



**St Neots Town Council**

**Annual report to those charged with  
governance 2007/08**

**May 2009**

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# 1 Executive Summary

## Background and purpose of the report

- 1.1 St Neots Town Council ('the Council') is responsible for the preparation of accounts which record its financial position as at 31 March 2008 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 accounts 'present fairly' the financial position of the Council. Our detailed findings are set out in section two.
- 1.2 Under the Audit Commission's Code of Audit Practice (the Code) we are also required to reach a conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion'). The pieces of work that have informed our VFM conclusion, and our detailed findings, are set out in section three.
- 1.3 The Audit Commission's Statement of Responsibilities, which sets out the respective responsibilities of the Council and the auditor in relation to the accounts and arrangements for securing economy, efficiency and effectiveness in the use of resources, have been re-produced in full in Appendices C and D and reflects the scope of our audit.
- 1.4 This report summarises the principal matters arising from our audit. The issues raised have been discussed with the Acting Town Clerk and the Responsible Finance Officer (RFO). Auditing standards require us, as the Council's external auditors, to report to those charged with governance certain matters before giving an opinion on the accounts and the Code of Audit Practice requires us to report key matters relating to our VFM conclusion. For the Council, this function will be carried out by the full Town Council at its meeting on 18 June 2009.

## The accounts opinion

- 1.5 We carry out work to enable us to report to the Council our opinion as to whether the financial statements 'present fairly' the financial position of the Council in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 ('the SORP'). We have performed our audit of the 2007/08 accounts in accordance with the Audit Commission's Code of Audit Practice and applicable auditing standards. Our approach follows that set out in the Audit and Inspection Plan 2007/08, agreed with the Council.
- 1.6 At the time of reporting to the Town Council, the audit is substantially complete and we expect to issue an **unqualified opinion on the Council's accounts**.

- 1.7 Our audit identified a number of significant adjustments which were required to ensure that the accounts are free from material error and misstatements. Adjustments were also required to the prior year comparatives.
- 1.8 During April 2008, the Responsible Finance Officer (RFO) who had held the post for several years left the employment of the Council. A replacement RFO was subsequently appointed and was required to prepare the 2007/8 financial statements for audit. The RFO encountered significant difficulties with this process due to a lack of audit trail to support opening balances for 2007/8 and key Council financial documents such as the approved 2007/8 budget, compounded by a lack of financial monitoring reporting in year and general disorganisation of accounting records. As a result the accounts were not approved by a meeting of the full Town Council until 8 October, some 14 weeks after the statutory deadline for approval.
- 1.9 Section 4 of this report highlights weaknesses in governance procedures identified at the Council as a result of the audit of the financial statements and action plan for improvement is set out in Appendix A.
- 1.10 As a result of the audit, a number of adjustments were required to the approved financial statements to ensure that they were compliant with the accounting requirements of the Local Government SORP. The full list of adjustments that been made to the accounts have been included at Appendix B. The most significant of these adjustments are:
- A forty year loan in respect of the building of the Priory Centre taken out by the Council in 1980 had never been recognised in the accounts. The existence of this loan had never been brought to the attention of the Council's auditors. It is not known how the loan was initially accounted for. The 2006/7 accounts have been restated to bring the loan into the accounts, this has had an impact on both the income and expenditure account and the balance sheet. Full detail of the transactions that have been processed through the accounts to bring in the loan are detailed in Appendix B.
  - Revaluation gains of £654k on the Council's land and buildings and community assets had been recognised in the approved accounts. Audit procedures identified that £410k of the gain should not be recognised as the valuations were not conducted in accordance with RICS Guidelines on the Valuation of Assets (the Red Book). Adjustments have been made to the financial statements so that the reported revaluation gains on land and buildings reflect only those arising from the revaluation exercise completed by the District Valuer.
- 1.11 There were a number of areas, as set out in Appendix B, where the draft accounts did not comply with the 2007 SORP, including:
- lack of disclosure notes for financial instruments;
  - not replacing the Fixed Asset Restatement Account (FARA) and Capital Financing Account (CFA) with a Revaluation Reserve and Capital Adjustment Account (CAA) respectively, and
  - the incorrect recognition of long and short-term debtors in respect of loan payments due to the Council.

- 1.12 We recommended a number of changes to the Annual Governance Statement ('AGS') to ensure that is aligned with the "Delivering Good Governance In Local Authorities" framework as published by SOLACE and CIPFA. These changes have been processed by the Council.
- 1.13 Further details of our accounts audit are given in section two.

### Value for Money Conclusion

- 1.14 We have substantially completed our work on the Council's arrangements for achieving economy, efficiency and effectiveness in its use of resources and we will issue an **adverse VFM conclusion**.
- 1.15 There are 12 criteria against which a body's arrangements are assessed, 11 of which are applicable to the Council. We consider that the Council had inadequate arrangements in place in respect of 10 of these criteria during 2007/8. The only criterion where we consider the Council's arrangements to be adequate is in relation to "Communication with service users and other stakeholder and partners". The existence of this loan had never been brought to the attention of the Council's auditors.
- 1.16 Section three of this report includes detailed information on how we have arrived at our **adverse VFM conclusion**.

### Use of this report

- 1.17 This report has been prepared solely for use by the Council to discharge our responsibilities under the Audit Commission Code of Audit Practice and relevant auditing standards and should not be used for any other purpose. No responsibility is assumed by us to any other person. This report should be read in conjunction with the Council's draft letter of management representation.
- 1.18 This report includes only those matters that have come to our attention as a result of performance of our audit. An audit of the accounts and Use of Resources is not designed to identify all matters that may be relevant to those charged with governance. Accordingly the audit does not ordinarily identify all such matters.
- 1.19 We would like to take this opportunity to remind the Town Council of the need to monitor implementation of the recommendations arising out of this report (see Appendix A).

