

AUDIT COMMITTEE

24 SEPTEMBER 2009

2008/2009 EXTERNAL AUDIT REPORT

Report from: Mick Hayward, Chief Finance Officer

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Summary

This report considers the issues raised by the Council's external auditors following the 2008/2009 audit.

The Accounts and Audit Regulations 2003 require that Committee consider these issues prior to 30 September.

1. Budget and Policy Framework

- 1.1 The Audit Commission's Code of Audit Practice and International Standard of Auditing (ISA 260) requires the results of the audit to be reported to those charged with governance. This Committee has been delegated with the responsibility for considering these reports and agreeing the Council's response. In addition, the Committee, on behalf of the Council, must explain reasons for not adjusting the Statement of Accounts for the issues raised within the auditor's report, albeit in this instance there are no such unadjusted issues.
- 1.2 This report needs to be considered as a matter of urgency as the Accounts and Audit Regulations 2003 (as amended) require that Committee consider these issues prior to 30 September.

2. Background

- 2.1 The draft Statement of Accounts for 2008/2009 was considered and approved by this Committee on 25 June. At that stage the accounts were subject to final verification and Members were advised that any proposed changes as a result of the audit would be reported at a later stage.

3. Auditors Report 2008/2009

- 3.1 For completeness, PKF's Annual Governance Report is attached at Appendix 1 and contains: --
 - its report on the Financial Statements and key financial systems;

- its report on the Use of Resources assessment, Data Quality review and Value for Money conclusion; and
- associated appendices.

3.2 The Council's response to the issues identified, as proposed by officers, is included at Appendix A to the Annual Governance Report.

4. Financial Statements

4.1 The executive summary of PKF's report states that, subject to satisfactory conclusion of outstanding work, an **unqualified** audit opinion will be issued in relation to the financial statements. The main issues arising from the audit are summarised in paragraphs 4.2 to 4.8 below.

4.2 Testing of transactions and balances. The following matters have arisen:

4.2.1 **Review of Carrying Values of Land and Property** In view of the potential impact of the economic downturn on property values in 2008/2009, the Council's internal valuers completed a review of the value of assets held. This review was ongoing when the draft accounts were approved by this committee in June and it was agreed with PKF that any revisions to the asset values would be incorporated in the accounts presented to this committee.

4.2.2 The review has concluded resulting in a reduction in the value of fixed assets of approximately £82 million. However, it is necessary to remove accumulated depreciation from these impaired (and all revalued) assets resulting in a net reduction in value of approximately £56 million. The review has also identified a requirement to restate relevant sections of the 2007/2008 accounts.

4.2.3 The revised Core Financial Statements and supporting notes are shown at Appendix 2. It must be emphasised that these adjustments have no overall impact on the revenue balances or available reserves of the Council.

4.2.4 The current accounting policy of including asset valuations in the balance sheet as at the beginning of the financial year has now changed, with effect from 2008/2009, to valuations as at 31 March. This will have resource implications for valuation staff but will reflect more accurately the net worth of the Council.

4.2.5 **Fixed Asset Register** The accounting module of the fixed asset register (FAR) has only been in operation at Medway for a relatively short time and there are elements of the functionality of the system which are less than ideal. However all differences between the general ledger and the asset register are fully reconciled after closure of the accounts.

4.2.6 Closure of the annual accounts is only dependent on the asset management system for the calculation of depreciation which is based on 1 April values. All other transactions through the FAR are driven by revaluations and disposals and additions generated by the financial management system.

4.2.7 **HRA Balances** There are a number of outstanding entries following the recent reconciliation between the general ledger and the housing rent system. These will be processed during 2009/2010 and officers will ensure the systems are fully reconciled for future years.

4.3 Adequacy of Disclosures.

4.3.1 All amendments to the accounts resulting from the asset impairment review together with some minor discrepancies identified by PKF have been incorporated in the notes to the Statement of Accounts.

4.4 Unadjusted misstatements

4.4.1 There are no unadjusted non-trivial misstatements to be reported.

4.5 Accounting and Internal Control Systems

4.5.1 The audit has concluded that the Council's key financial systems are adequate and no significant control weaknesses affected its conclusions.

