responses to requests for information
 - obtaining and reviewing the Council's Letter of Representation
 - updating our post balance sheet events review to the date of signing the accounts.

Key risks

- 2.3 From 2009/10 there was a change in the basis of the preparation of the accounts and larger local councils were required to prepare their accounts in accordance with the proper accounting practices found in the Financial Reporting Standard for Smaller Entities (the FRSSE) and in accordance with Part 4 of Governance and Accountability for Local Councils: A Practitioners' Guide 2010 (England). As a result of the change in the basis of preparation of the accounts there were a number of transitional changes that the Council was required to make to the presentation of the financial statements and restatement of the prior year accounts was required.
- 2.4 Our 2009/10 Accounts Audit Memorandum set out the key risks relating to the audit of the financial statements. As part of our audit we considered the risks identified and have set out in Exhibit One below the outcome of the work completed. Our review of the risks facing the Council has not identified any additional risk areas.

Exhibit One: 2009/10 Key risks

Key risk	Work completed	Further work required
Risk 1		
<p>Financial Reporting Standard for Smaller Entities (FRSSE) From 2009/10, larger local councils must prepare accounts in accordance with the proper accounting practices found in the Financial Reporting Standard for Smaller Entities (the FRSSE) and in accordance with Part 4 of Governance and Accountability for Local Councils: A Practitioners' Guide 2010 (England).</p> <p>The most significant issues to note in relation to the transition are:</p> <ul style="list-style-type: none"> • restating prior year comparators • format and contents of the accounts, in particular the Income & Expenditure Account • the valuation of fixed assets 	<p>We liaised with the Council throughout the accounts preparation process to support the change to preparing financial statements in accordance with the FRSSE and undertook an initial review of the accounts prior to the start of the audit.</p> <p>Our audit procedures focused on those areas most impacted by the change to FRSSE accounting and have provided assurance that the accounts presented as amended are in accordance with reporting requirements</p>	None
Risk 2		
<p>The Council received an 'adverse' VFM conclusion in the prior year.</p> <p>We reported to the Council the weaknesses in its arrangements that resulted in the 'adverse' conclusion and made recommendations to the Council in order to improve the systems and processes it has in place.</p>	<p>We have completed our Use of Resources assessment. Although, the Council has made improvements, we will be issuing an 'except for' conclusion in respect of 2009/10. in relation to medium term financial planning and arrangements for financial reporting to Members.</p>	<p>We have made recommendations for improvement. We will review these areas again in 2010/11.</p>

2.5 Full Council should confirm that it is not aware of any additional material risk areas facing the Council, including significant fraud risks.

Audit conclusions

Financial Statements Opinion

- 2.6 We anticipate providing an unqualified opinion on the Council's financial statements, following approval of the accounts by the Full Council on 30 September 2010.
- 2.7 There were no material mis-statements identified as a result of our audit. A number of non-material adjustments were made to the draft accounts along with a number of presentational and disclosure adjustments which were not considered material to the reported financial performance but should be considered by the Council. Details of the significant adjustments are set out in paragraphs 2.13 to 2.16 below and in Appendix B.

Value for Money Conclusion

- 2.8 Our Value for Money conclusion is drawn from our work on the Audit Commission's Use of Resources assessment framework. In order for us to provide a positive conclusion, the Council needs to achieve a 'yes' judgement against criteria determined by the Audit Commission to assess whether it has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our proposed assessment for the Council is summarised below.

Exhibit Two: Provisional 2010 UoR assessment and comparison to 2009

Assessment:
Yes - Adequate arrangements in place to secure VFM
No - Inadequate arrangements in place to secure VFM

Key Line of Enquiry	2010	2009
1.1 Financial planning and financial health	No	No
1.2 Understanding costs and achieving efficiencies	Yes	No
1.3 Financial reporting	No	No
2.3 Governance Arrangements	Yes	Not assessed under 2009 UoR
2.4 Risk management and internal control	Yes	No

- 2.9 Our work identified that the Council had made improvements in year to its arrangements to ensure Value for Money under the use of resources assessment. However, further improvements are still required to key areas of the Council's activities, including the development of a robust and detailed medium term financial plan, ensuring the Council is considering non-financial performance alongside financial performance and ensuring that key information on the Council's activities is readily accessible to stakeholders and residents.

2.10 To reach our conclusion for each Key Line of Enquiry (KLoE), we have reviewed key documentation including policies, procedures and minutes of Council meetings. We have set out a summary of our findings in Exhibit Three:

Exhibit Three: Summary - Use of Resources

Key Line of Enquiry	Audit Assessment	Summary of Findings
1.1 Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	No	The Council does not currently have a medium term financial plan. There is a Forward Plan that covers the period 2007-2011, but this contains limited detail on future financial plans. The Plan in its current format does not meet the requirements of a medium term financial plan and is not considered to be an effective tool for managing the Council's finances. The Forward Plan covers a fixed four year period and does not represent a rolling financial forecast. This means that at the end of year 4, there is no medium term plan in place and a new four year plan has to be developed. This does not aid long term financial planning, meaning that only shorter-term objectives can be planned for.
1.2 Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	Yes	The Council has set a balanced budget and controls its costs through its budget monitoring processes. There is evidence that the Council considers costs and benefits when making resource allocation decisions.