### Governance arrangements

- 1.20 A number of significant weaknesses in governance arrangements at the Council have been identified as a result of discussions with Officers and Members and through our audit processes. The departure of the Responsible Finance Officer (RFO) during 2007/08 led to a number of financial management issues being identified which have yet to be fully addressed

- 1.21 The Town Clerk also left the Town Council in 2008/9 and has yet to be replaced with the Deputy Town Clerk acting as Town Clerk. The Council has a small establishment of staff and we remain concerned that with vacant posts there is inadequate separation of duties and a lack of management capacity in terms of available resource to progress the changes needed to systems and procedures at the required rate of change. This is a significant failing in governance.
- 1.22 The failings in the Council's governance and accounting arrangements have resulted in a major increase in the cost of the audit. Our budgeted fees were £10,000 and we estimate the final cost of the audit including Public interest reporting to be £20,000.

### **Public Interest reporting**

- 1.23 Section 8 of the Audit Commission Act 1998 requires auditors to consider whether in the public interest they should make a report on matters arising from the audit. As a result of the delays in the production of the accounts and the financial and governance issues identified during our audit, we will publish a Report in the Public Interest highlighting the actions required by the Council to improve its arrangements upon completion of our audit. The findings set out in this report will form the basis of the Report in the Public Interest. The Council will be required to respond in public within a statutory deadline to the issues we will raise in the Public Interest Report.

### **Independence**

- 1.24 We are able to confirm our independence and objectivity as auditors and note the following:
- 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 after a period of no longer than five years
  - we comply with the Auditing Practices Board's Ethical Standards. We have not undertaken any non-audit work for the Council in 2007/08

### **Acknowledgements**

- 1.20 We would like to record our appreciation for the co-operation and assistance provided to us by the Council's officers and members during the course of our audit.

**Grant Thornton UK LLP**  
**May 2009**

## 2 The accounts opinion

### Introduction

- 2.1 We summarise in this section matters arising from our audit of the Council's 2007/08 accounts which we are required, under auditing standards, to report to those charged with governance.

### Approach to the audit

- 2.2 We carry out work to enable us to report to the Council our opinion as to whether the financial statements 'present fairly' the financial position of the Council in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 ('the SORP').
- 2.3 Our approach to the audit was set out in our 2007/08 Audit and Inspection plan. We have planned our audit in accordance with auditing standards and the Audit Commission's Code of Audit Practice.
- 2.4 Other key factors to highlight include:
- we consider the materiality of items in the accounts both in determining the audit approach and in determining the impact of any errors
  - we have been able to place reliance on the key accounting systems operating at the Council for final accounts audit purposes
  - we have been able to place reliance on the work of internal audit in respect of the key accounting systems covered by their review
  - no significant changes have been made to our audit approach in the year.

### Financial Performance

- 2.5 The Council has reported a surplus on the Income and Expenditure account of £117,717 and increased the general fund balance for the year by £55,755, after adjustments identified by the audit. It has not been possible to compare spend to budget as a final budget for 2007/8 was not available. Weaknesses in the Council's controls around effective budgetary control and management are included in sections 3 and 4 of this report.

### Key audit findings

- 2.6 We summarise our key audit findings below:

Area	Key messages
Accounting policies and practices	<p>Although the Council has adopted appropriate accounting policies, in accordance with the 2007 SORP, there were two key areas where the Council failed to identify new requirements relating to the 2007/08 accounts and the draft accounts did not include:</p> <ul style="list-style-type: none"> <li>• Financial Instruments disclosures</li> <li>• The replacement of the Fixed Asset Restatement Account and Capital Financing Account by a Revaluation Reserve and Capital Adjustment Account.</li> </ul> <p>A number of other presentational changes were required to the accounting policies to ensure that they were compliant with the SORP and that they fitted the definition of principles, bases, conventions, rules and practices applied by the Council which specify how the effects of transactions and other events are reflected in its financial statements.</p> <p>We reviewed the Annual Governance Statement and proposed a number of changes to it to ensure that it complies with the "Delivering Good Governance in Local Authorities" framework.</p> <p>We are satisfied that the relevant financial information disclosed in the Explanatory Foreword is consistent with the accounts.</p>
Material risks and exposures	<p>The Council has confirmed in its draft letter of representation that it has no material risks and exposures, to date, which should be reflected in the accounts.</p> <p>Our audit procedures have not identified any significant risks and exposures to the Council, to date, which should be reflected in the accounts.</p> <p>This review will be updated on the date the Council signs the final letter of representation and we sign our audit opinion.</p>

Area	Key messages
<p>Audit adjustments</p>	<p>A number of significant adjustments have been made to the accounts, resulting in the surplus for the year as approved by the Council in September changing from £74k to £118k in the final set of accounts.</p> <p>Significant adjustments processed in the accounts have been included in Appendix B to this report. These include:</p> <ul style="list-style-type: none"> <li>• The RFO identified that a loan that the Council received from Huntingdonshire District Council in 1980 in respect of the Priory Centre had not previously been recognised in the Council's accounts. This has now been brought into the accounts with effect from 2006/7 and a long-term creditor of £116k has been recognised in the balance sheet as at 31 March 2008.</li> <li>• Revaluation gains of £654k on the Council's land and buildings and community assets had been recognised in the approved accounts. Audit procedures identified that £410k of the gain should not be recognised as the valuations were not conducted in accordance with RICS Guidelines on the Valuation of Assets (the "Red Book"). Revaluation gains on land and buildings totalling £244k arising from the District Valuer's revaluation have been included in the financial statements.</li> </ul> <p>We also recommended a number of presentational adjustments to the accounts, including the reclassifications of balances and the inclusion of financial instrument disclosures. Details of significant adjustments are included in Appendix B.</p>
<p>Unadjusted errors</p>	<p>Management agreed to process all proposed adjustments, detailed in Appendix B. There are no unadjusted errors to report to the Council.</p>