4.6 Annual Governance Statement

4.6.1 The auditors have reviewed the Annual Governance Statement and the supporting review of effectiveness and are content that the statement and the supporting evidence, together with their knowledge of the Council, represent a consistent view.

4.7 International Financial Reporting Standards

4.7.1 Further significant implications regarding the implementation of IFRS will be reported to this committee in due course.

4.8 Adjustments to Financial Statements

4.8.1 Attached at Appendix 2 are the main financial statements, as adjusted to reflect issues arising during the audit. The major changes since approval of the draft accounts, shown as shaded figures, are as follows:

- **Income and Expenditure Account** The deficits for 2007/2008 and 2008/2009 have increased by £11,194,000 and £77,408,000 respectively as a result of the impairment review referred to in paragraph 4.2.1 above. Members of the committee should note that this increase in deficit is negated by a corresponding and opposite movement in the Statement of Movement on the General Fund Balance (refers to Note 2 in the notes to the accounts).
- **Balance Sheet** Net fixed assets have decreased by £56,138,000 reflecting the results of the impairment review less the reversal of accumulated depreciation on revalued assets. As a result the 'Net Worth' of the council has decreased by £56,138,000 by reductions in the Revaluation Reserve and Capital Adjustment Account.
- **Statement of Movement on the General Fund Balance and Statement of Total Recognised Gains and Losses** These statements reconcile the General Fund deficit to the actual General Fund balance and the change in 'net worth' of the Council respectively.
- **Notes to the Core Financial Statements**
 - A new Note 1 is now included in the Statement of Accounts to identify the prior year adjustments;
 - Note 2 analyses the credit to the Statement of Movements on the General Fund Balance;

- The updated Movements on Fixed Assets statement (Note 14) reflects the change in asset values between 1 April 2008 and 31 March 2009; and
- As outlined above the impairment adjustments have increased the Revaluation Reserve by £5,915,000 and decreased the Capital Adjustment Account by £62,053,000. A revised Movement on Reserves statement is shown as Note 33.

5. Use of Resources

- 5.1 Auditors are required to review the Council's arrangements to secure economy, efficiency and effectiveness against specified 'Key Lines of Enquiry'. This is the first year of the new Comprehensive Area Assessment (CAA) process and the Use of Resources (UoR) assessment is one of the key components in that overall judgement. The UoR judgement has shifted from one based largely upon processes to one that is more interested in outcomes. None the less it is a necessary requirement that the Council is able to evidence the areas that the auditor assesses in making the judgement. In common with the past few UoR reviews the test has become 'harder'.
- 5.2 The report concludes that the Council is performing well and has maintained its overall score of 3 out of 4 for the key themes of Managing Finances, Governing the Business and Managing Resources. This is against a background of significant change and a 'hardening' of the tests for the assessments.

6. Management Representations Letter

- 6.1 To comply with regulations, the Chief Financial Officer of each local authority must provide the external auditors with a signed declaration which supports their work in relation to the audit of the annual accounts.
- 6.2 The draft Management Representations Letter is attached at Appendix B of the PKF report and the Committee is required to consider the content of the letter in the context of the issues raised in this report. Once agreed, the letter will be submitted to PKF.

7. Financial and Legal Implications

- 7.1 The financial implications are contained within the body of the report.
- 7.2 Auditors are required to comply with the Statement of Auditing Standards, and thus provide an opinion on the Council's Statement of Accounts.

8. Audit Completion

- 8.1 Minor work to verify the changes to the accounts outlined in paragraph 4.2 is ongoing. However, PKF have indicated that the audit certificate will be given by 30 September.

9. Risk Management

- 9.1 There remains a low risk that the Auditor may find further material errors or misstatements in the accounts as a result of the changes highlighted in Section 4 of this report and which may not be identified prior to the adoption by this committee. Due regard has been had to the regulations and accounting requirements in producing the statements and the position put before the Audit Committee is the officers' interpretation of these requirements.

