

Audit Committee – Supplementary agenda

A meeting of the Committee will be held on:

Date: Tuesday, 28 September 2010

Time: 7.00pm

Venue: Meeting Room 2 - Level 3, Gun Wharf, Dock Road, Chatham ME4 4TR

Items

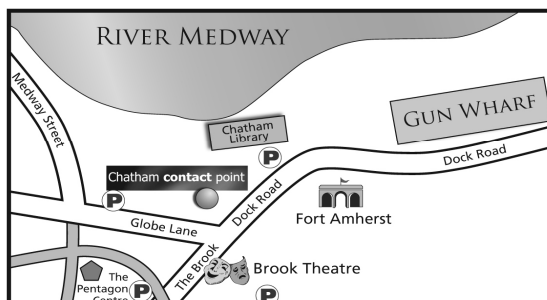
5. 2009/2010 External Audit Report

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This report considers the issues raised by the Council's external auditors following the 2009/2010 audit.

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Date: 23 September 2010



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ভাষা	331780	ગુજરાતી	331782	ਪੰਜਾਬੀ	331784	کوردی	331841	ارو	331785	Русский	332374
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AUDIT COMMITTEE

28 SEPTEMBER 2010

2009/2010 EXTERNAL AUDIT REPORT

Report from: Mick Hayward, Chief Finance Officer

Author: Mick Hayward, Chief Finance Officer

Summary

This report considers the issues raised by the Council's external auditors following the 2009/2010 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 2009/2010 was considered and approved by this Committee on 30 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.
- 2.2 At the June meeting Members raised a number of issues concerning the draft accounts. Where practical these have been incorporated in the accounts now presented and discussed more fully in Section 4 of this report. The two major concerns were:
 - Further disclosure of 'Officers' Emoluments' relating to school based staff and
 - Clarification of which schools assets are included within the balance sheet.

3. Auditors Report 2009/2010

- 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 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 4.5 below.

4.2 Accounting practices and financial reporting

- 4.2.1 Adequacy of disclosures. Since approval of the draft accounts the following additional disclosures have been made:
- Officers Emoluments (Note 5) separate analysis of school staff;
 - Related Party Transactions (Note 7) expanded to include Medway PCT and Rochester Bridge Trust;
 - Audit Fees (Note 10) revised to include grant audit;
 - Debtors (Note 18) now separately discloses payments in advance and Government debtors now correctly stated and
 - Post Balance Sheet Events (Note 30) relates to the effect on future pension liabilities following the Government's announcement in August to base pension increases on the Consumer Price Index rather than the Retail Price Index.

4.3 Corrected misstatements

- 4.3.1 Income and Expenditure Account. For various reasons a number of misstatements were identified in the Income and Expenditure Account. These are detailed in paragraphs 3.16 to 3.31 in Appendix 1 and have been corrected. There is no overall effect on the net cost of services:
- Education income and expenditure both overstated by £8.3 million;
 - £3.1 million income and expenditure included in Education rather than Social services and
 - Corporate and Democratic Core income and expenditure both understated by £1 million.
- 4.3.2 Balance Sheet Debtors – Note 18. The overall debtor figures in the balance sheet remain unaltered but Government debtors were understated and sundry creditors overstated:
- 2009/2010 £4.7 million and
 - 2008/2009 £12.1 million.

- 4.3.3 Revaluation Gains and Impairments. Following the decrease in property values during 2008/2009, the Council's property portfolio of some £1.1 billion increased overall by some £6 million. However, this increase did not take account of accumulated depreciation on those assets at 31 March 2009. This has no effect on the book value of the assets but the Revaluation Reserve was understated and the Capital Adjustment Account overstated by £5.9 million.
- 4.3.4 Some of the revaluation calculations applying to assets that are not depreciated were not treated correctly which has the effect of overstating the Revaluation Reserve and understating the Capital Adjustment Account by some £1.1 million. Once again, this has no effect on the book value of assets.
- 4.3.5 When assets are impaired, the charge is passed through the Income and Expenditure Account. However, the accumulated effect of depreciation charged to the Income and Expenditure Account should also be reversed through this account. The Net Cost of Services and hence the 'deficit' of £105 million has, therefore, been overstated by some £17 million (a corresponding transfer to this account ensures there is no effect on the General fund Balance).
- 4.3.6 Voluntary Aided (VA) and Voluntary Controlled (VC) Schools. For a number of years there has been inconsistent recording of certain classes of schools not only within Medway but with other local authorities. For consistency it has been agreed with PKF that all VA and VC schools are excluded with the exception of any land for playing fields or car parks etc. which the Council retains. This is consistent with Kent County Council's treatment of school assets. Foundation schools (2 primary and 8 secondary) will still be included in our asset values but academies will be removed as they are created. The removal of three VA and VC schools (The Pilgrim School, St John Fisher and Sir Joseph Williamson's Mathematical Schools) results in a reduction in the value of fixed assets of some £25 million as at 31 March 2010 although the adjustments required have resulted in a reduction in the net cost of services in the Income and Expenditure Account of some £1.6 million due to the removal of the depreciation charge. This change also requires revision to the Council's accounting policy for fixed assets.
- 4.3.7 Adjustments to Financial Statements. The revised Core Financial Statements (Income & Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet and supporting notes are shown at Appendix 2 with the changes highlighted. It must be emphasised that these adjustments have no overall impact on the revenue balances or available reserves of the Council.
- 4.4 **Uncorrected misstatements**
- 4.4.1 These are summarised at Appendix B of the PKF report and are considered immaterial in the context of the financial statements.
- 4.5 **Accounting and internal control systems**
- 4.5.1 Journal Authorisation. Some journals originated by finance staff had not been authorised by an officer independent of the journal preparation and entry processes. Staff will be reminded that correct procedures must be followed.
- 4.5.2 Income and Debtors – authorised invoices. Not all requests for raising debtor invoices had an appropriate level of authorisation. Staff will be reminded that correct procedures must be followed.

4.5.3 Income and Debtors –Credit note authorisation. During testing insufficient information and authorisation was available to justify the raising of one credit note. Staff will be reminded that correct procedures must be followed. 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.

4.6 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 As previously reported to this committee International Financial Reporting Standards (IFRS) require, amongst other things, the restatement of the 2009/2010 Statement of Accounts. PKF will review this restatement exercise in early 2011.

5. Value for Money

5.1 Auditors are required to review the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources (value for money). Following the decision by the Government to abolish the Audit Commission, the Commission will not be replacing the use of resources assessment and are reducing auditors' VFM work and removing any requirement for a scored assessment. However, auditors are still required to give a VFM conclusion.

5.2 The report concludes that the Council has adequate arrangements in place to secure value for money.

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 C 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 Section 4 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 4.3.6.
- 10.3 That Committee agrees the changes to the Statement of Accounts as set in paragraph 4.3 of this report and reflected in the amended sections of the Statement of Accounts set out at Appendix 2.
- 10.4 That Committee notes the uncorrected misstatements outlined in Appendix B of the PKF report.
- 10.5 That Committee agree the Management Representations Letter, attached at Appendix C of the PKF report.

Background papers

Medway Council's draft statement of accounts for 2009/2010
Report on Draft Statement of Accounts to this Committee 29 June 2010
Copies of these documents are available from the Lead Officer Contact

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Accountants &
business advisers

Medway Council

Annual Governance Report

2009/10

September 2010

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Appendices

- A Action plan
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- C Uncorrected misstatements
- D Draft independent auditors' report

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 Auditing standards require that we report to “those charged with governance” the key findings of our audit prior to issuing our opinion on the financial statements.