Area	Key messages
Other matters	<p>The statutory deadline for the approval of the Council's accounts was 30 June 2008. We were presented with draft accounts on 16 September 2008. The accounts were reviewed by the Audit Committee on 22 September 2008 and approved by the Town Council on 8 October 2008. We have advised the Audit Commission of the late approval in line with the Standing Guidance for Auditors.</p> <p>The overall quality of the Council's working papers to support the draft 2007/08 accounts were adequate. There was a lack of audit trail in some areas and there were difficulties in locating supporting documentation, including invoices and orders. This has been recognised by the Council and the RFO has implemented new processes in 2008/9 to improve audit evidence.</p> <p>Not all working papers were available at the start of the audit, for instance the financial instruments disclosures and there were some delays in obtaining additional information.</p> <p>The appointed day for electors to ask the auditor questions on the accounts was 10 November 2008. We received no questions or objections from the public in relation to the accounts.</p> <p>Having considered the Council's 2008/09 budgets it is considered appropriate for the Council to account on a going concern basis.</p> <p>Where we have identified control issues as a result of our work on the 2007/8 accounts audit we have discussed these with the RFO. These are included in the Action Plan attached at Appendix A.</p>

## Next steps

- 2.7 We will continue to work with the Council to ensure that outstanding finalisation issues are completed.
- 2.8 Subject to satisfactory resolution of the above issues, we expect to issue an **unqualified opinion on the Council's accounts.**
- 2.9 The Council should monitor implementation of the recommendations arising from this report.

## 3 The VFM conclusion

### Introduction

- 3.1 Under the Audit Commission's Code of Audit Practice ('the Code') we are required to reach a conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion'). In meeting this responsibility we review evidence that is relevant to the Council's corporate performance management and financial management arrangements, which are assessed against twelve criteria specified in the Code, eleven of which are applicable to the Council.

### VFM conclusion

- 3.2 We have completed our work on the Council's arrangements for achieving economy, efficiency and effectiveness in its use of resources and we will issue a **qualified VFM conclusion**. The assessment was based on the arrangements that the Council had in place during 2007/8.
- 3.3 Our conclusions for each of the Code criteria applicable to the Council are set out in the table below:

Code area	Arrangements adequate?
Setting, reviewing and implementing strategic and operational objectives	No
Communication with service users and other stakeholders and partners	Yes
Management of performance against strategic objectives	No
Monitoring the quality of published performance information	No
Maintaining a sound system of internal control	No
Managing significant business risks objectives	No
Managing and improving value for money	No
Ensuring that spending matches available resources	No
Managing performance against budgets	No
Managing the asset base	No
Promoting and ensuring probity and propriety in the conduct of business	No

## Detailed Findings

- 3.6 The basis of our conclusion is an assessment of the Council against the Code criteria, for which there are a number of areas against which we assess performance. To reach our conclusion we have held discussions with key Council officers and reviewed key documentation including policies, procedures and minutes of Council and Committee meetings. The results of our review against each criteria are detailed below:

Code Criteria	Audit assessment	Summary of findings
Setting, reviewing and implementing strategic and operational objectives	Inadequate	The Council had a Best Value Performance Plan (BVPP) in place for 2007/8. This outlined objectives and key targets for the year. However, there was no review of progress against objectives during the year and no reporting of performance against the Council's performance indicators included within the BVPP. The Council's Policy and Resources Committee leads on the development of the Council's long term strategy.
Communication with key stakeholders and service users	Adequate	The Council has a number of methods in place for consulting with its users. For instance, the BVPP includes a questionnaire for feedback on its content. The Council works in partnership with the Town Centre Management Initiative and also produces a "Priorities" newsletter for all its residents. The Council has a complaints procedure in place
Management of performance against strategic objectives	Inadequate	There was no monitoring of performance against the Council's local performance indicators during the year. In addition, there was limited monitoring of financial performance in the year.
Monitoring the quality of published performance information	Inadequate	The Council did not collect performance indicator information during 2007/8 and there was no reporting against the targets included in the BVPP to Members or stakeholders.

Code Criteria	Audit assessment	Summary of findings
Maintaining a sound system of internal control	Inadequate	<p>There were no written procedures in place for the accounting system, resulting in significant problems when the new RFO took up post in May 2008.</p> <p>We also considered the arrangements in place to ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. Whilst the Council's Standing Financial Instructions (SFIs) specify the arrangements that should be in place to provide assurance that this happens, it is considered that there was significant non-compliance with the SFIs in the year and that they did not operate effectively.</p>
Managing significant business risks objectives	Inadequate	<p>The Council has a risk management policy and the Audit Committee has specific responsibility for corporate risk management; however, the Council did not maintain a register of its risks during 2007/8.</p>
Managing and improving value for money	Inadequate	<p>There is no evidence that the Council has effective procurement policies in place. Because of the absence of comprehensive financial and non-financial reporting during the year it is not possible to confirm that areas of high spending are identified and subject to review and scrutiny.</p>

Code Criteria	Audit assessment	Summary of findings
Ensuring that spending matches available resources	Inadequate	<p>There was inadequate monitoring of spend against budget during the year. No outturn report was produced for 2007/8 and the financial performance of the Council for the year was not known until the preparation of the financial statements. Subsequently, the audit resulted in a number of adjustments to the approved accounts.</p> <p>The Council does not have a written policy on the level of reserves and balances that it should maintain to ensure that it has a sound financial standing.</p>
Managing performance against budgets	Inadequate	There was inadequate monitoring of the Council's financial performance during the year.
Managing the asset base	Inadequate	The Council does not have an asset management plan in place. There was limited reporting to Members during the year which was insufficient to ensure that Members could fulfill their responsibilities in relation to the Council's land and buildings portfolio.
Promoting and ensuring probity and propriety in the conduct of business	Inadequate	The Council has a formal code of conduct in place for Members and maintains registers of interests and gifts and hospitality. The Council has a Counter Fraud and Corruption Strategy in place along with a whistle-blowing Policy. However, weaknesses in respect of the conduct of the former RFO identified during 2007/8 and their role in ensuring probity and propriety led to our assessment that this criterion has not been met.

