

London Borough of Bromley

2009/10 Report to those charged with
governance

September 2010

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

The 'Statement of responsibilities of auditors and of audited bodies' issued by the Audit Commission in April 2008 applies to our 2009/10 audit of [name of audited body] under the Code of Audit Practice for Local Government Bodies issued by the Audit Commission in July 2008. A copy of the statement is available from the Chief Executive of London Borough of Bromley. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement and the Code of Audit Practice. Reports and letters prepared by appointed auditors and addressed to members or officers 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.

Executive Summary

The purpose of this report

This report summarises the results of our 2009/10 audit. It sets out:

- matters arising from our audit of the financial statements, including the pension fund accounts, which we are required to report to you under the Audit Commission's Code of Audit Practice and International Standard on Auditing (UK & Ireland) 260 - "Communication of audit matters with those charged with governance";
- the results of our work under the Code of Audit Practice, to support the Value for Money conclusion;
- changes to the audit plan(s) presented to you in November 2009; and
- an audit fee update.

We have set out below the most important issues and recommendations that we have discussed with you in the course of our work.

Financial Statements

We have now substantially completed our audit of the London Borough of Bromley's ("the Council's") financial statements.

During our audit we identified several audit and accounting related matters that we wish to bring to your attention. These include:

- the accounting treatment of the vehicles under the Waste Management Contract;
- the fixed asset revaluation process, and
- the accounting treatment for the Ravensbourne School leases taken on by the Council.

We provide more information on all three matters in the next section.

At the time of writing this report we anticipate issuing an unqualified audit opinion for both the financial statements and on the Council's use of resources.

Financial Standing

For the past nine years the Council has come in on or under budget demonstrating good financial control and management. This is supported by our previous Audit Commission Use of Resources assessments where the Council has been assessed as performing strongly in the area of financial management. The General Fund balance to be carried forward has improved by £10.3m to £73.1m as at 31 March 2010. This includes the balances held by schools, which have improved by £5.3m to £21.3m.

The robust financial planning processes in place have positioned the Council well to plan for the potential significant reductions in Government funding in the next few years.

Use of Resources

Following the government announcement that comprehensive area assessment (CAA) is to be abolished, all work on Use of Resources for CAA ceased at the end of May. Therefore, we have not completed this work as planned, however, we are able to confirm that the findings from the work completed before the announcement showed continued strong performance in the areas where the Council was previously assessed as performing well. In addition improvements were noted in the areas of performance management and data security, which were areas identified for development in 2008/09.

Financial statements

Accounts

We have completed the audit of the Council's accounts in line with the Code of Audit Practice and International Standards on Auditing (UK & Ireland).

The draft management representation letter is attached for your consideration in Appendix A.

We anticipate issuing an unqualified audit opinion on the financial statements, including the pension fund accounts.

The audit has gone smoothly again this year. We are grateful to the finance team for their hard work and support in preparing the draft accounts and supporting information and for working closely with our team over the year.

Matters arising during our audit

A number of accounting matters were identified and addressed during the audit. The most significant of these are set out below:

- accounting treatment of waste management vehicles – net unadjusted difference;
- fixed asset revaluation process – no unadjusted differences arising, and
- Ravensbourne lease payment – no unadjusted differences arising

We are required to report to you all unadjusted misstatements, which we have identified during the course of our audit, other than those of a clearly trivial nature. We regard misstatements less than £50k as clearly trivial. The only unadjusted misstatement relates to the accounting treatment of waste management vehicles. More information on this matter is set out later in this report.

Accounting treatment of vehicles under the Waste Management Contract

In 2010/11 Councils will be required to prepare year end financial statements using International Financial Reporting Standards (IFRS). In anticipation of this the 2009 SORP requires Councils to account for Private Finance Initiatives (PFI) under IFRS in 2009/10.

Previously, under UK GAAP all PFI assets and contracts of a similar nature were accounted for off balance sheet. Under IFRS councils are required to assess all PFI arrangements under International Financial Reporting Interpretations Committee (IFRIC) statement 12 *Service Concession Arrangements* to determine whether they meet the requirements to be brought on balance sheet. Where this is the case, the assets associated with the scheme are capitalised on the council's balance sheet with a corresponding finance lease creditor also being established. This is considered to be a change in accounting policy and as such is required to be accounted for as a prior period adjustment through the restatement of the 2008/09 figures.

Subsequent annual payments are posted in part to the income and expenditure account, reflecting interest payments made, and in part to the balance sheet to reduce the finance lease creditor. Additional adjustments ensure that this has no impact on the general fund.

Although the Council does not have any PFI arrangements these accounting requirements can also impact on assets within non PFI contracts, depending on the terms of that contract, We have worked with management to review a number of the Council's contracts where this was likely to be an issue and have identified that the waste collection vehicles within the Waste Management Contract fall within the scope of IFRIC 12. As such there is a requirement to bring these vehicles onto the Council's balance sheet for 2009/10.

The impact of bringing the waste management vehicles on balance sheet would be an increase in the council fixed asset base and a corresponding finance lease creditor balance. The Council would also record an annual unitary charge which would be allocated between operating costs, finance costs (and long term liabilities (repayment of the finance lease creditor).