Findings and conclusions

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

Area of audit	Findings and Conclusion
Financial statements	
Key financial systems	<p>While we concluded the key financial systems are adequate as a basis for preparing the financial statements, working with Internal Audit, we identified weaknesses in the operation of controls over the authorisation of journals prepared by the Finance department; authorisation of debtor account invoices; and the authorisation of credit notes. Delays in the implementation of the new financial system for recording some Social Services income and expenditure (known as ‘Care Director’) meant we could not fully rely on financial controls operating in the year. The year-end amounts were however fully reconciled. We satisfactorily completed additional testing of transactions involving these systems, including extensive testing of the year-end Care Director amounts to obtain assurance over balances contained in the annual accounts.</p> <p>No issues arose from the additional work we completed and we have recommended action the Council should take to strengthen controls operating over these systems in 2010/11.</p>
Financial statements	<p>The Council completed material amendments to the accounts following its decision to remove all ‘voluntary aided’ and ‘voluntary controlled’ schools from its fixed asset register and accounts.</p> <p>Working with the finance section, we identified some material, and other significant misstatements, in accounting for fixed assets which the Council amended in the notes to the accounts. These amendments were complex and technical in nature and arose because the Council had not fully followed the 2009 SORP in preparing the Revaluation Reserve and the Capital Adjustment Account.</p> <p>Our work also found material (compensating) misstatements in the income and expenditure account due to errors in classifying income and expenditure.</p> <p>None of the amendments affected the overall surplus reported or the level of the general fund balance.</p> <p>Our audit plan identified the risk of misstatement as a result of the new requirements specified in the 2009 SORP to account for council tax and non-domestic rate transactions on an agency basis. The Council implemented these changes effectively.</p> <p>Some non-trivial but not material errors have been identified and these are detailed in Appendix C.</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>Some other areas of work are still outstanding at the time of drafting this report. Should these result in any significant issues, we will give a verbal update to the Audit Committee. Subject to satisfactory completion of the outstanding work, and in particular the outcome of the Council’s review of fixed assets, we anticipate issuing an unqualified “true and fair” opinion.</p>
Value For Money conclusion	We will be issuing an unqualified value for money conclusion.

Acknowledgement

- 1.3 We would like to thank staff for their co-operation and assistance during the audit and throughout the period..

2 Introduction

- 2.1 This report summarises the results of our audit work completed to date in respect of the financial statements and arrangements to secure economy, efficiency and effectiveness in the use of resources for the year ending 31 March 2010.
- 2.2 Our report is presented to the 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 Recommendations in response to the key findings identified by our audit of the financial statements 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.

Fee outturn

- 2.5 The Audit Commission's *Standing Guidance for Auditors* requires us to report the outturn fee position for the year against the budgeted fee included within your Audit Plan. The table below sets out this analysis:

Audit plan 2009/10	Planned fees £	Actual fees £
Financial statements	218,000	223,948
Use of Resources	117,000	117,000
Subtotal audit	335,000	340,948
Grants	84,000	84,000
Total	419,000	420,948

- 2.6 The increase in the fee for the audit of the financial statements (£5,948) was agreed with the Chef Finance Officer in the light of the additional work we completed in reviewing the Council's key financial systems.
- 2.7 A number of the grant claim audits are currently in progress or do not require certification until after 30 September 2010 and therefore the actual fee remains an estimate of the expected final position. The final position will be reported in our grants report to be issued in February 2011.

Independence

- 2.8 We confirm that we are not aware of any relationships that may bear on our independence and objectivity as auditors and that our independence declaration, included in the Audit Plan for 2009/10, has remained valid throughout the period of the audit.

3 Financial statements

Requirements

- 3.1 We are required to provide an opinion on whether your financial statements give a true and fair view of your financial position and income and expenditure and whether they have been prepared properly, in accordance with appropriate legislation and relevant accounting guidance.
- 3.2 We carry out procedures designed to obtain sufficient appropriate audit evidence to determine with reasonable confidence whether the financial statements 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 We set a triviality level of £50,000 for the 2009/10 financial statements audit and have not reported to you any matters arising below this level.

Reporting to those charged with governance

- 3.6 We are required to report to you:
- our assessment of and response to **significant risks in the financial statements**
 - qualitative aspects of **accounting practices and financial reporting**
 - **corrected and uncorrected misstatements**
 - final draft **letter of representation** to be agreed by management and those charged with governance
 - 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**.
- 3.7 Our comments in these areas are set below.

Significant risks in the financial statements

- 3.8 Auditing standards require that we bring to your attention areas that require additional or special audit procedures in response to areas of significant risk, such as a weakness in controls or areas requiring a higher degree of estimation by management.
- 3.9 The findings from our review of financial statements risks and other areas of audit focus identified in our Audit Plan are summarised in the table overleaf:

Risk area	Overall conclusion
Significant audit risks reported in the audit plan	
<p>2009 SORP</p> <p>We identified a risk of the Council not implementing the proposed changes contained within CIPFA's Statement of Recommended Practice (SORP) 2009, and therefore producing accounts which did not materially comply with professional guidance.</p>	<p>The Council effectively implemented the changes to the financial statements brought about by the Cipfa Statement of Recommended Practice 2009. No amendments were required following our review of the new requirements specified by the SORP.</p> <p>The Council completed material amendments to the accounts following its decision to remove all 'voluntary aided' and 'voluntary controlled' schools from its fixed asset register and accounts.</p> <p>Working with the finance section, we identified some material, and other significant misstatements, in accounting for other fixed assets which the Council amended in the notes to the accounts. These amendments were complex and technical in nature and arose because the Council had not fully followed the 2009 SORP in preparing the Revaluation Reserve and the Capital Adjustment Account.</p> <p>Our work also found material (compensating) misstatements in the income and expenditure account due to errors in classifying income and expenditure.</p> <p>None of the amendments affected the overall surplus reported or the level of the general fund balance.</p> <p>Details about corrected and uncorrected misstatements are provided at Paragraph 3.15 to 3.37.</p>
Significant audit risks identified in the year	
<p>Management override of controls</p> <p>Auditing standards presume that a risk of management override of controls is present in all entities.</p>	<p>Working with Internal Audit, we identified weaknesses in the operation of controls over the authorisation of journals prepared by the Finance department; authorisation of debtor account invoices; and the authorisation of credit notes.</p> <p>Delays in the implementation of the new financial system for recording some Social Services income and expenditure (known as 'Care Director') meant we could not fully rely on financial controls operating in the year. The year-end amounts were however fully reconciled. We satisfactorily completed additional testing of transactions involving these systems, including extensive testing of the year-end Care Director amounts to obtain assurance over balances contained in the annual accounts.</p> <p>No issues arose from the additional work we completed and we have recommended action the Council should take to strengthen controls operating over these systems in 2010/11.</p> <p>Further details are provided at Paragraph 3.44.</p>

Accounting practices and financial reporting

Application of accounting policies

- 3.10 The key changes introduced by the 2009 SORP were:
- the introduction of service concession arrangements under International Financial Reporting Interpretations Committee (IFRIC) 12
 - the introduction of agency accounting for the collection of council tax and national non-domestic rates (NNDR).
- 3.11 The Council has dealt with the implementation of these changes effectively.

The accounts preparation process

- 3.12 The draft financial statements were approved by Members on 28 June 2010 which was in line with the statutory deadline of 30 June 2010. 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. The Council provided us with files of working papers and draft financial statements on 14 July 2010 in line with the timetable we agreed.

Adequacy of disclosures

- 3.13 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 2009 SORP.
- 3.14 The following amendments have been made by the Council:
- Officers Emoluments (Note 5): revision of disclosures in respect of staff salaries to include schools
 - Related Party Transactions (Note 7): the related party transactions disclosure note has been expanded to include additional disclosure in respect of relationships with Medway Primary Care Trust also to provide information about the financial transactions entered into with Rochester Bridge Trust
 - Audit Fees (Note 10): Cost of grant claims audit (£84,000) now included
 - Debtors (Payments in Advance – Note 18): the Council has now separately disclosed the amount of payments in advance made as at 31 March 2010 given the significant value of the payments (over £4 million)
 - Debtors (Note 18): Consolidation of the debtors payable from the national pool (£1,679,000) with Government Department debtors as at 31 March 2010. The prior year balance was also amended (the £1,962,000 amount is now consolidated)
 - Post Balance Sheet Events (Note 30): a post balance sheet event regarding the change in the interest rate used to calculate future pension liabilities based on the Consumer Price Index (rather than the Retail Price Index) has been provided. The announcement was made by the Government in August 2010 and could not have been anticipated by the Council in preparing the draft accounts
 - Analysis of Net Assets (Note 42): the note was amended to reflect the correct amounts for General Fund Net Assets (£388 million) and Total Net Assets (£540 million).