## 4 Governance Arrangements

### Introduction

- 4.1 A number of significant weaknesses in governance arrangements at the Council have been identified as a result of discussions with Officers and Members and through our audit processes. The departure of the Responsible Finance Officer (RFO) during 2007/8 led to a number of financial management issues being identified which have as yet not been fully addressed.
- 4.2 The Town Clerk also left the Town Council in 2008/9 and has yet to be replaced with the Deputy Town Clerk is currently fulfilling the function as Acting Town Clerk. The Council has a small establishment of staff and there remain concerns that with vacant posts there are inadequate separation of duties in place and a lack of management capacity to progress the changes needed to systems and procedures at the required rate of change.
- 4.3 The Finance Assistant is currently absent through sickness which also impacts on the ability of the Council to ensure separation of duties and for the current RFO to progress the development and implementation of new financial procedures.

### Weaknesses in Governance Arrangements

- 4.4 There was a lack of clear, detailed and accurate financial reporting during the year and there was poor stewardship of the Council's resources in 2007/8. There was limited reporting on financial performance during the year to Members and there was no reporting of non-financial performance information. Members were not, therefore, able to establish whether Council objectives were being delivered or that Value for Money was being achieved in the use of its resources.
- 4.5 Anecdotal evidence from the former Town Clerk was that the financial information provided was limited in its coverage. There is evidence of non-compliance with the Council's Standing Financial Instructions, which require the Town Clerk to authorise all debt write-offs. However, the Town Clerk was never requested to authorise debt write-offs in practice.

- 4.6 The out-turn position for 2007/8 was not known until the accounts were fundamentally complete for approval by Members in October 2008. This had implications for managing the 2008/9 budget and a freeze was placed on spending for part of the year which could have had a significant impact on the Council's activities and achievement of its priorities. During 2007/8 there was no devolved management of budgets by budget holders, meaning that all control of financial management was the responsibility of the RFO, providing further evidence of a lack of separation of duties.
- 4.7 In compiling the 2009/10 budget, the RFO has encountered significant difficulties in understanding the methodology applied to prepare the 2008/9 budget. This is indicative of other issues identified by the current RFO in the financial management arrangements of the Council, namely an absence of financial procedures and lack of an audit trail to support key financial documents. We are pleased to note that the RFO has commenced work on developing and implementing a set of financial procedures for the Council.
- 4.8 A lack of timely and accurate financial information also has the potential to impact on the financial standing of an organisation. A lack of knowledge about the level of reserves and balances held could result in cashflow issues for the Council or it not being able to provide services in line with the planned 2008/9 budget. This in turn could have a continuing impact into future financial years.
- 4.9 The Council had no active system of risk management in place. The Council does not maintain a risk register through which it manages its risks. A risk register would provide Members and Officers with clarity on what their risks are, the active controls they have in place to mitigate against these and allow for continuous monitoring to ensure that they are being properly managed. A properly functioning Risk Management Strategy and risk register is an essential part of effective governance within an organisation.
- 4.10 From our attendance at Audit Committee meetings, there is evidence that there is at times an absence of constructive engagement between Members and also between Members and officers. There have also been, unproven, allegations of Members leaking confidential information to the Press. There have been referrals by the Council to the Huntingdonshire District Council Standards Committee in respect of alleged breaches of the Member's Code of Conduct. A lack of focus on the key issues may distract from the scrutiny role of Committees and addressing the problems that the Council has and is encountering. The Council should look to develop a culture of respect which fosters constructive and professional working relationships between Members and officers.

## Appendix A Action plan

### Governance and Council management

Finding	Actions required	Priority	Management response	Implementation details
<p><b>Objective setting and review of performance</b></p> <p>There was no review of progress against the Council's objectives during the year.</p>	<p>The Council should establish processes by which it can monitor progress against the Council's objectives, identifying corrective action where necessary.</p>	<p>High</p>	<p>The Council published its forward plan in May 2008 where it stated its objectives. The Council will implement a process where it can monitor the progress of its projects and objectives.</p>	
<p>The council did not collect performance indicator information in 2007/08.</p>	<p>The Council should establish procedures to collect information relating to PI performance.</p>	<p>High</p>	<p>The Council is currently establishing PIR's and will be keeping records in order to be able to produce reports in this area</p>	

Finding	Actions required	Priority	Management response	Implementation details
There was no reporting of performance against the Council's performance indicators included within the BVPP.	The Council should establish appropriate procedures for the monitoring and reporting of performance indicators throughout the year, identifying corrective action where necessary.	High	This will be covered in the production of the above reports.	
<b>System of internal control</b>				
The absence of financial procedures resulted in the replacement RFO experiencing significant difficulties when attempting to fulfil the role.	A set of procedures for the Finance Department should be developed and implemented as a matter of urgency.	High	Finance Regulations are already in place and are updated on a regular basis. However to add to this there is now also an Accounts Manual which specifically covers the area of the finance department and set out procedures for all activities within this area.	Already Implemented during 2008/09 but formally adopted by staff in January 2009.
<b>Managing significant business risks</b>				
The Council's arrangements for risk management are inadequate.	The Risk Management Strategy should be reviewed and approved by the Council.	High	The Council has now purchased a Risk Management program and is in the process of updating its Risk Management Arrangements.	