10. Recommendations

- 10.1 That Committee notes the issues raised and judgements made by PKF, as presented in Appendix 1, and the proposed response as set out at Appendix A to the PKF report and summarised in the body of this report.
- 10.2 That Committee notes the change to asset valuation policy outlined in paragraph 4.2.4.
- 10.3 That Committee agree the changes to the Statement of Accounts as set in paragraph 4.8 of this report and reflected in the amended sections of the Statement of Accounts set out at Appendix 2.
- 10.4 That Committee agree the Management Representations Letter, attached at Appendix B of the PKF report.

Background papers

Medway Council's draft statement of accounts for 2008/2009
Report on Draft Statement of Accounts to this Committee 25 June 2009

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Accountants &
business advisers

Medway Council
Annual Governance Report
2008/09

24 September 2009

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Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any member or officer in their individual capacity or to any third party.

1 Executive summary

- 1.1 We report to you in accordance with the provisions of International Auditing Standard 260, which requires us to report to “those charged with governance”, prior to issuing our opinion on the financial statements and giving our conclusion on the adequacy of your arrangements for securing economy, efficiency and effectiveness in your use of resources (our VFM conclusion).

Findings and conclusions

- 1.2 A summary of audit findings and conclusions is included in the table below:

Area of audit	Findings & Conclusion
Accounts	
Key financial systems	The key financial systems are adequate as a basis for preparing the financial statements and no significant control weaknesses were identified that impacted on our opinion.
Financial statements	<p>One material adjustment to the accounts has been made as a result of audit work. The Council has agreed the carrying value of fixed assets in the balance sheet should be reduced by £82 million. The position arose in the light of further work undertaken by officers to assess the impact of the economic downturn on the value of the Council’s assets in 2008/09. Officers discussed with us that the work was planned to be completed only after the draft accounts were produced and reviewed by the Audit Committee in June 2009.</p> <p>The Council has amended the accounts and there is no effect on the overall financial position reported as at 31 March 2009.</p> <p>We identified some non material but non-trivial errors during the audit but these have been adjusted in the final accounts.</p> <p>Some areas of work are still outstanding at the time of drafting this report. Should these result in any significant issues, we will provide a verbal update to Members at the Audit Committee.</p> <p>We are satisfied that the Annual Governance Statement (AGS) is not inconsistent or misleading with other information we are aware of from our audit of the financial statements.</p> <p>Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified opinion on the financial statements.</p>
Use of resources	
Use of resources assessment	<p>Our overall assessment of the use of resources is that the Council is performing well (a level ‘3 out of 4’ performance). At the detailed level, the Council:</p> <ul style="list-style-type: none"> • Performs well in managing finances (‘score ‘3 out of 4’) • Performs adequately in governing the business (‘score 2 out of 4’); and • Performs well in managing resources (score ‘3 out of 4’).
Data Quality	Management arrangements to ensure the quality of reported performance information are adequate.
VFM conclusion	We anticipate issuing an unqualified value for money conclusion.

Acknowledgement

- 1.3 We would like to thank the staff of the Council for the co-operation and assistance provided to us during the audit.

2 Introduction

- 2.1 This report summarises the results of our audit work completed to date in respect of the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in the use of resources for its year ending 31 March 2009.
- 2.2 Our report is presented to Members in accordance with the provisions of International Auditing Standard 260 ("ISA 260") which requires us to report key findings from the audit to "those charged with governance", prior to issuing our opinion on the financial statements.

Findings

- 2.3 Detailed recommendations in response to the key findings identified by our audit are provided in the action plan at Appendix A. These recommendations have been discussed with appropriate officers and responses are included in the action plan where appropriate.
- 2.4 We would highlight that in this report we do not provide a comprehensive statement of all weaknesses that may exist in the accounting and control systems, but only those matters which have come to our attention as a result of the audit procedures performed. We have not restated recommendations already made by Internal Audit.

Independence

- 2.5 We confirm that we are not aware of any relationships that may bear on our independence and objectivity as auditor and that our independence declaration, included in the Annual Audit and Inspection Plan 2008/09, has remained valid throughout the period of the audit.