<p>1.3 Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?</p>	<p>No</p>	<p>Whilst there have been improvements in the Council's financial reporting and budget monitoring processes during the year, there is no integration of financial and non-financial performance reporting. This is important for the Council to understand how the financial decisions it is making are impacting upon the delivery of its priorities.</p> <p>Key financial information is not readily available via the Council's website.</p>
<p>2.3 Does the organisation promote and demonstrate the principles and values of good governance?</p>	<p>Yes</p>	<p>The Council has appropriate policies and procedures in place in order to ensure effective governance. There is evidence of improvement in working relationships between officers and Members of the Council over the last 12 months and there is no new evidence of some of the disruptive behaviour that had been prevalent at the Council in the past.</p> <p>It should be noted however, that only 10 Councillors attended Code of Conduct refresher training during the year.</p>
<p>2.4 Does the organisation manage its risks and maintain a sound system of internal control?</p>	<p>Yes</p>	<p>The Council has made improvements over the last 12 months. There is a Risk Management Strategy in place and an up-to-date risk register is maintained. The Town Council has a Counter Fraud and Corruption Strategy which forms part of its Constitution and is accessible to all. The Council has appointed an internal auditor and a planned programme of work for the 2009/10 financial year has been completed. No significant issues were identified as a result of this work.</p>

2.11 Based on the UoR assessment above, we propose to give an 'except for' Use of Resources conclusion.

Matters arising from the financial statements audit

- 2.12 We were presented with draft accounts on 5 July following their approval by the Full Council on 30 June 2010 in line with the national deadline.
- 2.13 Matters arising from the financial statements audit are set out below and in detail in Appendix B. None of the adjustments identified have impacted on the reported surplus for the year. Where appropriate, we have made recommendations for improvement, as set out in the agreed action plan at Appendix C.
- 2.14 Prior to the commencement of our on-site work, a full review of the draft accounts was undertaken for compliance with the new FRSSE reporting requirements. A number of amendments were identified which were processed by the Council and a revised version of the accounts presented for audit. These amendments included:
- the removal of the Revaluation Reserve from the accounts with the balance being incorporated into the Capital Financing Account; and
 - the removal of the note on Section 137 expenditure not required by the FRSSE or guidance.
- 2.15 The Council had not accounted for its employer pension fund contributions in the correct section of its income and expenditure account. These should have been accounted for as part of salaries and wages costs within operating expenditure, not as a pension fund adjustment. An adjustment to the accounts has been. There is no impact on the reported surplus for the year.
- 2.16 The Council had not separately disclosed the short and long term elements of its borrowing. The long-term liabilities note has been restated to include the related short term elements of the amounts due.
- 2.17 A number of other presentational and disclosure issues were identified and have all been processed.

Related Party Transactions

- 2.18 In accordance with the requirements of the FRSSE, the Council has made disclosures within its financial statements of its related party transactions made during the year. We have reviewed these as part of our detailed audit procedures and have gained assurance that these are fairly stated.
- 2.19 It is important that the Council continues to maintain up-to-date details of Officer and Members interests in potential related party organisations and that any transactions between these and the Council are disclosed where material in the financial statements. Full Council should satisfy itself that it has appropriate arrangements in place for the declaration of interests and that where such transactions do occur and are declared that they comply with the highest standards of corporate governance. Not only must Council members and officers comply with the FRSSE, they should be seen by the local community to be transparent, open and objective in all business details relating to the Council, its staff and its assets.

Financial performance

- 2.20 The Council reported a surplus of £121k and, following transfers from other reserves, increased its General Reserve balance to £335k. We have considered the Council's ability to continue as a going concern taking into account its budget for 2010/11. We have also reviewed the general reserve balance which at its current level is around the level required by the Council's General Reserve Policy and have gained assurance that the Council is able to continue as a going concern.

Annual Governance Statement (AGS)

- 2.21 We reviewed the draft AGS and made a number of recommendations for changes to its content to clarify the detail included on the systems and processes in place at the Council to provide assurance that it has proper arrangements in place for governance. We are satisfied that the revised AGS complies with guidance and is in accordance with our knowledge of the Council.

Annual report

- 2.22 We reviewed the draft annual report and made recommendations to improve its content and presentation. These have been processed by management and we are satisfied that its content is in accordance with our knowledge of the Council.

Next steps

- 2.23 The Council is required to approve the financial statements. In forming its conclusions, the Council's attention is drawn to the required Letter of Representation.

A Reporting requirements of ISA 260

The principal purpose of the ISA 260 report is:

To reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and those charged with governance.

To share information to assist both the auditor and those charged with governance fulfil their respective responsibilities.

To provide to those charged with governance constructive observations arising from the audit process.