Finding	Actions required	Priority	Management response	Implementation details
	<p>Appropriate risk management procedures and policies should be established to ensure proper ongoing management of the Council's risks, including:</p> <ol style="list-style-type: none"> <li>1. Identification of corporate and operational risks</li> <li>2. assessment of risks for likelihood &amp; impact</li> <li>3. identification of mitigating controls</li> <li>4. allocation of responsibility for controls</li> </ol>	High	This will all be covered in the new program which has been purchased by the Council.	
There is no risk register through which risks to the Council are monitored and managed.	The Council should develop a risk register which can be used by officers and Members to manage the significant business and operational risks.	High	This will all be covered in the new program which has been purchased by the Council.	

Finding	Actions required	Priority	Management response	Implementation details
	The Council should ensure that the member group with responsibility for risk management receives regular reports and reviews the risk register regularly.	High	Annual Reports will be taken to the Audit Committee who will review the report and report to full council.	
<b>Managing and improving value for money</b> The Council has not reported financial and operating performance during the year. As a result it is not possible to demonstrate whether or not the Council is achieving value for money in its use of resources.	Integrated reporting of the Council's financial and service/operational performance should be introduced to demonstrate the achievement of value for money.	High	The Council published its forward plan in May 2008 where it stated its objectives. The Council will implement a process where it can monitor the progress of its projects and objectives.	
<b>Ensuring spending matches resources</b>	Where areas of high expenditure and/or poor performance are identified the Council should take appropriate steps to improve value for money.	High	Where areas of high expenditure and/or poor performance are identified the Council will take appropriate steps to improve value for money.	

Finding	Actions required	Priority	Management response	Implementation details
<p>There was limited financial reporting and monitoring against the budget during the year. Members and officers were not aware of the financial outturn position for the year until the approval of the financial statements in October 2008.</p>	<p>Regular, concise and accurate financial information should be made available to budget-holders and Members on a timely basis. The content and format of the reports should be agreed for each recipient.</p>	<p>High</p>	<p>Regular, concise and accurate financial information is being made available to budget-holders and Members on a timely basis. The managers responsible for each budget heading are receiving updated reports for the specific Cost Centre on a bi monthly basis and budget meetings are organised to discuss the expenses and income and balances available</p>	
	<p>Members and management should review the financial performance of the Council throughout the year, taking appropriate action to address any significant variances against budget.</p>	<p>High</p>	<p>This is covered in the response above</p>	
<p>The Council does not have a policy on the level and nature of reserves to be held over the medium to long term.</p>	<p>The Council should develop and formally approve a policy on the level and nature of reserves that it will hold. This will help to ensure that the financial standing of the Council is adequate and mitigate against risks around liquidity.</p>	<p>Medium</p>	<p>The Council is currently making arrangements to review the reserves and will be setting a policy on the level and nature of its reserves.</p>	

Finding	Actions required	Priority	Management response	Implementation details
<p><b>Managing performance against budgets</b></p> <p>The new RFO has identified that there is a lack of audit trail supporting the 2008/09 budget.</p>	<p>The Council should ensure that the basis on which the budget is set is fully documented and that an adequate audit trail is maintained to support the agreed budget.</p>	<p>High</p>	<p>The 2009/10 Budget has been fully documented and has been produced using accepted processes. An adequate audit trail has been maintained and working papers are available to support the agreed budget.</p>	
<p>See comments above relating to financial reporting and monitoring of budgets.</p>				
<p><b>Managing the asset base</b></p> <p>The Council does not have an asset management plan.</p>	<p>The Council should devise and approve an asset management plan.</p>	<p>High</p>	<p>The Council is planning a full review of its assets and the usefulness of each asset against the cost value and maintenance.</p>	
<p>There is limited reporting to members in relation to the use of the Council's assets.</p>	<p>Regular reporting of asset management should be introduced, measuring performance against the agreed asset management plan.</p>	<p>High</p>	<p>Reports to Council will be prepared when the asset management plan has been produced.</p>	

## Financial Statements

Finding	Actions required	Priority	Management response	Implementation details
<p>Testing of fixed asset additions identified that in two cases there was no evidence of authorisation on the payment slip for the invoice.</p>	<p>Improvements in separation of duties are required. All invoices should be authorised for payment by an officer independent from the ordering process.</p>	<p>Medium</p>	<p>A new system of authorising invoices has been in place since June 2008. All invoices are now approved by the RFO and the manager responsible</p>	
<p>The Council's fixed asset register includes a number of assets that have been fully depreciated.</p>	<p>For assets that have been fully depreciated, a review should be undertaken to consider whether the Useful Economic Life requires amendment or the assets need removing from the register.</p>	<p>Medium</p>	<p>The Council is planning a full review of its assets and the usefulness of each asset against the cost value and maintenance. The assets register will be updated after the review.</p>	

Finding	Actions required	Priority	Management response	Implementation details
<p>Depreciation of fixed assets: The Council's accounting policy for depreciation states that equipment is depreciated on a straight line basis over five years. Testing identified that in the prior period, the reducing balance method had been used to depreciate equipment. Assets were depreciated on a straight line basis for 2007/8 but no adjustment has been made for the prior year. The difference in the amount of depreciation charged to the income and expenditure account for 2006/7 if the straight-line basis had been used is immaterial</p>	<p>The Council should undertake a thorough review of the assets included on the fixed asset register. The Council should also consider the de minimus value at which assets are included on the register.</p> <p>The Council should confirm the accounting policy for depreciation and ensure consistency year on year.</p>	<p>Medium</p>	<p>The Council is planning a full review of its assets and the usefulness of each asset against the cost value and maintenance.</p> <p>An amendment to the Finance Regulations to include a de minimus value at which assets are included on the register. is planned</p> <p>This was noted by the current RFO that the Council's policy for depreciation is straight line basis but the previous RFO had been using the reducing balance method. No amendment for this was made in the prior year as most of the assets would have been written down if the correct method had been used and the value was immaterial. A report to council will be prepared to confirm the depreciation rate as straight line and the current RFO is aware of the depreciation method required to achieve this.</p>	