Corrected and uncorrected misstatements

Corrected misstatements

Testing of transactions and balances

- 3.15 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.

Income and Expenditure Account

- 3.16 Our review of the Income and Expenditure account found a number of misstatements which the Council corrected. None of the misstatements affected the overall surplus reported, as shown below.

Education Services:

Income overstated £8.3 million

Expenditure overstated £8.3 million

- 3.17 The Council overstated income and expenditure in the Education Service because transactions included in the year-end management accounts were incorrectly transposed in preparing the statutory accounts (being 'double-counted'). The following adjustments were made to the accounts:
- Education Services income reduced by £8.3 million
 - Education Services expenditure reduced by £8.3 million.
- 3.18 There is no effect on the net cost of services or overall surplus reported.

Education Services and Social Services Income and Expenditure:

Education Services Income and Expenditure overstated £3.1 million

Social Services Income and Expenditure understated £3.1 million

- 3.19 In 2009/10 the Council decided to transfer responsibilities for Drug and Alcohol Action Team services from the Education Service to Social Services. The draft accounts were prepared based on arrangements the Council had in place in previous years and the following amendments were made to the accounts:
- Education Services Income and Expenditure reduced by £3.1 million
 - Social Services Income and Expenditure increased by £3.1 million.
- 3.20 There is no effect on the net cost of services or overall surplus reported by the Council.
- Corporate and Democratic Core Service - Income understated £1 million**
Corporate and Democratic Core Service - Expenditure understated £1 million:
- 3.21 Our work found the Council included Public Service Agreement (PSA) reward grant received in the year within General Ledger expenditure codes which meant both income and expenditure were understated by £1 million. The Council amended the amounts as follows:
- Corporate and Democratic Core Service Income increased by £1 million
 - Corporate and Democratic Core Service Expenditure increased by £1 million.
- 3.22 There is no effect on the net cost of services reported.

Balance sheet notes

- 3.23 Our review of the notes to the Balance Sheet found a number of misstatements which the Council corrected, as shown below.

Note 18 Debtors:

Government Department debtors understated by £4.7 million

Sundry Debtors overstated by £4.7 million

- 3.24 Our work found the Council classified amounts due from HM Revenue and Customs as sundry debtors. The amounts should have been disclosed as Government Debtors at note 18, the following amendments were made to the accounts:

- Note 18 Government Department debtors increased by £4.7 million
- Note 18 Sundry Debtors decreased by £4.7 million.

- 3.25 There is no effect on the overall debtor balance reported on the balance sheet.

Note 18 Prior Year Debtors:

31 March 2009 Government Department debtors understated by £12.1 million

31 March 2009 Sundry Debtors overstated by £12.1 million

- 3.26 Our work found the Council classified amounts due for capital amounts as sundry debtors when these should have been disclosed as Government Department debtors. The Council amended the amounts as at 31 March 2009 at note 18 as follows:

- Note 18 Government Debtors as at 31 March 2009 increased by £12.1 million
- Note 18 Sundry Debtors decreased by £12.1 million.

- 3.27 There is no effect on the overall debtor balance reported as at 31 March 2009.

Testing of Fixed Asset Balances

- 3.28 The Council has substantial fixed assets with a net book value of £1.1 billion as at 31 March 2010. Fixed Asset Accounting is complex and in many areas is open to interpretation by the 2009 SORP. The value of fixed assets is further complicated in the light of the volatility in UK economy, with some assets being materially impaired in 2008/09 subsequently recording valuation gains in 2009/10. The outcome of our review of fixed asset balances is shown below.

Revaluation Gains:

Revaluation Reserve understated by £5,911,000

Capital Adjustment Account overstated by £5,911,000

- 3.29 The Council's fixed asset register recorded gains between the cost or valuation of assets before 1 April 2009 and the valuation completed by officers as at 1 April 2009. Such gains should be recorded in the Revaluation Reserve based on the difference between the net book value of the asset and the revalued amount. However, the Council had recorded the gain as the difference between the value of the asset recorded at 1 April 2009 and the new revalued amount. It had ignored the impact of accumulated depreciation as at 1 April 2009 on the revalued asset and had transferred the amount to the Capital Adjustment Account.

3.30 Consequently, the Revaluation Reserve was understated and the Capital Adjustment Account was overstated by a similar amount. The position does not affect the net book value of fixed assets. To rectify the error, the Council has made the following amendments to the accounts:

- the Revaluation Reserve increased by £5,911,000
- the Capital Adjustment Account reduced by £5,911,000.

Historic cost depreciation:

Revaluation Reserve overstated £1,144,000

Capital Adjustment Account understated £1,144,000

3.31 In adjusting the accounts for the above revaluation gains, the Council has used the revalued amount for fixed assets and recalculated the annual depreciation amount based on the remaining economic life of individual assets. Fixed Asset accounting policies have been updated to reflect the approach followed by the Council.

3.32 However, the Council applied some calculations incorrectly, therefore the value of the Revaluation Reserve and the Capital Adjustment Account have been revised accordingly. The following amendments have been made to the accounts:

- Capital Adjustment Account increased by £1,144,000
- Revaluation Reserve reduced by £1,144,000.

Impairment:

Net Cost of Services overstated by £17 million

Statement of Movement on the General Fund Balance £17 million reversal

3.33 The Council's fixed asset register recorded asset impairments between the asset cost or valuation before 1 April 2009 and the reduced valuation completed by officers as at 1 April 2009. Such impairments should be recorded in the income and expenditure account and/or Revaluation Reserve based on the difference between the net book value of the asset and the revalued amount. The impairment should be recognised as a charge to the cost of services (subsequently reversed via the Statement of Movement on the General Fund Balance with no effect on the general fund balance).

3.34 The Council dealt with the accumulated depreciation on the impaired asset by increasing the Capital Adjustment Account by an equal amount (to the accumulated depreciation). However, the Council's approach is incorrect because the Income and Expenditure Account should bear the cost of the accumulated depreciation written out of the accounts. The following amendments have been made to the accounts and there is no effect on the general fund balance:

- decrease the net cost of services by £17 million
- additional amount reversed in the Statement of Movement on the General Fund Balance £17 million.

Voluntary Aided and Voluntary Controlled Schools

- 3.35 The Council has previously included some, but not all 'voluntary controlled' (VC) and voluntary aided' (VA) schools on its balance sheet. The Council has now decided these schools should not be included in Medway's fixed asset balances. One 'VA' and two 'VC' schools have therefore been removed from the Council's fixed asset register and its accounts. Consequently, some material and other significant amendments have been made affecting amounts as at 31 March 2009 and 31 March 2010, as summarised below.

2008/09 Accounts

- 3.36 The 2008/09 accounts have been amended to remove fixed assets (three schools) with a total value of £27.293 million (as at 1 April 2009). The Council has also removed £1.409 million from the revaluation reserve in 2008/09 and accumulated depreciation as at 31 March 2009 of £1.348 million. Some expenditure on the schools was resourced from Government Grant and the Government Grant Deferred Account reduced by £2.973 million accordingly. The overall effect is:

- value of fixed assets as at 1 April 2009 reduced by £27.354 million
- Government Grants Deferred Account reduced by £2.973 million
- Revaluation Reserve reduced by £1.409 million
- Capital Adjustment Account balance at 1 April 2009 therefore reduced by £22.972 million

2009/10 Accounts

- 3.37 The above transactions were removed from the opening balance sheet as at 1 April 2009 and the equivalent 2009/10 amounts were also amended. Taken together with the revaluation of assets in 2009/10; the expenditure on assets funded from Government Grant in the year; and the removal of depreciation charged in the year, the overall effect on the Council's accounts as at 31 March 2010 is as follows:

(1) Because the 2008/09 accounts were amended:

- The value of fixed assets as at 1 April 2009 reduced by £27.354 million
- Government Grants Deferred Account reduced by £2.973 million
- Revaluation Reserve reduced by £1.409 million
- Capital Adjustment Account balance at 1 April 2009 therefore reduced by £22.972 million.

