

PART 1 - PUBLIC

Decision Maker: **General Purposes & Licensing Committee**

Date: **27th September 2010**

Decision Type: Urgent Non-Executive Key

Title: **Audit of Financial Statements 2009/10**

Contact Officer: Pinny Borg, Senior Accountant, Co-ordination and Control
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Chief Officer: Director of Resources

Ward: Not Applicable

1. Reason for report

1.1 This report details the conclusions and significant issues arising from the work carried out in relation to the audit of the 2009/10 accounts.

2. RECOMMENDATION(S)

2.1 Members are asked to note the external auditor's report.

2.2 The Chairman of General Purposes & Licensing Committee be authorised to sign the letter of representation for 2009/10 on behalf of the Council.

Corporate Policy

1. Policy Status: Existing policy.
 2. BBB Priority: Excellent Council.
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Financial

1. Cost of proposal: N/A
 2. Ongoing costs: N/A.
 3. Budget head/performance centre: Council Wide
 4. Total current budget for this head: £130m (excluding GLA precept)
 5. Source of funding: N/A
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Staff

1. Number of staff (current and additional): Total employees – full time equivalent posts – 7,094 (per 2009/10 Budget), which includes 4,444 for delegated budgets to schools.
 2. If from existing staff resources, number of staff hours: N/A
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Legal

1. Legal Requirement: Statutory requirement. The statutory duties relating to financial reporting are covered within the Local Government Act 1972; the Local Government Finance Act 1998; the Accounts and Audit Regulations 1996; the Local Government Act 2000; and the Local Government Act 2002.
 2. Call-in: Call-in is applicable
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): The 2009/10 final accounts reflect the financial impact of the Council's strategies, service plans etc. which impact on all of the Council's customers (including council tax payers) and users of the services.
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Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A.
2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

3.1 The external auditor, PricewaterhouseCoopers LLP (PWC), has issued its report on the Financial Statements and Accounts for 2009/10, comprising the Council's main financial statements and Pension Fund accounts. A copy of this report is attached and includes the findings from the interim and final audits and recommendations for improvement. In addition a copy of the final Statement of Accounts has been placed in the Members' room.

3.2 The draft accounts were approved by the General Purposes and Licensing Committee on 30th June 2010. The attached audit report states that 'for the past nine years the Council has come in on or under budget demonstrating good financial control and management'. An unqualified audit opinion is expected for both the financial statements and the Council's Use of Resources. The auditor has identified the following audit and accounting related matters to bring to the attention of Members. These matters have been discussed with relevant officers and changes have been made to the disclosure notes where appropriate.

(i) Accounting treatment of vehicles under the Waste Management Contract

During the audit it was identified that the waste collection vehicles within the Waste Management Contract fall within the scope of International Financial Reporting Interpretations Committee (IFRIC 12). As such there is a requirement to bring these vehicles onto the Council's balance sheet for 2009/10.

The officers have not adjusted for these items in the 2009/10 financial statements as they are currently unable to obtain the information required to make these adjustments in the relevant timescales. Although this is a deviation from the requirements of the CIPFA Statement of Recommended Practice, the value of the assets involved is not material (the net book value of the vehicles at the 31 March 2010 was £489k) to the financial statements. Further details can be found in the auditor's report. There is no impact on the Council's revenue accounts or general fund balance.

(ii) Fixed asset revaluation process

The Local Government Statement of Recommended Practice (SORP), states that all assets must be revalued at a minimum every five years and more often if there is an indication that asset values are likely to have materially changed and, in accordance, the Council revalues its assets on a five year rolling programme.

Overall PWC were satisfied with the valuation exercise undertaken during 2009/10, but have requested that officers undertake additional work, including:

- i. Looking at the current timing of valuations to ensure that they take place to accurately reflect the value of assets at the 31st March, particularly in the current uncertain and dynamic environment.
- ii. Where a significant change has been identified in the valuation of the sample of assets reviewed, the Council should consider whether there is a need to extend the valuation exercise across the remaining assets within the categories showing the most significant movement.

In 2010, the Council is to revise the date of valuation from 1st April to 1st October, which will make the new valuations more accurate by year-end. In addition, variations within individual asset categories will be analysed more closely, both by Valuation & Estates staff and by Finance staff, to assess whether further revaluations are necessary.