3 Accounts

Requirements

- 3.1 We are required to provide an opinion on whether your financial statements present fairly the financial position of the Council and its income and expenditure for the year, and whether they have been prepared properly in accordance with appropriate legislation.
- 3.2 We carry out procedures designed to obtain sufficient appropriate audit evidence to determine with reasonable confidence whether the accounts are free from material misstatement and evaluate the overall presentation in order to ascertain whether they have been prepared in accordance with relevant legislation and accounting standards.
- 3.3 We identify the principal areas of risk of material misstatement from our knowledge of the Council, of the environment in which it operates and from discussions with management. We address these risks by carrying out appropriate audit procedures.
- 3.4 We apply an appropriate level of materiality and as such the audit cannot be relied upon to identify all risks or potential and actual misstatements. Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole.
- 3.5 The level of materiality we set for the audit of the 2008/09 accounts was £6.5 million. We set a triviality level of £50,000 and have not reported to you any matters arising below this level.

Accounts risks

- 3.6 The findings from our review of accounts risks identified in our audit plan are summarised as follows:

Risk area	Overall conclusion
Complying with the 2008 SORP disclosure requirements	We reviewed the key changes arising from the 2008 SORP with officers and checked appropriate accounting treatments during the course of our audit. No issues arose from our work.
Preparation of sustainable financial plans that support strategic priorities and Embedding enhanced financial management arrangements	We reviewed the Council's progress towards its reported year end surplus and are satisfied the accounts present fairly the overall financial position.
Impairment of fixed assets (not previously raised with Those Charged with Governance)	The economic downturn has resulted in reductions in the value of fixed assets held by the Council. We have reviewed the carrying values of the assets in light of valuations completed by the Council's in-house surveyors. The outcome of our work is shown at paragraph 3.15.

Reporting to those charged with governance

- 3.7 In accordance with the requirements of International Standard on Auditing 260 ("ISA 260"), auditors are required to communicate relevant matters relating to the audit with those charged with governance. In particular we are required to report:
- qualitative aspects of **accounting practices and financial reporting**
 - final draft **letter of representation** to be agreed by management and those charged with governance

- **uncorrected misstatements**
- expected modifications to the **audit report**
- material weaknesses in **accounting and internal control systems** identified during our work
- **matters required to be reported by other auditing standards**
- any **other audit matters of governance interest**.

3.8 Our comments in each of these areas are set out below:

Accounting practices and financial reporting

Application of accounting policies

3.9 The key changes introduced by the 2008 SORP were:

- the replacement of deferred charges with revenue expenditure funded from capital under statute
- the prohibition of revaluing fixed assets on disposal
- the clarification of Financial Reporting Standards 25, 26 and 29 relating to the accounting treatment for financial instruments

3.10 The Council has dealt with the implementation of these changes appropriately.

The accounts preparation process

3.11 The draft financial statements were approved by Members on 25 June 2009 which was before the statutory deadline of 30 June 2009. As part of our planning for the audit, we prepared a detailed document request which outlined the information that we would require to complete the audit. As planned, the Council provided us with most working papers on 26 July 2009.

3.12 Importantly the Council had not prepared comprehensive working papers to support the audit of fixed assets, for instance the fixed asset register was not fully up to date and reconciled to the financial ledger and accounts. A number of issues arose from our audit of fixed assets (see paragraph 3.13) which we discussed with management and while these were resolved, did lead to some delay and additional audit resources to complete our work.

Testing of transactions and balances

3.13 As part of our audit approach, all material balances were subject to audit testing and agreement, on a sample basis, to supporting documentation. Issues arose in respect of the following matters, which we bring to your attention:

- review of carrying values of land and property
- fixed assets register
- HRA balances
- benefits overpayments

3.14 These matters are explained in the following paragraphs.

Review of carrying values of land and property

3.15 In line with the Council's policy, assessments of the carrying value of land and property are performed as follows:

- all investment and non operational properties are reviewed each year.