(2) Transactions during 2009/10 which were amended:

- Depreciation (Historic Cost basis) reduced by £94,000
- Revaluation Reserve increased by £94,000
- Depreciation (charged in the year) reduced by £1.640 million
- Net cost of Education Services reduced by £1.640 million (The amount was reversed via the Statement of Movement on the General Fund Balance and increased the Capital Adjustment account balance)
- Net cost of services (Education services) increased by £198,000
- Government Grant deferred account balance reduced by £198,000 (The amount was reversed via the Statement of Movement on the General Fund Balance and increased the balance on the Capital Adjustment Account).

Uncorrected misstatements

- 3.38 We set out at Appendix B three non-trivial misstatements which we noted during the course of our audit and which management do not intend to adjust. These are:
- inclusion of a credit amount within debtors amounting to £217,000 which represents a receipt in advance and means the debtor balance is understated and the creditor balance understated
 - exclusion of a fixed asset with a net book value of £101,000. The Council is uncertain whether the asset is accurately valued because it is part of a sports ground and pavilion leased to a local club
 - overstatement of the revaluation reserve and the value of fixed assets by £177,000 because the Council has inconsistently adjusted accumulated depreciation for certain assets where revaluation gains have been made in the year.
- 3.39 We will provide an update at the Audit Committee meeting should we identify any additional items during the final clearance of outstanding issues.
- 3.40 The letter of representation at Appendix C includes written representation, both from the Chief Finance Officer and on behalf of the Committee, of the reason for not making the amendments noted in Appendix B.

Letter of representation

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

Audit report

- 3.42 Subject to satisfactory resolution of one outstanding issue and final clearance of the audit, we anticipate issuing an unqualified audit opinion on the accounts:
- review of revised depreciation balances.
- 3.43 We will provide a verbal update on the outstanding issue at the Audit Committee on 28 September 2010.

Accounting and internal control systems

- 3.44 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.
- 3.45 In assessing the reliability of systems as a basis for providing financial information that is 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.

3.46 Your key financial systems are:

- Main accounting
- Cash and bank
- Payments and creditors
- Income and debtors
- Payroll and employment costs
- Information technology
- Council tax
- Housing and council tax benefits
- National Non Domestic Rates
- Housing rents income
- Investments and investment income
- Care Director (Social Care)

3.47 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.

3.48 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.

Internal audit

3.49 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 its testing of the effectiveness of controls, to ensure that its conclusions are soundly based.

3.50 We were able to place reliance on Internal Audit's work for the testing of the effectiveness of specific controls within four of the key financial systems (Housing and council tax benefits, National non domestic rates, Council tax and Housing rent income). We reviewed the effectiveness of controls operating in the following systems:

- Main accounting
- Cash and bank
- Payments and creditors
- Income and debtors
- Payroll and employment costs
- Information technology
- Investments and investment income
- Care Director (Social Care)

3.51 As a result we extended the scope of our audit work to test the key controls operating in those systems. This resulted in our work on the key financial systems taking longer than anticipated within our audit fee. We have discussed, and agreed, with officers an additional fee of £5,948 in respect of this work.

Issues arising

- 3.52 We would like to draw to your attention the following key issues arising from our review of the key financial systems:

Main accounting system – journal authorisation

- 3.53 The Council's financial procedures require that journals are authorised by an officer independent of both the journal preparation process; and the subsequent entry of the journal onto the main accounting system. We tested 10 journals entered on the main accounting system in the year and found two journals had no evidence of authorisation by an independent officer. We discussed the outcome of our work with officers who told us that because the journals originated in the finance department, the need to authorise the journal independently had been overlooked.
- 3.54 We reviewed a further sample of 10 journals and found one further example where authorisation had not been evidenced in accordance with financial procedures.
- 3.55 To obtain assurance over year-end balances, we reviewed all material journals prepared in closing the 2009/10 accounts and found these to be valid.
- 3.56 The Council should remind officers financial procedures should be followed to ensure appropriate, independent authorisation should be obtained and evidenced before journals are processed and entered on the main accounting system.

Income and Debtors – authorised invoices

- 3.57 The Council's financial procedures require that debtor invoices should be created when a valid requisition is received from an appropriately authorised officer. However, we found the control is not applied at all in practice and that any officer may prepare a requisition and a debtor invoice will be raised and a debtor billed accordingly. While compensating controls are in place whereby budget holders review the level of income received in the year, the Council cannot be certain all income accrued is based on a properly authorised invoice.
- 3.58 We therefore completed additional testing of all material debtors as at 31 March 2010 and reviewed the level of Bad Debt Provision for reasonableness based on the Council's policies. Based on our sample of transactions, we are satisfied the 2009/10 debtors balance is not materially misstated.
- 3.59 The Council should remind officers to follow its financial procedures and ensure an authorised requisition order is received before preparing a debtor invoice.

Income and Debtors – Credit note authorisation

- 3.60 The Council's financial procedures require appropriate authorisation and evidence to be retained where a credit note is issued to eliminate or reduce an outstanding debtor amount. This means an authorised officer should evidence his review of the documentation supporting the credit adjustment and the retention of supporting documentation. From a sample of 10 credit notes issued in the year, we found one transaction with a value of £891 which had not been authorised and where no documentation had been retained in accordance with financial procedures. Officers reviewed the credit note and concluded it was legitimate.
- 3.61 We therefore completed additional testing of credit notes issued as at 31 March 2010 and concluded, based on our sample testing, the 2009/10 debtor balance was not materially misstated.
- 3.62 The Council should remind officers to follow its financial procedures and ensure an authorised requisition order is received before preparing a credit note.

Care Director System

- 3.63 As noted in paragraph 3.50 above, we have identified the Care Director system, which calculates social care income and expenditure and replaces the RAISE system previously in place, as a key financial system operating in 2009/10. However, due to delays in its full implementation, the system has not been in place for the full financial year. We did not therefore review the controls operating over the system but applied substantive audit procedures to verify balances contained in the 2009/10 accounts. This involved verifying the income and expenditure transactions calculated by the system and confirming the validity of creditor and debtor balances produced as at 31 March 2010. Our work also involved checking data used in the calculation of payments made to the data recorded in the system.
- 3.64 Based on our work, we confirmed the balances produced by the Care Director System were not materially misstated.
- 3.65 Internal Audit should undertake a full review of the Care Director system in 2010/11.

Fraud risks

- 3.66 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 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 brought to our attention.

Conclusions

- 3.67 As a result of our work, we have concluded that the key financial systems are generally adequate as a basis for preparing the financial statements though some control weaknesses were identified as a result of our audit (see table at paragraph 3.9). We have included in Appendix A those recommendations arising from the issues identified by our work.
- 3.68 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

- 3.69 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***

- 3.70 The Council has a responsibility to publish a Governance Statement, including the outcome of a review of its effectiveness, with its 2009/10 financial statements.
- 3.71 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

- 3.72 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. 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.

- 3.73 We have discussed the Council's current arrangements for managing the transition to IFRS and restating the 2009/10 financial statements. We are satisfied the Council has arrangements in place to help with the effective preparation of revised financial statements and we are planning to review the restatement exercise in early 2011.

4 Use of resources

- 4.1 We are required 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 In June 2010 the Government announced the abolition of Comprehensive Area Assessment. As a result, the Audit Commission announced changes to its use of resources approach, effective immediately, which included removal of the score judgements for use of resources assessments in local government bodies. It was still necessary, however, for auditors to complete sufficient use of resources assessment work to support their statutory duty to give a value for money conclusion. In practice, much of the use of resources assessment had already been completed at the time of the announcement, in order to meet the prior deadline of submitting indicative scores to the Audit Commission by 21 April 2010.
- 4.3 The Audit Commission is currently consulting on the future of the value for money assessment and the outcome will be available at the end of the Autumn.