The Council has not adjusted for these items in the 2009/10 financial statements as they are currently unable to obtain the information required to make the adjustments required to bring the items into the accounts for 2008/09 and 2009/10. 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 total value of the vehicles acquired during the contract is approximately £2.2 million and the net book value of the vehicles at the 31 March 2010 was £0.5 million) to the financial statements. As the detailed information is not currently available to identify the accounting entries required we have not set these out in a separate Summary of Unadjusted Differences.

The Council should identify and obtain the information required to account correctly for the waste management vehicles as required by IFRIC 12. This adjustment will need to be made in the 2010/11 financial statements which are to be prepared under IFRS.

At this time, the Council should continue its work to prepare for the full implementation of IFRS in 2010/11. We are happy to work with the Council on this and early consultation on technical matters or areas of judgement will help to ensure an efficient and effective audit of the 2010/11 financial statements.

Fixed asset revaluation process

The Council has historically revalued its assets on a five yearly rolling programme and this was the approach continued in 2009/10. 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.

The Council's tangible fixed assets can be classified into two main categories, those valued on a market value basis and those on a depreciated replacement cost (DRC) basis. The DRC method of valuation requires a market valuation of the land for its existing use and an estimate of the gross current replacement cost of the buildings and other site works.

During 2009/10 the Council revalued £101million of its Operational and Non Operational Land & Buildings. This resulted in a net increase in total valuations of £10 million (10%). The increase was driven by significant, unusual movements in the valuation of a small number of properties, most significantly Darrick Wood Infants and Children Centre (£2.0m), Riverside Special School (£7.1m), and Biggin Hill Airport (£1.6m). Upon exclusion of these unusual items, the general trend seen was a revaluation gain of 1.0% on Operational and Non Operational Land & Buildings, which the Council's valuers deemed as reasonable based on their knowledge and experience of the local market conditions.

Overall we were satisfied with the valuation exercise undertaken during 2009/10. However, as we raised in our 2008/09 Report to those charged with governance, the Council would benefit from a more formal process for monitoring valuation movements, to ensure that the balance sheet at the 31st March accurately reflects the value of its asset base. This additional work should include:

- 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.

- 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.

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 £1,270,625, which the Council paid off over three years, with the final payment being made in 2008/09. The School has reached an agreement 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.

Due to an oversight the repayment debtor with the School had not been recognised in the financial statements. 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.

These accounting adjustments do not have an impact on the Council's general fund balance.

Pension Fund

We have completed our work on the London Borough of Bromley Pension Fund. We are pleased to report that we have not identified any significant matters that require reporting to those charged with governance. At the time of writing this report we are planning to issue an unqualified opinion on the London Borough of Bromley Pension Fund.

Any minor or control findings and recommendations have been reported in the 2009/10 Pension Fund Reports to Those Charged with Governance.

The most material estimate included in the accounts is for pension liabilities in respect of employees who are members of the London Borough of Bromley pension scheme. This estimate is calculated by the Council's Actuary as required by Financial Reporting Standard (FRS) 17 'Accounting for pension costs'.

We have reviewed the reasonableness of the assumptions underlying the pension liability in the accounts in accordance with ISA (UK&I) 540 'Audit of accounting estimates'. Overall we are comfortable with the net effect of the assumptions adopted.

The Council also participates in the Teachers' Pension Scheme, which is a multi-employer defined benefit scheme where the individual employers' share of the assets and liabilities of the scheme cannot be identified. Therefore, the Council accounts for this scheme as a defined contribution scheme under FRS 17 'Retirement benefits'. It recognises contributions payable for the year in the income and expenditure account but does not include a pension liability in the balance sheet for benefits earned by Council employees.

Systems of internal control

We are required to report to you any material weaknesses in the accounting and internal control systems identified during the audit. We are pleased to report that we have not identified any material weaknesses, however, we have identified a number of minor control points and recommendations which we have reported to management.

Accounting practices

We are also required to report to you our view on qualitative aspects of the Authority's accounting practices and financial reporting. We have made a small number of recommendations to management on this.

Other matters

IFRS

The Council is required to move to International Financial Reporting Standards (IFRS) from 1st April 2010. In preparation of this the Council was required to restate the 1st April 2009 opening balance sheet under IFRS by 31st December 2009. The Council must now also restate the 31st March 2010 balance sheet under IFRS and we will be reviewing this process in November 2010. The process of moving to IFRS should not be underestimated and the Council should ensure that it spends significant time and resource in ensuring the correct systems and processes are in place to manage this transition.

Value for Money in the Use of Resources

Work performed

We have performed work to conclude on the Authority's arrangements for achieving economy, efficiency and effectiveness in its use of resources.