Finding	Actions required	Priority	Management response	Implementation details
<p>The Council has loaned money to two community organisations but was unable to locate the formal loan agreements.</p>	<p>1) The Council needs to ensure that it maintains all records relating to loans to ensure that it can demonstrate that there is proper authorisation in place for all transactions.</p> <p>2) The Council should ensure that, where it makes loans to other organisations, there is documentary evidence of review of compliance with the terms of the loans and the activities of the organisation to whom the loan was made</p>	<p>High</p> <p>High</p>	<p>The Council was unable to supply these records at the time of asking; however it is now thought that because of the age that the loans were originally taken out that the file could be in the Council archives.</p> <p>Any new loans that the Council may make will be properly authorised by the full council, and proper agreements will be drawn up and kept in an active file until the end of the loan period</p>	

## Appendix B Accounts adjustments agreed

Accounting adjustments that affect the reported surplus / deficit on the I&E account	
Finding	Impact
<p><u>Long - Term Loan</u></p> <p>The Council took out a loan with Huntingdonshire District Council in 1980 repayable over 40 years in respect of the construction of the Priory Centre. The loan had not previously been recognised in the accounts. It is not known how the loan was initially accounted for. Principle repayments had previously been included in the net cost of services for the Priory Centre. Principle repayments on loans should not be processed through the income and expenditure account. The loan was not recognised on the balance sheet.</p> <p>The following adjustments have been made to the accounts to bring in the loan:</p> <p><u>2006/07</u></p> <p>The loan has been recognised in the Capital Adjustment Account at £143k (Capital Adjustment Account restated).</p> <p>Principle and interest payments for the loan have been removed from the Priory Centre net expenditure - £17,229 (income and expenditure account restated).</p> <p>Interest payments of £8,336 have been included in external interest payable in the income and expenditure account which has been restated.</p> <p>Loans fund principle repayment of £8,893 has been included in the Statement of Movement on General Fund Balance as an amount not included in the I&amp;E account but required by statute to be included when determining the movement on the General Fund Balance for the Year.</p> <p>Short term creditor of £9,204 included in the balance sheet representing payment for loan principle repayment due in less than 12 months.</p> <p>Long-term creditor of £125,193 included in the balance sheet representing outstanding balance due on loan after 12 months.</p> <p>Financial Instrument Disclosures: Fair value of loan disclosed at £92,967. Future payments on the loan have been discounted to the net present value to reflect the fair value of the liability to the Council.</p> <p><u>2007/08</u></p> <p>Principle and interest payments for the loan have been removed from the Priory Centre net expenditure - £18,093 (income and</p>	

Accounting adjustments that affect the reported surplus / deficit on the I&E account	
Finding	Impact
<p>expenditure account restated).</p> <p>Interest payments of £8,889 have been included in external interest payable in the income and expenditure which has been restated.</p> <p>Loans fund principle repayment of £9,204 has been included in the Statement of Movement on General Fund Balance as an amount not included in the I&amp;E account but required by statute to be included when determining the movement on the General Fund Balance for the Year.</p> <p>Short term creditor of £9,526 included in the balance sheet representing payment for loan principle repayment due in less than 12 months.</p> <p>Long-term creditor of £115,669 included in the balance sheet representing outstanding balance due on loan over 12 months.</p> <p>Financial Instrument Disclosures: Fair value of loan disclosed at £88,089.</p>	
<p><u>Revaluation of Fixed Assets</u></p> <p>Revaluation gains of £654k on the Council's land and buildings and community assets had been recognised in the approved accounts. Audit procedures identified that £410k of the gain should not be recognised as the valuations were not conducted in accordance with RICS Guidelines on the Valuation of Assets (the "Red Book"). Revaluation gains on land and buildings totalling £244k arising from the District Valuer's revaluation have been included in the financial statements.</p> <p>Depreciation on revalued buildings was recalculated to take into account the revised valuations used. This impacted on the depreciation charge through the income and expenditure account and also the reconciling note to the Statement of Movement on the General Fund Balance.</p>	<p>Decrease in the carrying value of fixed assets in the balance sheet of £410k.</p> <p>Adjustment to the Statement of Total Recognised Gains and Losses to recognise the surplus arising on the revaluation of fixed assets. Revised amount: £244k.</p>
<p><u>Trading Account Disclosure</u></p> <p>In preparing the 2007/8 financial statements, the RFO was unable to reconcile the opening balance on the trading account for the Priory Centre to the 2006/7 accounts. The 2006/7 balance has been restated as a result. The net expenditure for the Priory Centre in the Income and Expenditure account has been amended from £206k to £189k</p>	<p>Restatement of 2006/7 income and expenditure account.</p>

Accounting adjustments that affect the reported surplus / deficit on the I&E account	
Finding	Impact
<p><u>Grants Accrual</u></p> <p>The Council had included £36,500 as an accrual in respect of grants offered by the Council but not yet taken up. An accrual in respect of a grant with a value of £26,500 has been removed from the accounts as the agreement to make the payment is no longer valid. Two further grants totalling £10,000 have been transferred from accruals to earmarked reserves.</p>	<p>Reduction in grants expenditure and Accruals of £36,500.</p> <p>Increase in General reserve of £26,500 and Earmarked reserves of £10,000.</p>
<p><u>Pensions Accrual</u></p> <p>The Council had not accrued for a payment in respect of pension contributions.</p>	<p>Increase in expenditure and Sundry Creditors &amp; Accruals of £2,907.</p>