Use of Resources Audit Work

Approach

- 4.4 In accordance with our audit plan, our principal work in relation to arriving at our value for money conclusion was completing the Audit Commission's Key Lines of Enquiries (KLOEs). This included updating our assessment of the KLOEs which had been scored for 2008/09 to include action taken by the Council to address any areas of weaker performance. And the assessment of a new KLOE for Unitary Authorities, which involved our review of the effectiveness of the Council's workforce planning.
- 4.5 While the use of resources assessment will not be scored in 2009/10, we are required to consider areas where the Council's performance may be inadequate and whether our value for money conclusion should be qualified. We can confirm the Council has adequate arrangements in place in each KLOE area, as summarised below.
- 4.6 In 2009, we highlighted the generally strong performance of the Council across most KLOE areas. Areas for improvement included further enhancing financial management arrangements; embedding the value for money framework to enable the more systematic use of data; working with strategic partners in the challenging economic climate; sustaining performance in services where improvement is being reported; and ensuring risks identified in the Gateway procurement process are kept under review.
- 4.7 The Council has made progress in most of these areas, and continues to evidence strong performance across most KLOEs, as summarised below.
- 4.8 The Council has continued to manage its finances well. We reviewed the Council's approach to planning, organising and developing its workforce for the first time in 2009/10 and concluded Medway met the requirements specified by the Audit Commission. We found the Council's arrangements for commissioning and procuring quality services and supplies were not as effective as previous years, though the Council's overall arrangements for governing the business remain adequate.
- 4.9 The Council has maintained effective arrangements for managing its finances, with clear accountability for delivering financial plans and effective leadership. Expenditure plans and efficiency savings were met in 2009/10 and a surplus of £2.2 million reported, enabling the Council to increase its general reserves and balances in accordance with its plans.
- 4.10 The 'star chamber' approach continues to underpin the effective integration of financial and service planning and the assessment of value for money, including benchmarking costs and service performance. The medium term financial strategy in place at the time of our work covered the period 2009 to 2012, and is based on a comprehensive analysis of local needs; Council priorities and expected growth in demand for services. The Council has modelled the

impact it expects on the Council's resource base following the Government's Comprehensive Spending Review. A new medium term financial plan was published in September 2010.

- 4.11 A key theme of the value for money assessment is the effectiveness of partnership working with other organisations. The Council has risen to the challenge of the economic downturn, implementing its 10 point plan and the 'REIGNITE' project which aims to assist people into work. With partners, such as local Faith organisations, the Council has led the investment of over £750,000 to benefit the most disadvantaged neighbourhoods in the area.
- 4.12 The Council has updated the Medway 'story of place' to harness available information about the area, the services provided by the Council and its partners and consultation with local people and other stakeholders. The Council's approach ensures the objectives set in the second community plan and the multi-area agreement are soundly based. The Council continues to work effectively with NHS partners towards joint objectives. Positive outcomes in 2009/10 include the work of the learning disability partnership with Autistic Children (and their carers) to design housing accommodation in partnership with the registered social landlord.
- 4.13 Children and Young people services and adult social care services work in partnership to enable forward planning of services based on consultation and to develop different ways of providing support services to vulnerable people. For instance, the Council consulted with service users; existing suppliers and partners (such as the local PCT) to understand needs and evaluate service options. New contracts are now in place and the Council has specified the value for money it expects to secure from each service area for vulnerable people. In the special educational needs service, the Council revised transport routes and agreed different vehicle specifications to negotiate recurring savings of £1 million per annum with its external contractor.
- 4.14 The Council is aware certain procurement and commissioning exercises were not completed efficiently in the year and have not yet secured value for money. The Council has taken action to improve the procurement of new waste contracts and has completed a review of corporate procurement arrangements, considering recommendations to improve arrangements further.
- 4.15 The Council has well developed arrangements for managing its people and has published a corporate workforce plan which is monitored for achievement. The Council keeps the overall establishment and workforce skills under review. Training needs are identified in discussion with individual members of staff. Work continues with the Council's partners (such as further education establishments) to improve staff accreditation and qualifications. Seventy social workers have entered into post qualification training and the Council has established a 'grow your own' scheme to develop social workers for hard to fill posts. The Investors in People assessment completed independently in the year concluded the Council has effective arrangements in place for diversity and people management.

Use of resources focus areas

- 4.16 The findings from our review of use of resources identified the following focus areas in our audit plan:

Focus area	Findings and Conclusion
Further improving financial management arrangements	<p>Our value for money assessment concluded the Council has continued to make progress in:</p> <ul style="list-style-type: none"> managing the financial risks across demand-led services and income streams while achieving a surplus in the year developed a new medium term financial strategy, based on financial modelling and options appraisal to prepare the Council for the difficult financial decisions which lie ahead securing further efficiencies and value for money in certain services while managing risks.
Embedding the value for money framework by implementing the new Performance Management System (Covalent) to enable the more systematic use of data.	<p>Progress has been made and reports from the new performance management system were produced for management review and to publish performance against targets in November 2009.</p> <p>The approach has enhanced the scope and extent of data available to manage performance towards the Council's targets.</p>
Finding more innovative ways of working with strategic partners in the challenging economic climate	<p>The Council has continued to make good progress with its partnership working. There have been good outcomes in tackling the effects of the economic downturn in Medway and in continuing to work with NHS partners.</p> <p>Further details are provided at paragraphs 4.8 to 4.15</p>
Sustaining performance in services (such as the Strategic Housing Service) where improvement is being reported	<p>At the time of our review, the Council had implemented the improvement plan for Strategic Housing Services and better performance was being reported towards the Council's targets.</p>
Ensuring risks identified in the Gateway procurement process are kept under review.	<p>We concluded the Council's procurement arrangements had scope to improve further, and action has been taken accordingly, as shown at paragraph 4.14.</p>

Value for money conclusion

- 4.17 Our value for money conclusion is based on considering our judgements from the results of risk based audit work, as well as consideration of the processes underpinning your review of the effectiveness of your controls as described in the Annual Governance Statement. Our judgements against the value for money conclusion criteria are set out in the table overleaf:

Value for money conclusion criteria	Yes/No
1. Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	Yes
2. Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	Yes
3. Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	Yes
4. Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	Yes
5. Does the organisation produce relevant and reliable data and information to support decision making and manage performance?	Yes
6. Does the organisation promote and demonstrate the principles and values of good governance?	Yes
7. Does the organisation manage its risks and maintain a sound system of internal control?	Yes
8. Is the organisation making effective use of natural resources?	Yes
9. Does the organisation manage its assets effectively to help deliver its strategic priorities and service needs?	Yes
10. Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?	Yes

Overall conclusion

- 4.18 Our overall 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
Financial statements					
Fixed Asset Balances Significant amendments were required to fixed asset disclosures in the notes to the accounts as a result of our review of the fixed asset register.	Ensure the fixed asset register is maintained in accordance with the Council's policies to produce year-end balances which fully comply with the SORP.	H	Required amendments actioned including removal of VA & VC schools. Data in Fixed Asset Register (FAR) being reviewed.	Medway Finance	September 2010
Financial systems					
Main Accounting system – Journal Authorisation The Council's financial procedures require that journals are authorised by an officer independent of the journal preparation process and the subsequent entry onto the main accounting system. We tested 10 journals entered on the main accounting system in the year and found two journals had no evidence of authorisation by an independent officer. We discussed the outcome of our work with officers who told us that because the journals originated in the finance department, the need to authorise the journal independently had been overlooked. We reviewed a further sample of 10 journals and found one further example where authorisation had not been evidenced in accordance with financial procedures.	The Council should remind officers to follow its financial procedures for the authorisation of journals.	H	Finance officers instructed to ensure compliance with journal authorisation procedures.	Medway Finance	Immediate