ISA260 reporting requirement	Key messages
Independence	<p>We are able to confirm our independence and objectivity as auditors and draw attention to the following points:</p> <ul style="list-style-type: none"> • We are independently appointed by the Audit Commission. • The firm has been assessed by the Audit Commission as complying with its required quality standards. • The appointed auditor and client service manager are subject to rotation in line with the Audit Commission's requirements. • We comply with the Auditing Practices Board's Ethical Standards. • We have not provided any non audit services in 2009-10.
Audit Approach	<p>Our approach to the audit was set out in our 2009-10 audit plan and Audit Approach Memorandum. We have planned our audit in accordance with auditing standards and the Audit Commission's Code of Audit Practice.</p> <p>We consider the materiality of items in the financial statements in determining the audit approach and in determining the impact of any errors.</p>

ISA260 reporting requirement	Key messages
Accounting Policies	<p>The Council has adopted appropriate accounting policies in accordance with the Joint Practitioners' Advisory Group (JPAG) Governance and Accountability for Local Councils Practitioners Guide which interprets the Financial Reporting Standard for Smaller Entities (FRSSE) for Larger Local Councils.</p> <p>Full Council should confirm that it is satisfied that the accounting policies adopted are the most appropriate, as required by FRS 18.</p> <p>We have considered the Council's financial plans and consider it appropriate for the Council to continue to account on a going concern basis.</p>
Material Risks	<p>Full Council should confirm that it is not aware of any additional material risk areas facing the Council, including significant fraud risks.</p> <p>We have requested from the Council a Letter of Representation, to state that there are no additional material risks and exposures as at 30 September 2010, which should be reflected in the financial statements.</p> <p>We will also perform our own audit procedures to ensure that all significant risks and exposures to the Council have been recognised in the accounts as at September 2010.</p>
Audit Adjustments	<p>We have discussed with management adjustments to the accounts to improve the clarity and presentation of disclosure notes. These adjustments have all been processed by management.</p>
Other Matters	<p>We have made recommendations in respect of areas for improvement. Recommendations and agreed action are listed in the Action Plan at Appendix C.</p>

B Adjustments to the financial statements

The table below lists all significant audit adjustments which have been processed and agreed with the Council's Responsible Finance Officer.

Adjustment Type

Misstatement - A change to the value of a balance presented in the financial statements.

Classification - The movement of a balance from one location in the accounts to another.

Disclosure - A change to the way in which a balance is disclosed or presented in an explanatory note.

Adjustment type	£000	Accounts balance	Impact on financial statements
Classification	21 (2008/09) 16 (2009/10)	Pension Fund Adjustment The Pension Fund Adjustments disclosed beneath net operating surplus in the income and expenditure account should be reversed to above the line as this entry is only required where the substance of a defined benefit contribution scheme exists. The amounts should be accounted for against the appropriate 'Salaries and Wages' line detail within the I&E	None
Classification	5 (2008/09)	Lease hire contract costs included in Democratic Management and Civic Other Costs should be included as Direct Service Other Costs.	None

Adjustment type	£000	Accounts balance	Impact on financial statements
Disclosure	1	<p>Capital Financing Account</p> <p>2008/09 comparator: Loans fund principles repayment should be amended to include the voluntary repayment amount of £1,180.</p> <p>The Statutory Charge for Capital included in the Income and Expenditure account should be restated for the same amount to include all principle repayments of expenditure met by borrowing.</p>	None

C Management Action Plan

Rec. No.	Para Ref	Recommendation	Priority H/M/L	Town Council Response	Implementation date and responsibility
1	2.10	<p>Medium Term Financial Planning</p> <p>The Council does not produce a rolling medium term financial plan.</p> <p>To enable effective financial management, the Council should develop a Medium Term Financial Plan which covers a period of five years. This should include indicative forecasts for both revenue and capital expenditure. The Plan should be reviewed on an annual basis.</p>	High	Procedures are in place in order to prepare a five year rolling medium term plan to comply with External Audit requirements. This is for the Councillors to decide upon and the RFO & the Town Clerk to action. A working party will be formed to progress this.	31 st March 2011 RFO & Town Clerk and the all Councillors
2	2.10	<p>Financial and Non-Financial Performance Reporting</p> <p>The Council does not produce integrated financial and non-financial performance reports.</p> <p>The Council should look to integrate financial and non-financial performance reporting. This will help to ensure that relationships between costs and performance are considered together and aid review of progress against performance targets and ultimately corporate priorities</p>	High	Non Financial reports are currently taken to Council on an annual basis. These will now be taken to Council on a six monthly basis.	31 st March 2011 RFO & Town Clerk

3	2.10	Accessibility to Key Council Information The Council should ensure that key documentation is accessible via the website. This information should include approved accounts and our Reports to Those Charged with Governance.		The Council has been looking to improve their website for a number of months and this is now nearing completion. A completely new and exciting website has been designed especially for the Council.	30 th November 2010 Office Manager
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