Accounting adjustments that do not affect the reported surplus / deficit on the I&E account	
Finding	Impact
<p><u>Revaluation Reserve and Capital Adjustment Account</u></p> <p>From 1 April 2007 the SORP required authorities to implement a Revaluation Reserve and Capital Adjustment Account to replace the Fixed Asset Restatement Account and the Capital Financing Account. The Council had not made these changes. An amendment has been made to the financial statements and the Revaluation Reserve and Capital Adjustment Account are now correctly disclosed in the accounts.</p>	<p>Disclosure of correct capital accounts.</p>

Accounting adjustments that do not affect the reported surplus / deficit on the I&E account	
Finding	Impact
<p><u>Prior Year Adjustments to Reserves</u></p> <p>In preparing the accounts, the RFO identified that adjustments were required to the Capital Adjustment Account and the General Fund balance due to incorrect entries being processed in previous accounting periods:</p> <p>An adjustment of £30,694 was made as a result of capital expenditure being financed from revenue in 2002. This had previously been accounted for through the Capital Financing Account.</p> <p>An adjustment of £3,061 was made relating to the disposal of fixed assets in 2005. This has previously been accounted for through the General Fund balance.</p>	<p>Transfer of £30,694 from Capital Adjustment Account to General Fund</p> <p>Transfer of £3,061 from general fund to Capital Adjustment Account</p>
<p><u>Classification of Investments</u></p> <p>An amount of £890k was included in the accounts as short-term investments. Audit procedures identified that this amount relates to an amount held in a high interest-bearing account and should be disclosed in the accounts as part of the cash and bank balance.</p>	<p>Reduction in investments and increase in Cash &amp; Bank of £890,000.</p>
<p><u>Long-term debtors</u></p> <p>The Council had recognised the total payments due in respect of two loans as long-term debtors. Part of the outstanding amount is payable within twelve months. An adjustment has been made to the balance sheet balance for long-term and short-term debtors for both 2006/7 and 2007/8 to reflect the expected timing of the repayment of the loans.</p>	<p>2006/7</p> <p>Reduction of Long-term debtors and increase in Debtors due within one year of £3,000.</p> <p>2007/8</p> <p>Reduction of Long-term debtors and increase in Debtors due within one year of £3,000.</p>
<p><u>Classification of Creditors</u></p> <p>An amount of £4k relating to museum salaries had been included as an Inland Revenue creditor. The amount did not relate to PAYE or NI contributions and therefore should not have been classified as an Inland Revenue creditor. The amount has been reclassified as a payroll creditor.</p>	<p>None</p>

Accounting adjustments that do not affect the reported surplus / deficit on the I&E account	
Finding	Impact
<p><u>Overstatement of Prepayments and Creditors</u></p> <p>An amount of £33k relating to Monster Play equipment was included in prepayments and creditors. As this transaction related to an addition to fixed assets in 2008/9 it should be accounted for in 2008/09 and has been removed from the 2007/08 accounts.</p>	<p>Decreases in Prepayments and Creditors of £33,000.</p>
<p><u>Posting of depreciation across headings:</u></p> <p>A review of ledger postings for Vehicles, Plant and Equipment and Play Equipment identified that the journal for the transfer of depreciation between headings was posted the wrong way around. The accounts are correct, but the figures as per the ledger will require amendment before the ledger figures are carried forward for 2008/9.</p>	<p>Adjustments to the ledger are required.</p>

Disclosure adjustments	
<p>A number of disclosure adjustments have been agreed to improve the clarity and presentation of the accounts that do not affect the reported financial position. The most significant of these adjustments are detailed below. All other disclosure adjustments have been processed by the Council.</p>	
<p><u>Classification of Service Costs and Income in the Income and Expenditure Account</u></p> <p>Through audit procedures and discussions with the RFO we identified that amounts included within headings in the Cultural, Environmental and Planning Service expenditure line had been incorrectly classified. Adjustments between services were made and costs and income have been traced to supporting documentation.</p>	<p>Presentation and Disclosure</p>
<p><u>Financial Instrument Disclosures</u></p> <p>Financial instruments disclosures were a new requirement for 2007/8. However, the Council did not include disclosures in the draft accounts. Management have now prepared and included appropriate disclosures in the revised Statement of Accounts in compliance with the SORP.</p>	<p>Disclosure</p>

<b>Disclosure adjustments</b>	
<p><u>Disclosure of Leases</u></p> <p>The SORP requires that details of leases where the Council is the lessee are included in the accounts and the payments due are split between those due to expire in 1 year, between 2-5 years and over 5 years. The Council has a number of peppercorn leases where the payment due is £1 or less. The Council has amended its disclosure note so that whilst these have not been included in the future obligations note they are referred to as a whole in the accompanying text. The financial obligation for these is immaterial so it is considered that this treatment is appropriate.</p> <p>The Council acts as a lessor in respect of six sites, all of which are included in the financial statements as fixed assets. The SORP requires that that the aggregate rents receivable, the gross value of the leased assets and the associated accumulated depreciation are disclosed in a note to the accounts. The Council has updated its disclosure note accordingly.</p>	<p>Presentation and Disclosure</p>
<p><u>Disclosure of Interest Payable and Interest Receivable</u></p> <p>External interest payable and interest and investment income had been netted off in the approved accounts. The SORP requires that these are disclosed separately and an amendment has been made to the Income and Expenditure account to meet this requirement.</p>	<p>Presentation and Disclosure</p>
<p><u>Officers' Remuneration</u></p> <p>The statement of accounts should include a note of the number of employees in the year whose remuneration fell in each bracket of a scale in multiples of £10,000 starting with £50,000. The Council had disclosed one employee in the incorrect band. An adjustment to the note has been made.</p>	<p>Presentation and Disclosure</p>

## Appendix C Statement of responsibilities - accounts

The accounts, which comprise the published accounts of the audited body, are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources.