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
<p>Income and Debtors – Authorisation of Invoices</p> <p>The Council's financial procedures require that debtor invoices should be created when a valid requisition is received from an appropriately authorised officer. However, we found the control is not applied at all in practice and that any officer may prepare a requisition and a debtor invoice will be raised and a debtor billed accordingly.</p> <p>We therefore completed additional testing of all material debtors as at 31 March 2010 and reviewed the level of Bad Debt Provision for reasonableness based on the Council's policies. Based on our sample of transactions, we are satisfied the 2009/10 debtors balance is not materially misstated.</p>	<p>The Council should remind officers to follow its financial procedures and ensure an authorised requisition order is received before preparing a debtor invoice.</p>	H	<p>All Medway staff instructed to follow correct authorisation procedures when raising debtor invoices.</p>	<p>Exchequer Services Manager</p>	<p>Immediate</p>

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
<p>Authorisation of credit notes</p> <p>The Council's financial procedures require appropriate authorisation and evidence to be retained where a credit note is issued to eliminate or reduce an outstanding debtor amount. This means an authorised officer should evidence his review of the documentation supporting the credit adjustment and the retention of supporting documentation. From a sample of 10 credit notes issued in the year, we found one transaction with a value of £891 which had not been authorised and where no documentation had been retained in accordance with financial procedures.</p> <p>We therefore completed additional testing of credit notes issued as at 31 March 2010 and concluded, based on our sample testing, the 2009/10 debtor balance was not materially misstated.</p>	<p>The Council should remind officers to follow its financial procedures and ensure an authorised requisition order is received before preparing a credit note</p>	H	<p>All Medway staff instructed to follow correct authorisation procedures when raising debtor credit notes.</p>	<p>Exchequer Services Manager</p>	<p>Immediate</p>

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
<p>Care Director System</p> <p>The Care Director system was not fully operational in the year and we completed additional audit procedures to obtain assurance over the balances contained in the accounts.</p> <p>Based on our work, we confirmed the balances produced by the Care Director System were not materially misstated.</p>	Internal Audit should undertake a full review of the care Director system in 2010/11.	M	Audits of Care Director payments and income were approved by the Audit Committee on 30 June 2010.	Audit Services Manager	Care Director payments audit underway. Care Director income scheduled for last quarter of 2010/11.

Appendix B: Uncorrected misstatements

The table below details the potential differences recorded during the audit that have not been adjusted for within the financial statements:

Uncorrected misstatements	Income Over/ (Under) £'000	Expenses (Over)/ Under £'000	Assets (Over)/ Under £'000	Liabilities Over/ (Under) £'000	Reserves Over/ (Under) £'000
Misstatements of fact (specific misstatements)					
Creditors (Receipts in Advance)				(217)	
Debtors			217		
Revaluation Reserve					177
Fixed Assets (various assets)			(177)		
Fixed Assets			101		
Revaluation Reserve					(101)
Misstatements of subjective decisions (estimates or application of accounting policy)					
None					
Likely misstatements (extrapolation of errors)					
None					
Total net misstatements					
- Net understatement of costs					
- Net overstatement of net assets			141	(217)	76

Appendix C: Draft letter of representation

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

28 September 2010

Dear Sirs

Financial statements of Medway Council for the year ended 31 March 2010

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 2010.

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 have disclosed to you my knowledge of fraud or suspected fraud affecting the Council and of any allegations of fraud or suspected fraud affecting the financial statements 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, other than those disclosed within the financial statements, including pending claims, proceedings or litigation involving the Council. I am aware of the decision of the Information Commissioner's Office in August 2010 that local authorities may have to repay fees previously collected for property searches. I have reviewed the potential liabilities arising from the Commissioner's decision and am satisfied these are trivial.

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	3.9%
• Rate of increase in salaries	5.4%
• Rate of increase in pensions	3.9%
• Expected return on assets	7.1%
• Rate for discounting scheme liabilities	5.5%

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

Uncorrected misstatements

You have brought to my attention uncorrected misstatements in the financial statements as listed in Appendix 1 to this letter. I do not wish to correct these misstatements as I consider them to be immaterial to the view given by the financial statements.

Fair value measurements and disclosures

I am satisfied the carrying value of land and buildings is a reasonable representation of their value at 31 March 2010.

Subsequent events

Other than those disclosed within the accounts, 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
Director of Finance (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.

Uncorrected misstatements

We have considered the uncorrected misstatements in the financial statements as listed in Appendix 1 to this letter together with the explanations provided by the Chief Finance Officer for not correcting these misstatements, and we consider them to be immaterial to the view given by 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

Councillor Trevor Clarke
Audit Committee Chairman

Signed on behalf of the Council

Note: Appendix 1 referred to in this letter relates to Appendix B in this report

Appendix D: Draft independent auditors' report

Independent auditor's report to the Members of Medway Council

Opinion on the accounting statements

We have audited the Authority accounting statements and related notes of Medway Council for the year ended 31 March 2010 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 Statement of Movement on 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 published by the Audit Commission in April 2008.

Respective responsibilities of the Chief Finance Officer and auditor

The Chief Finance Officer's responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the accounting 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 give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of 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 accounting 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 Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

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.

Auditor's 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 for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. We report if significant matters have come to our attention which prevent me 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 October 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 ended 31 March 2010.

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.

Robert Grant

Partner, on behalf of PKF (UK) LLP

London, UK

30 September 2010

E CORE FINANCIAL STATEMENTS

Figures for 2008/2009 have been restated to reflect the new requirements for the Collection Fund described further within the notes in Section F and Collection Fund in Section G and the new requirement to accrue for leave not taken at the year end.

Income and Expenditure Account

This account summarises the resources that have been generated and consumed in providing Council services during 2009/2010. It includes all day to day expenses and related income on an actual basis as well as transactions measuring the value of fixed assets actually consumed and the real projected retirement value of retirement benefits earned by employees during the year.

Restated 2008/2009 £'000	Service	Notes	Expenditure 2009/2010 £'000	Income 2009/2010 £'000	Net 2009/2010 £'000
1,607	Central services to the public		3,616	1,530	2,086
384	Court Services		458	0	458
64,628	Cultural, environmental and planning		73,938	27,418	46,520
72,623	Education services		321,570	236,868	84,702
25,321	Highways, roads and transport services		34,148	12,068	22,080
11,442	Local authority housing		10,577	11,840	(1,263)
5,653	Other housing services		122,918	114,787	8,131
85,608	Social services		116,654	28,614	88,040
20,303	Corporate and Democratic core		12,844	1,565	11,279
723	Non-distributed costs		24,580	23,906	674
288,292	Net Cost of Services		721,303	458,596	262,707
2,691	(Gain)/loss on disposal of fixed assets				(779)
259	Parish council precepts				279
(2,752)	Trading (surpluses) / deficits	4			(2,168)
12,170	Interest payable and similar charges	39			10,444
544	Contribution of housing capital receipts to Government Pool				191
(10,126)	Interest and investment income	39			(3,390)
6,400	Pension interest cost & return on assets				9,868
297,478	Net Operating Expenditure				277,152
(89,292)	Demand on the Collection Fund				(94,859)
(20,752)	Central Government Grant				(29,812)
(69,452)	Non-domestic rates redistribution				(66,805)
117,982	Deficit for the year				85,676

Statement of Movement on the General Fund Balance

This reconciliation statement summarises the difference between the outturn on the Income and Expenditure Account and the General Fund Balance.