- HRA assets are valued each year on a 'beacon' basis
 - all other properties are revalued over a five year cycle, as permitted by the SORP.
- 3.16 However, the SORP also requires that where there is a possibility asset values have changed significantly between valuations, a review should be carried out and changes made to valuations between the valuation dates as necessary.
- 3.17 In view of the potential impact of the economic downturn on property values in 2008/09, the Council's internal valuers completed a review of the value of assets held. This process has considered all assets, although the focus has been on the HRA, non-operational assets and those within the five year cycle that had been subject to more recent revaluation.
- 3.18 These reviews identified impairments in the value of assets amounting to £82m, comprising:
- £21.9 million for Strood and Rochester Riverside (Investment properties)
 - £7.6 million for Other Land and Buildings
 - £18.5 million for other Investment properties
 - £34 million in respect of HRA assets (Council Dwellings)
- 3.19 Due to the timing of the valuations the extent of the impairment of assets was not known when the final accounts were drafted and reviewed by the Audit Committee on 25 June 2009. We agreed with officers that the change in valuation will be amended in the accounts approved by Members on 24 September 2009.
- 3.20 Because the carrying value of fixed assets has changed, a number of other amendments need to be made to the accounts to ensure they remain in balance. Officers have agreed to amend the following balances:
- Inclusion of the impairment charges across all service lines in the Income and Expenditure Account (£77,408,000)
 - reversal of the above impairment charges through the 'statement of total movement on the general fund balance' (£77,408,000)
 - charging of impairments to the 'capital adjustment account' (£77,408,000)
 - the removal of accumulated depreciation on the assets impaired to ensure net book value remains fairly stated (£23,600,000).

Fixed asset register

- 3.21 Our work on fixed assets also identified some immaterial errors which should be brought to the attention of those charged with governance:
- While agreeing the opening balances at 1 April 2008 to the fixed asset register, we noted a non-trivial difference (£72,000 cost, £24,000 depreciation) between the two amounts. We understand, based on discussion with officers, the position arose because two assets were removed from the ledger in error. Work continues to re-instate these items.
 - During the year two assets that had previously been included as investment assets were brought into use, and reclassified as operational assets. While the transition was correctly reflected in the accounts, they were not effected in the fixed asset register.
- 3.22 The Council needs to ensure the fixed asset register is fully maintained and remains the prime source of information in closing the annual accounts.

Benefit overpayments

- 3.23 Where the Council has, as a result of information received, identified there have been overpayments of benefit it seeks to recover the amounts where possible. These amounts are often recovered over a period of time, and are included in the annual accounts.

- 3.24 Review of the year end debtors balance identified that, due to an error when calculating the figure for disclosure in the accounts, the balance of benefit overpayments owed to the Council is understated by £108,000. This has been adjusted by the Council within the accounts.

Adequacy of disclosures

- 3.25 We identified a small number of departures from the expected presentation of the financial statements or where notes and other disclosures had not been presented in accordance with the SORP. The following amendments have been made:
- revision of the HRA income and expenditure account to correctly reflect all of the entries required by the SORP 2008 and ensure agreement with entries in the main income and expenditure account
 - restatement of entries within the fixed asset note to correctly adjust for depreciation on the assets that have been revalued
 - restatement of fixed asset balances to adjust for impairments incorrectly accounted for in the prior year
 - the inclusion of the value of assets and associated depreciation in respect of assets that the Council leases to other bodies (i.e. the Council is acting as lessor) within the lease disclosure note
 - adjustment of the income and expenditure account disclosures for highways expenditure to remove internal recharges that had been incorrectly included.

Letter of representation

- 3.26 The draft letter of representation has been attached as Appendix B. We do not anticipate any changes being required before providing our opinion on the financial statements.

Uncorrected misstatements

- 3.27 We noted some non-trivial misstatements during the course of our audit, all of which management have adjusted within the final accounts.

Audit report

- 3.28 Subject to satisfactory resolution of the following outstanding issues and final clearance of the audit, we anticipate issuing an unqualified audit opinion on the accounts:

- pension fund auditor's letter of assurance on FRS17
- completion of work in respect of the adjustments made to fixed assets.

- 3.29 We will provide a verbal update on these outstanding issues at the Audit Committee.