It is the responsibility of the audited body to:

- put in place systems of internal control to ensure the regularity and lawfulness of transactions
- maintain proper accounting records
- prepare accounts that present fairly the financial position of the body and its expenditure and income.

The audited body is also responsible for preparing and publishing with its accounts a statement on internal control.

Auditors audit the accounts and give their opinion, including:

- whether they present fairly the financial position of the audited body and its expenditure and income for the year in question
- whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards.

Subject to the concept of materiality, auditors provide reasonable assurance that the accounts:

- are free from material misstatement, whether caused by fraud or other irregularity or error
- comply with statutory and other applicable requirements
- comply with all relevant requirements for accounting presentation and disclosure.

Auditors examine selected transactions and balances on a test basis and assess the significant estimates and judgements made by the audited body in preparing the statements.

Auditors evaluate significant financial systems, and the associated internal controls, for the purpose of giving their opinion on the accounts. Where auditors identify any weaknesses in such systems and controls, they will draw them to the attention of the audited body, but they cannot be expected to identify all weaknesses that may exist.

Auditors review whether the Annual Governance Statement has been presented in accordance with relevant requirements and report if it does not meet these requirements or if it is misleading or inconsistent with other information of which the auditor is aware. In doing so auditors take into account the knowledge of the audited body gained through their work in relation to the audit of the accounts and through their work in relation to the body's arrangements for securing economy, efficiency and effectiveness in the use of its resources. Auditors are not required to consider whether the statement on internal control covers all risks and controls, nor are auditors required to form an opinion on the effectiveness of the audited body's corporate governance procedures or risk and control procedures.

## Appendix D Statement of responsibilities - VFM

It is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them. Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:

- establishing strategic and operational objectives
- determining policy and making decisions
- ensuring that services meet the needs of users and taxpayers and for engaging with the wider community
- ensuring compliance with established policies, procedures, laws and regulations
- identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working
- ensuring compliance with the general duty of best value, where applicable
- managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body
- monitoring and reviewing performance, including arrangements to ensure data quality
- ensuring that the audited body's affairs are managed in accordance with proper standards of financial conduct, and to prevent and detect fraud and corruption.

The audited body is responsible for reporting on these arrangements as part of its annual statement on internal control.

Auditors have a responsibility to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In meeting this responsibility auditors should review and, where appropriate, examine evidence that is relevant to the audited body's corporate performance management and financial management arrangements, as summarised above, and report on these arrangements.

Auditors are responsible for reporting annually their conclusion, having regard to relevant criteria specified by the Audit Commission, as to whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Auditors report if significant matters have come to their attention that prevent them from concluding that the audited body has put in place proper arrangements. However, auditors are not required to consider whether aspects of the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources are effective.

In planning their audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, auditors consider and assess the relevant significant business risks. These are the significant operational and financial risks to the achievement of the audited body's statutory functions and objectives, which apply to the audited body and are relevant to auditors' responsibilities under the Code, and the arrangements it has put in place to manage these risks. The auditor's assessment of what is significant is a matter of professional judgement and includes consideration of both the quantitative and qualitative aspects of the item or subject matter in question. Auditors discuss their assessment of risk with the audited body.

When assessing risk auditors consider:

- the relevance and significance of the potential business risks faced by all bodies of a particular type
- other risks that apply specifically to individual audited bodies
- the audited body's own assessment of the risks it faces
- the arrangements put in place by the body to manage and address its risks.

In assessing risks auditors have regard to:

- evidence gained from previous audit work, including the response of the audited body to previous audit work
- the results of assessments of performance carried out by the Commission
- the work of other statutory inspectorates
- relevant improvement needs, identified in discussion with the Commission or other statutory inspectorates.

Where auditors rely on the reports of statutory inspectorates as evidence relevant to the audited body's corporate performance management and financial management arrangements, the conclusions and judgements in such reports remain the responsibility of the relevant inspectorate or review agency.

In reviewing the audited body's arrangements for its use of resources, it is not part of auditors' functions to question the merits of the policies of the audited body, but auditors may examine the arrangements by which policy decisions are reached and consider the effects of the implementation of policy. It is the responsibility of the audited body to decide whether and how to implement any recommendations made by auditors and, in making any recommendations, auditors should avoid any perception that they have any role in the decision making arrangements of the audited body.

While auditors may review audited bodies' arrangements for securing economy, efficiency and effectiveness in the use of resources, they cannot be relied on to have identified every weakness or every opportunity for improvement. Audited bodies should consider auditors' conclusions and recommendations in their broader operational or other relevant context.

Auditors are not required to report to audited bodies on the accuracy of performance information that the audited bodies publish. Auditors' work is limited to a review of the systems put in place by the audited body to collect, record and publish the information, in accordance with guidance issued by the Commission.

Audit work in relation to the audited body's arrangements to ensure that its affairs are managed in accordance with proper standards of financial conduct, and to prevent and detect fraud and corruption, does not remove the possibility that breaches of proper standards of financial conduct, or fraud and corruption, have occurred and remained undetected. Nor is it auditors' responsibility to prevent or detect breaches of proper standards of financial conduct, or fraud and corruption, although they will be alert to the possibility and will act promptly if grounds for suspicion come to their notice.



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