2008/2009 Restated £'000		Note	2009/2010 £'000
117,982	Deficit for the year on the income and expenditure account		85,676
(121,457)	Additional amount credited to the General Fund in accordance with statute and proper practice	1	(87,883)
(3,475)	Increase in General Fund balance for the year		(2,207)
(8,344)	General Fund balance brought forward		(9,500)
2,319	Transfer to General Reserve		1,707
(9,500)	General Fund Balance carried forward		(10,000)

Statement of Total Recognised Gains and Losses

This statement brings together all the gains and losses of the Council and shows the aggregate increase or decrease in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

2008/2009 Restated £'000			2009/2010 £'000
117,982	Deficit for the year on the income and expenditure account		85,676
(17,289)	Amortisation of grant funded fixed assets		(26,655)
(1,745)	(Surplus) / deficit arising on the revaluation of fixed assets		(51,708)
30,300	Actuarial (gains) / losses on pension fund assets & liabilities		132,537
129,248	Total recognised (gains) / losses for the year		139,850

Balance Sheet		31 March 2010		31 March 2009
	Notes	£'000	£'000	Restated £'000
Fixed Assets				
Council Dwellings	11	176,600		173,934
Other Land and Buildings	11	676,848		692,139
Vehicles, Plant and Equipment	11	1,351		1,311
Infrastructure and Community Assets	11	144,291		133,838
Investment Properties	11	70,872		72,566
Work in Progress	11	13,039		4,230
			1,083,001	1,078,018
Long Term Investments	15		10,004	20,004
Long Term Debtors	16		787	882
TOTAL LONG TERM ASSETS			1,093,792	1,098,904
Current Assets				
Landfill Usage Allowances		0		0
Stocks and Work in Progress	17	152		144
Debtors	18	61,651		51,211
Short-term investments	15 & 38	79,055		114,747
Cash and Bank		23,658		17,736
		164,516		183,838
Current Liabilities				
Creditors	19	(58,768)		(55,457)
Short Term Borrowing	20	(26,895)		(52,351)
Bank Overdraft		(23,719)		(16,466)
		(109,382)		(124,274)
NET CURRENT ASSETS			55,134	59,564
Unapplied Capital Grants and Contributions			(32,737)	(20,276)
Long Term Borrowing	20 & 38		(175,139)	(200,259)
Deferred Liabilities	21		(49,665)	(51,948)
Pensions Liabilities	22		(265,235)	(132,100)
Deferred Capital Receipts	23		(44)	(58)
Government Grant Deferred Account	24		(96,286)	(84,867)
Capital Contributions Deferred Account	24		(9,476)	(9,970)
Provisions	25		(2,941)	(1,735)
TOTAL ASSETS LESS LIABILITIES			517,403	657,255
Financed by				
<u>Reserves:-</u>				
Revaluation Reserve	26		117,684	69,978
Usable Capital Receipts Reserve	27		1,799	4,719
Capital Adjustment Account	28		629,487	682,746
Earmarked Capital Reserves	29		682	2,847
Earmarked Revenue Reserves	29		6,584	7,272
General Reserve	29		7,111	3,263
Pensions Reserve	29		(265,235)	(132,100)
Financial Instrument Adjustment Account	38		(988)	(873)
Collection Fund Adjustment Account	40		609	77
Accumulated Absences Adjustment Account	41		(687)	(657)
<u>Revenue Balances:-</u>				
General Fund Balance	29		10,000	9,500
Housing Revenue Account Balance	29		5,127	4,303
Schools Balances	29		5,230	5,850
Trading Balances	29		0	330
TOTAL RESERVES AND BALANCES			517,403	657,255

F NOTES TO THE CORE FINANCIAL STATEMENTS

1. Additional Amount Credited To The General Fund In Accordance With Statute And Proper Practice

2008/2009 Restated £'000	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the movement on the General Fund Balance.	2009/2010 £'000
(114,613)	Depreciation and impairment of fixed assets	(82,301)
4,724	Government grants deferred amortisation	5,460
78	Excess of depreciation charged to HRA services over MRA element of housing subsidy	501
(20,150)	Revenue Expenditure Funded from Capital Under Statute	(22,989)
(2,370)	Net (loss)/gain on sale of fixed assets	729
1,143	Adjustment for LOBO & soft loan interest	(115)
(43)	Reversal of difference between share of previous year outturn surplus on Collection Fund and share of estimated surplus distributed in year	(77)
120	Share of actual Collection Fund Surplus in year of accounts	609
(21,200)	Net charges made for retirement benefits in accordance with FRS17	(19,480)
(152,311)		(117,663)
	Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the movement on the General Fund Balance	
7,155	Minimum revenue provision for capital financing	6,520
2,209	Capital expenditure charged to the General Reserve	1,188
(544)	Transfer from usable capital receipts to meet payments to the Pool	(191)
18,400	Employers contributions payable to the Pension Fund	18,882
27,220		26,399
	Transfers to or from the General Fund Balance that are required to be taken into account when determining the movement on the General Fund Balance	
0	Voluntary revenue provision for capital financing	1,975
1,199	Housing Revenue Account Balance	824
2,133	Principal repayment in respect of pre-reorganisation county debt	2,047
302	Net transfer to or from earmarked reserves	(1,465)
3,634		3,381
(121,457)	Net additional amount required to be credited to the General Fund Balance	(87,883)

5. Officers' Emoluments

The number of employees whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 were:

Remuneration Band	Number of Employees			
	Schools		Non-Schools	
	2009/2010	2008/2009	2009/2010	2008/2009
£50,000 to £54,999	95	92	27	21
£55,000 to £59,999	55	48	19	19
£60,000 to £64,999	38	34	40	34
£65,000 to £69,999	20	14	10	8
£70,000 to £74,999	12	7	0	2
£75,000 to £79,999	6	2	1	1
£80,000 to £84,999	3	3	1	1
£85,000 to £89,999	4	4	3	4
£90,000 to £95,999	3	4	1	1
£95,000 to £99,999	4	5	4	3
£100,000 to £104,999	2	2	1	0
£105,000 to £109,999	0	0	0	0
£110,000 to £114,999	2	0	0	0
£115,000 to £119,999	1	0	0	0
£120,000 to £124,999	0	0	1	1
£125,000 to £129,999	0	0	1	1
£130,000 to £134,999	0	0	0	0
£135,000 to £139,999	0	0	0	0
£140,000 to £144,999	0	0	0	1
£145,000 to £149,999	0	0	0	0
£150,000 to £154,999	0	0	1	0
Total	245	215	110	98

7. Related Party Transactions

The Council holds a statutory register of members' declarations covering employment, sponsorship, property and land holdings, contracts with the Council etc. Members and senior officers declare any pecuniary interest in committee items prior to their debate. The Council also holds a Register of Interest relating to members and senior officers. These registers are open to inspection by members of the public.

All members agree to the terms of the National Code of Local Government Conduct and the Council has introduced a Code of Conduct agreeing guidelines for good working practice between members and officers.

One Member of the Council is a non-executive director of NHS Medway. During the year the Council received £16.731 million from NHS Medway (see Note 4) and paid £821,000 in respect of various services.

Members of Medway Council represent the Council on the boards of the following organisations:

Chatham Historic Dockyard Trust (CHDT) – Two members represent the Council on the trust which is set up to secure for the public benefit the preservation and use of the Historic Dockyard at Chatham in a manner appropriate to its archaeological, historical and architectural importance and promote and foster for the public benefit a wide knowledge and understanding of the significance of the dockyard. There were no financial transactions between the council and CHDT during 2009/2010.

Rochester Bridge Trust (RBT) – Three members represent the Council on the trust, the main purpose of which is to maintain and improve the Medway Tunnel, bridges and associated riverbanks in order to facilitate passage over, under or across the River Medway. During the year the Council acquired the freehold of Medway Tunnel at a peppercorn and is now responsible for maintenance work. The Council received £3.274 million from RBT in 2009/2010 as a contribution towards future maintenance costs. Previously the Council undertook annual reimbursable maintenance work, (amounting to £374,000 in 2008/2009), on Medway Tunnel on behalf of RBT.

Thames Gateway Kent Partnership (TGKP) – The leader of the Council, in common with neighbouring authorities and Kent County Council, is a board member of TGKP. The aims and objectives of the partnership are to provide a strong and effective partnership to bring about a high-quality sustainable economic development and regeneration of the whole Thames Gateway Kent areas, to promote economic and social investment and equality of opportunity and to create employment, community and environmental benefits for local people, businesses and employees, reflecting their needs and aspirations. The Council contributed £25,000 to the Partnership in 2009/2010 (£25,000 in 2008/2009).