Accounting and internal control systems

- 3.30 We have reviewed the key financial systems, which contribute to the preparation of materially accurate financial statements, to assess the extent to which we can place reliance on them for this purpose. In carrying out this work we consider:

- the extent to which your accounting and internal control systems are a reliable basis from which to prepare the financial statements
- the robustness of your accounts preparation processes.

- 3.31 In assessing the reliability of systems as a basis for providing financial information free from material misstatement, we prepared systems notes for each financial system and we evaluated the controls within those systems, with particular focus on assessing whether the

controls in place to mitigate significant risks are suitably designed and operating as intended to meet their objective.

3.32 Your key financial systems are:

- Main accounting
- Cash and bank
- Payments and creditors
- Non-contracting income and debtors
- Payroll and employment costs
- Information technology
- Council tax
- Housing and council tax benefits
- NNDR
- Housing rents income
- Investments and investment income

3.33 We also have a responsibility to give specific consideration to the potential risk of material misstatement of your financial statements due to fraud and error, including the risk of fraudulent financial reporting. This requires us to:

- review internal controls that are designed to prevent, or detect and correct, misstatements in the accounts
- review the arrangements for preparing the financial statements
- select and test transactions and balances, including review of significant balances against expectations and substantiate individual items
- assess the significant estimates and judgements made by officers in preparing the accounts
- consider the adequacy of presentation and disclosures included in the financial statements.

3.34 The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect material fraud and corrupt practices lies with management and those charged with governance.

3.35 Where possible, we have placed reliance on Internal Audit's work and thereby avoided unnecessary duplication of audit effort. To ensure this approach was valid, we have undertaken the following:

- reviewed Internal Audit's working papers and reports
- considered the robustness of the key financial systems on the evidence of this work
- re-performed Internal Audit's evaluation of controls and a sample of their testing of the effectiveness of controls, to ensure that their conclusions are soundly based.

3.36 In order to identify the fraud risks, and the controls you have put in place to mitigate those risks, we have:

- discussed your anti fraud and corruption arrangements with officers, and obtained written confirmation from those charged with governance
- considered the extent to which the work of Internal Audit is designed to detect material misstatements in the accounts arising through fraud
- made enquiries regarding instances of actual fraud you have identified.

3.37 We were able to place reliance on Internal Audit's work for the testing of the effectiveness of specific controls.

Conclusions

3.38 As a result of our work, we have concluded that the key financial systems are adequate as a basis for preparing the financial statements and no significant control weaknesses were

identified as a result of our audit. We have included in Appendix A any recommendations arising from issues identified during our work.

- 3.39 We did not identify any significant fraud risks that affected our audit programme for the financial statements.

Matters required to be reported by other auditing standards

- 3.40 There are no other matters arising from our work that we are required by other auditing standards to bring to the attention of those charged with governance.

Other audit matters of governance interest

Annual Governance Statement

- 3.41 The Council has a responsibility to publish a Governance Statement, including the outcome of a review of its effectiveness, with its 2008/09 financial statements.
- 3.42 We have reviewed the Annual Governance Statement and the supporting review of effectiveness that has been undertaken and we are satisfied that the Statement is not inconsistent with the evidence provided in the review of effectiveness and our knowledge of the Council.

International Financial Reporting Standards

- 3.43 International Financial Reporting Standards (IFRSs) will be adopted in local government from 2010/11 and will require transitional arrangements to be put in place by the Council. Entities adopting IFRSs need to commence work to restate the balance sheet two years' prior to the first year of reporting, that being a restatement of the balance sheet at 31 March 2009.
- 3.44 Management should prepare for the adoption of IFRSs based on the Treasury timescales and ensure that staff have sufficient knowledge of IFRSs to restate the current financial statements.

4 Use of resources

- 4.1 The Audit Commission's Code of Audit Practice ('the Code') requires us to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money).
- 4.2 We are also required by the Code to undertake a use of resources assessment, the results of which are used to inform our VFM conclusion. The conclusion also draws on the results of local risk based audit, as well as consideration of the Council's processes underpinning its review of the effectiveness of its controls as described in the Annual Governance Statement.