Further details can be found in the auditor's report. There is no impact on the Council's revenue accounts or general fund balance.

(iii) Treatment of the Ravensbourne lease repayment process

In 2005/06 the Council took over a number of finance leases from the Ravensbourne School. The total initial value of these leases was £1.3m, which the Council paid off over three years, with the final payment being made in 2008/09. Under the arrangement, the School agreed to repay the Council over a period of 10 years for the cost of these leases, with the fourth annual payment being made in 2009/10.

Prior to 2009/10, the repayment debtor with the School had not been recognised in the financial statements, but this was picked up in 2009/10 and the Council has now made the correct entries in the financial statements to recognise the debt owed by the School. This has resulted in the recognition of a Long term debtor of £0.9million and Capital Income of £0.9m (to reflect the capital nature of the original lease agreement). The debtor will be reduced as the School repays the debt over the next six years. Further details can be found in the auditor's report.

There is no impact on the Council's revenue accounts or general fund balance.

- 3.3 Other minor presentational changes were also agreed and the financial statements have been updated accordingly.
- 3.4 The auditor is required to report all unadjusted misstatements identified during the course of the audit, other than those of a trivial nature. There was one unadjusted item relating to the Councils Waste Management Contract which is summarised in Appendix B of the auditor's report and referred to in paragraph 3.2 (i) above.
- 3.5 In accordance with the Accounts and Audit Regulations 2003 and the provisions of the SORP, the Director of Resources, as responsible finance officer, has authenticated and signed the amended accounts and the authorised for issue date has been updated to 27th September 2010. Although there is no requirement for re-approval by Members, the accounts will be submitted for re-approval, in line with good practice, at the meeting on 27th September 2010.
- 3.6 The Statement of Accounts and supporting documents have been open to public inspection for 20 working days between 9th August and 6th September. The auditor will report verbally should any objection be made.
- 3.7 At the time of writing, the auditor anticipates issuing an unqualified audit opinion on the financial statements, including the Pension Fund accounts.
- 3.8 The auditor's report also reviews the Systems of Internal Control and reports on weaknesses in the accounting and internal control systems identified during the audit. There were no material weaknesses identified during the audit.
- 3.9 In May this year, the government announced its intention to abolish Comprehensive Area Assessment (CAA) and the auditors were instructed by the Audit Commission to halt all work on the Use of Resources assessment.

As the Use of Resources work was not completed the auditors are unable to report the Use of Resources scores. However, they were able to report that the Council showed continued strong performance in the areas where the Council was previously assessed as performing

well. In addition improvements were noted in the area of performance management and data security, which were areas identified for development in 2008/09.

A number of areas of good practice were identified, including the impact that the Council's Standards Committee has on the wider governance arrangements and how the Council has implemented a new Employee Budget Management system. This has enabled managers to monitor their staff costs on a real time basis, which has helped to strengthen budgetary control further within the Council,

- 3.10 The auditor is also required to provide a Value for Money (VFM) conclusion drawing upon the Use of Resources work. This conclusion is reached by assessing the Council's arrangements against a set of criteria issued by the Audit Commission. The auditor has stated that an unqualified Value for Money conclusion will be issued.
- 3.11 The duty to appoint auditors to Local Authorities is a statutory function of the Audit Commission and 2009/10 is the second year that the audit has been undertaken by PricewaterhouseCoopers LLP, Bromley's appointed external auditor.

4. POLICY IMPLICATIONS

- 4.1 There are no direct policy implications arising from this report.

5. FINANCIAL IMPLICATIONS

- 5.1 This report refers to matters reflected in the auditors report. There are no adjustments to the accounts that have an impact on the Council's revenue outturn position and general fund balance for 2009/10. Therefore there would be no impact on the level of reserves previously presented to Members in the Provisional Final Accounts report on 16th June 2010.

Non-Applicable Sections:	There are no direct Legal or Personnel Implications.
Background Documents: (Access via Contact Officer)	All supporting papers are held in the Accountancy Division Provisional Final Accounts 2009/10 – Executive 16 th June 2010 Capital Programme Outturn 2009/10 – Executive 16 th June 2010 Draft Statutory Accounts 2009/10 – General Purposes & Licensing Committee 30 th June 2010