Central government provides the majority of funding for the Council in the form of grants and prescribes the terms of many transactions that the Council has with other parties eg Housing Benefits. Details of transactions with government departments are set out within the Cash Flow Statement.

Other than transactions disclosed elsewhere within these accounts, there are no other disclosures required in accordance with FRS 8 – Related Party Transactions.

10. Audit and Inspection Fees

The following amounts were paid during the financial year:

	2009/2010 £'000
PKF - 2009/2010 Accounts	216
PKF - Use of Resources	93
PKF - Risk Based Use of Resources	20
PKF – Grants (Including grants report)	84
Total	413
Audit Commission – Managing Performance / Strategic Housing Re-inspection	60

11. Movement on Fixed Assets

	Council Dwellings £'000	Other Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Infra-structure £'000	Community Assets £'000	Investment Properties £'000	Assets under Construction £'000	Total £'000
Cost or Valuation								
At 1 April 2009	173,924	737,040	3,154	168,582	4,423	72,566	4,230	1,163,919
Additions	5,148	3,593	222	21,467	2,046	(885)	8,808	40,399
Disposals	(770)	(1,740)	0	0	0	(629)	0	(3,139)
Reclassification	10	243	0	0	0	0	0	253
Revaluations	0	(17,912)	0	1,460	(192)	(180)	0	(16,824)
At 31 March 2010	178,312	721,224	3,376	191,509	6,277	70,872	13,038	1,184,608
Depreciation and Impairments								
At 1 April 2009	10	(44,904)	(1,843)	(39,167)	0	0	0	(85,904)
Charge for 2009/10	(1,711)	(22,713)	(182)	(14,380)	0	0	0	(38,986)
Disposals	0	0	0	0	0	0	0	0
Reclassifications	(10)	(241)	0	0	0	0	0	(251)
Revaluations	0	23,482	0	52	0	0	0	23,534
At 31 March 2010	(1,711)	(44,376)	(2,025)	(53,495)	0	0	0	(101,607)
Balance sheet amount at 31 March 2010	176,601	676,848	1,351	138,014	6,277	70,872	13,038	1,083,001
Balance sheet amount at 1 April 2009	173,934	692,139	1,311	129,415	4,423	72,566	4,230	1,078,018

Ten foundation schools with a value of £114.95 million are included within Other Land and Buildings as the Council accepts the risks and rewards of the utilisation of these assets.

Voluntary Controlled and Voluntary Aided schools are no longer included in the balance sheet.

The balance sheet for 2008/2009 has been restated to reflect this change of accounting policy.

18. Debtors

	31 March 2010 £'000	31 March 2009 £'000
Collection Fund Debtors		
- Council Tax payers	8,660	7,932
Less bad / doubtful debt provision	(1,735)	(1,583)
	<u>6,925</u>	<u>6,349</u>
Other Debtors		
Unrealised Investment Gain	0	0
Government Departments	31,459	17,438
Landfill Allowance Trading Scheme	0	0
Social Services 'Collect'	2,996	3,511
Housing rents	1,460	1,511
Sundry debtors	16,781	20,814
Less bad / doubtful debt provisions		
- Social Services 'Collect'	(720)	(566)
- Housing Rents	(585)	(597)
- Sundry Debtors	(736)	(648)
	<u>50,655</u>	<u>41,463</u>
Payments in Advance	4,071	3,399
Total	<u>61,651</u>	<u>51,211</u>

21. Deferred Government Grants and Contributions

The balance on this account represents the value of capital grants and contributions which have been applied to finance the acquisition or enhancement of fixed assets. The balance is released to revenue over the life of the asset taking into account depreciation.

	Deferred Government Grants £'000	Deferred Contributions £'000
Balance 1 April 2009	84,867	9,970
Grants and Contributions applied in year	16,045	340
Transfer to Income and Expenditure a/c	(4,626)	(834)
Balance 31 March 2010	<u>96,286</u>	<u>9,476</u>

26. Revaluation Reserve

The Revaluation Reserve was created in the Balance Sheet on 1 April 2007 with a zero opening balance. The transactions on this account therefore only include revaluation gains accumulated since 1 April 2008. Gains are recorded against individual assets. Any revaluation losses in excess of the individual balances in this reserve are written off to the Capital Adjustment Account (see Note 28).

	£'000
Balance at 1 April 2009	69,978
Revaluation and Restatement of fixed assets	47,951
Disposal of fixed assets	(245)
Balance at 31 March 2010	<u>117,684</u>

28. Capital Adjustment Account

The Capital Adjustment Account was created upon implementation of the Revaluation Reserve with an opening balance incorporating the Fixed Asset Restatement Account and the Capital Financing Account adjusted by restating the balances of the Government Grant Deferred Account and the Capital Contributions Deferred Account.

The account contains the amounts which are required by statute to be set aside from capital receipts for the repayment of external loans and the amount of capital expenditure financed from revenue, capital receipts, Government grants and other contributions.

This account also receives the annual loan repayment in respect of the write down of liabilities which arose from services transferred on reorganisation (see note 21 – Deferred Liabilities).

	£'000
Balance at 1 April 2009	682,746
Capital Financing from:	
Capital receipts - General Fund	4,149
- Housing	460
Revenue and Reserves	5,601
Government Grants and Contributions	47,261
Transfer from Deferred Grants and Contributions Accounts	(20,408)
Appropriation to Revenue Account	(24,427)
Revaluations and Disposals	(42,906)
Revenue Expenditure Funded from Capital Under Statute	(22,989)
Balance at 31 March 2010	<u>629,487</u>

29. Movement on Reserves

⌘ The Statement of Total Movements in Reserves brings together all the recognised gains and losses of the Council during the financial year. The statement shows the gains/losses unrealised in the Revenue Account and separates the movements between revenue and capital reserves.

	Balance at 1 April 2009	Contribution to Revenue	Contribution from Revenue	Revaluations and Disposals	Transfers & Other Movements	Financing of Fixed Assets	Balance at 31 March 2010
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
CAPITAL RESERVES							
Revaluation Reserve	69,978	0	0	47,706	0	0	117,684
Capital Adjustment Account	682,746	(32,132)	5,657	(42,906)	(41,350)	57,472	629,487
Useable Capital Receipts Reserve	4,718	0	0	0	1,690	(4,609)	1,799
Housing Major Repairs Reserve	2,840	0	2,212	0	0	(4,413)	639
Other Earmarked Capital Reserves	7	0	36	0	0	0	43
Total Capital Reserves	760,289	(32,132)	7,905	4,800	(39,660)	48,450	749,652
REVENUE RESERVES							
General Reserve	3,263	(1,026)	4,356	0	1,706	(1,188)	7,111
Pensions Reserve	(132,100)	0	0	0	(133,135)	0	(265,235)
General Fund Balance	9,500	0	2,206	0	(1,706)	0	10,000
Housing Revenue A/C Balance	4,303	0	824	0	0	0	5,127
Financial Instrument Adjustment a/c	(873)	(115)	0	0	0	0	(988)
Schools Balances	5,850	(620)	0	0	0	0	5,230
Trading Account Balances	330	(330)	0	0	0	0	0
Earmarked Revenue Reserves	7,272	(688)	0	0	0	0	6,584
Total Revenue Reserves	(102,455)	(2,779)	7,386	0	(133,135)	(1,188)	(232,171)
TOTAL RESERVES	657,834	(34,911)	15,291	4,800	(172,795)	47,262	517,481

30. Post Balance Sheet Events

The Chancellor of the Exchequer announced in his emergency Budget on 22nd June 2010 that the consumer price index rather than the retail price index will be the basis for future public sector pension increases. In accordance with paragraph 21 of Financial Reporting Standard 21 (Events after the balance sheet date), this change is deemed to be a non-adjusting post balance sheet event. The effect of this change is estimated to reduce the value of FRS17 liabilities and will be determined in future actuarial valuations.

42. Analysis of Net Assets Employed

	31 March 2010 £000s	31 March 2009 £000s
General Fund	388,246	521,065
Housing Revenue Account	152,213	160,571
Total Net Assets	540,459	681,636

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