Use of resources risks

- 4.3 The findings from our review of use of resources risks identified in our audit plan are summarised as follows:

Risk area	Findings and Conclusion
Embedding new management structures	The Council has successfully implemented its new organisational structure.
Strategic housing service	The Council has responded positively to the Audit Commission's inspection and is reporting improved performance.
New national guidelines for standards committees	The Council has updated its arrangements as necessary.
Plans for securing value for money in the use of resources	Our assessment confirms that the Council is performing well in its use of resources.
Planned efficiency savings are achieved and financial position remains balanced	The continued development of the financial planning model has ensured that the Council has continued to focus on achieving efficiency savings. As a result the Council has remained within the annual budget and the overall financial position remains balanced. There is increasing emphasis on the Council's medium and longer term financial planning.
Reducing health inequalities	We have carried out some preliminary work and are keeping the Council's and partners progress under review.

Use of resources assessment

- 4.4 The Audit Commission have specified that auditors review the arrangements to secure economy, efficiency and effectiveness against their "Specified Key Lines of Enquiry for 2008/09" contained with the use of resources framework. This assessment comprises three themes that focus on:
- sound and strategic financial management
 - strategic commissioning and good governance
 - the management of natural resources, assets and people.
- 4.5 The use of resources assessment scoring mechanism is defined as follows:

Score	Judgement	Conclusion
1	Failure to meet minimum requirements	Performing inadequately
2	Meets only minimum requirements	Performing adequately
3	Exceeds minimum requirements	Performing well
4	Significantly exceeds minimum requirements	Performing excellently

4.6 The results of this work are used in forming our overall conclusion on VFM, as the KLOE for the scored use of resources assessment also form the criteria for the VFM conclusion.

4.7 The results of our work are set out in the table below:

Theme	Code criterion	Criterion met	2008/09 score
Managing Finances	The organisation plans its finances effectively to deliver its strategic priorities and secure sound financial health	Yes	3
	The organisation has a sound understanding of its costs and performance and achieves efficiencies in its activities	Yes	2
	The organisation's financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people	Yes	3
	Score		3
Governing the business	The organisation commissions and procures quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money	Yes	3
	The organisation produces relevant and reliable data and information to support decision making and manage performance	Yes	2*
	The organisation promotes and demonstrates the principles and values of good governance	Yes	2
	The organisation manages its risks and maintains a sound system of internal control	Yes	3
	Score (*= weighted)		2
Managing Resources	The organisation is making effective use of natural resources	Yes	3
	The organisation manages its assets effectively to help deliver its strategic priorities and service needs	Yes	3
	The organisation plans, organises and develops its workforce effectively to support the achievement of its strategic priorities	N/A	-
	Score		3

4.8 These scores have been subject to the Audit Commission's national quality assurance processes to ensure that auditor judgements have been applied consistently. We will issue a separate report on the detailed findings from our use of resources assessment in due course.

Value for money conclusion

4.9 Our conclusion is that adequate arrangements are in place to secure value for money.

Appendix A: Action plan

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
Accounts					
<p><u>Fixed asset register (FAR)</u> We found errors in some data contained in the fixed asset register and that other data was not included. As a result the values recorded in the FAR do not always reconcile with details and values recorded in the annual accounts.</p>	The Council should ensure that the fixed asset register is updated and it remains the prime source of data for fixed asset balances.	Medium	A final reconciliation of the FAR is carried out once the accounts are finalised as the only data required for the Statement of Accounts is depreciation which is calculated on 1 April values.	Medway Finance	September 2009 – March 2010
<p><u>Working papers</u> At the start of the audit, important information in respect of fixed assets was not available to us. This delayed the completion of work in this area, as well as impacting on the completion of our overall audit of accounts.</p>	The Council should ensure comprehensive working papers are available at the start of the final accounts audit.	Medium	See above. However officers will ensure comprehensive working papers are available for the 2009/2010 audit.	Medway Finance	April – June 2010
<p><u>IFRS</u> The Council has made good progress in raising awareness about IFRS across the Council and officers have updated Members about the main implications for the Council's accounts. While the implementation of full IFRS will not occur until 2010/11, the Council needs to ensure it has the necessary information available to restate the accounts for 2009/10 and balance sheet for 31 March 2009.</p>	The Council should continue to review its arrangements for the implementation of IFRS and ensure appropriate accounting information will be available.	Medium	Agreed	Medway Finance, other Council directorates and PKF	September 2009 – June 2011
<p><u>HRA balances</u> Although the Council has reconciled the HRA debtor and creditor balances contained in the general ledger to the Academy system, there are a number of entries that need to be made to the general ledger to update it completely.</p>	The Council should complete all necessary amendments to the general ledger.	Medium	Agreed. The necessary entries will be processed in the current financial year.	Medway Finance	September 2009 – March 2010

Appendix B: Draft letter of representation

PKF (UK) LLP
Farringdon Place
20 Farringdon Road
London
EC1M 3AP

24 September 2009

Dear Sirs

Financial statements of Medway Council for the year ended 31 March 2009

Representations of the Chief Finance Officer

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of other officers and members of the Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2009.

Responsibility for the financial statements

I acknowledge as the Chief Finance Officer and s151 Officer my responsibilities for the financial statements.

Completeness of information

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and committee meetings (held during the year and up to the date of this letter) have been made available to you.

Internal control

I acknowledge my responsibility for the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that are free from misstatement, whether arising from fraud or error.

Fraud

I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated as a result of fraud.

I am not aware of any fraud or suspected fraud affecting the financial statements, nor have any allegations of fraud or suspected fraud affecting the financial statements been communicated to me by employees, former employees, councillors, regulators or others.

Compliance with law and regulations

I am not aware of any possible or actual instances of non-compliance with laws or regulations whose effects should be considered when preparing financial statements of the Council.

Transactions with related parties

I confirm that I have put in place appropriate arrangements to identify related party transactions.

I am satisfied that the disclosure in the financial statements of related party transactions is appropriate and complete and contains all the elements necessary for an understanding of the financial statements.

Contingent liabilities

I am not aware of any significant contingent liabilities, including pending claims, proceedings or litigation involving the Council.

Pension fund assumptions

I confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) scheme liabilities, as applied by the scheme actuary, are reasonable and consistent with my knowledge of the business. These assumptions include:

- | | |
|---|------|
| • Rate of inflation | 3.1% |
| • Rate of increase in salaries | 4.6% |
| • Rate of increase in pensions | 3.1% |
| • Rate for discounting scheme liabilities | 6.9% |

I also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

Subsequent events

There have been no events since the balance sheet date which necessitate revision of the figures included in the financial statements or inclusion of a note thereto. Should any material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Yours faithfully

Mick Hayward
Chief Finance Officer

Representations of the Council

We confirm to the best of our knowledge and belief, and having made appropriate enquiries of other officers and members of the Council, the following representations given to you in connection with your audit of the Council's financial statements.

Responsibility for the financial statements

We acknowledge our responsibilities to make arrangements for the proper administration of the Council's financial affairs and to approve the financial statements.

Annual Governance Statement

We confirm that the Council has conducted a review during the year of the effectiveness of its system of internal control. We are satisfied that the Annual Governance Statement appropriately reflects the circumstances of the Council and includes an outline of the actions taken, or proposed, to deal with significant internal control issues.

Yours faithfully

Audit Committee Chair
Signed on behalf of the Council

Appendix C: Uncorrected misstatements

None

Appendix D: Draft audit report

Independent auditors' report to the Members of Medway Council

Opinion on the financial statements

We have audited the Authority accounting statements and related notes of Medway Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the Members of Medway Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 the financial position of the Authority and its income and expenditure for the year.

We review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the Statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounting statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

Opinion

In our opinion the financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

Signature: _____ Date: _____

Name: Robert Grant
Partner on behalf of PKF (UK) LLP
London, UK

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditors' Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, we are satisfied that, in all significant respects, Medway Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Certificate

We certify that we 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.

Signature: _____ Date: _____

Name: Robert Grant
Partner on behalf of PKF (UK) LLP
London, UK