Our work to support our Value for Money conclusion comprised the following elements:

- Work performed on the key lines of enquiry (KLoEs) specified by the Audit Commission as underpinning the Value for Money conclusion. This includes Use of Resources assessment work undertaken to the end of May.
- Review of the Annual Governance Statement

Value for Money Conclusion

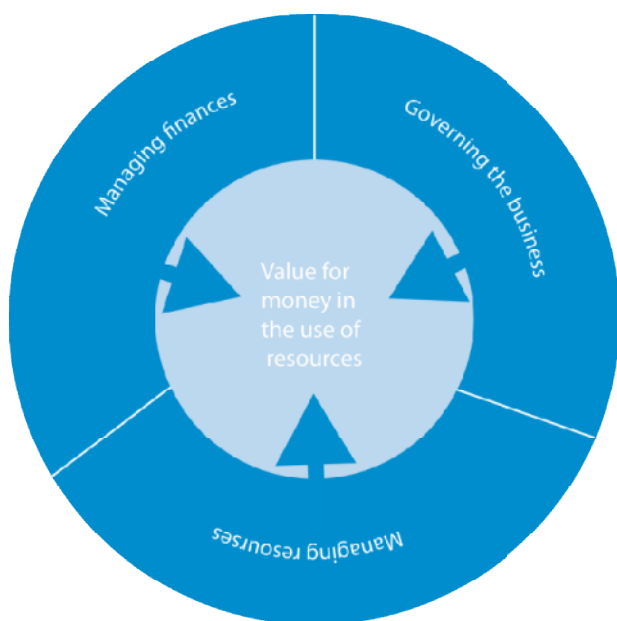
Under the Code of Audit Practice we are required to provide a conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. The conclusion is based on the adequacy of the Authority's arrangements to meet criteria issued by the Audit Commission. Since 2008/09, selected Key Lines of Enquiry (KLoEs) have formed the criteria for the Value for Money conclusion. These are listed in Appendix B.

We intend to issue an unqualified value for money conclusion.

Use of resources

In May this year, the government announced its intention to abolish comprehensive area assessment (CAA). Shortly afterwards, we were instructed by the Audit Commission to halt all work on the Use of Resources assessment.

The Use of Resources assessment reviewed the Authority's arrangements against the specified KLoEs for the Authority (Appendix B). These were grouped into three themes, which formed the Use of Resources framework. This is illustrated below. The assessment focussed on the Authority's achievements, outputs and outcomes, rather than the Authority's processes.



By the end of May we had undertaken work as follows:

- obtained and reviewed the Council's self assessment documentation;
- met with the lead officers for each KLOE area;
- requested, obtained and reviewed additional evidence to support the Council's submission; and
- prepared our summary submissions to the Audit Commission, including indicative scores.

As the work was not completed we cannot report Use of Resources scores. However, we are 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 to enable managers to monitor their staff costs on a real time basis, which has helped to strengthen budgetary control further within the Council,

We have made a small number of recommendations to management that could help the Council to improve in several areas covered by the assessment.

The work undertaken on Use of Resources has been used to inform our Value for Money conclusion (set out above).

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: 'Delivering Good Governance in Local Government'. The AGS was included in the financial statements.

CIPFA recently issued a statement on The Role of the Chief Financial Officer in Local Government 2010¹, which makes recommendations about:

- the Chief Finance Officer's position in an authority's leadership;
- their involvement in and ability to influence key business decisions;
- their responsibility for promotion of good financial management;
- their role in leading and directing a finance function which is resourced to be fit for purpose, and
- the qualifications and experience required of a Chief Finance Officer.

The recommendations of the statement are expected to be consolidated into the CIPFA/Solace Framework "Delivering Good Governance in Local Government" over the next year. In the meantime, CIPFA has recommended a voluntary "comply or explain" approach in the 2009/10 AGS. This means the AGS is expected to include either:

¹ http://www.cipfa.org.uk/pt/download/role_of_CFO_in_LG_2010_WR.pdf

- a confirmation that the authority's financial management arrangements conform to the CIPFA Statement, or
- an explanation of why they do not and how the authority delivers the same impact.

The Council has included this in the AGS. As auditors, we are not required to report on this aspect of the AGS for 2009/10.

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE 'Delivering Good Governance in Local Government' framework and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Completion of the audit

We expect to issue our completion certificate on the same date as we sign our opinions on the financial statements.

Audit reports issued during the year

During the 2009/10 we have issued a report to management on our 2009/10 Use of Resources Assessment.

Electors questions

We received and responded to two electors questions during 2009/10. These related to the following areas:

- Parking
- Orpington Library.

In relation to Orpington Library we have made several recommendations for improvement in the capital/project process. These have been reported to management.

Audit plans and fee update

Audit Plan

We issued our Audit Plan for 2009/10 and presented it to Members in November 2009. We also issued our Audit Plan for the pension fund accounts and presented it to Members in March 2010.

Other than curtailment of CAA Use of Resources work in May 2010, the plan has not been changed in any significant respect.

In this report we comment only on those areas where we believe we need to communicate with those charged with governance.

Audit fees update for 2009/10

We reported our audit fee proposals in our 2009/10 Audit Plan.

We have varied our fees following the Audit Commission's review of the fees charged for pension fund audits. This resulted in the fee for the pension fund being reduced to £35,000.

Our fees charged were:

	2009/10 Actual fee	2009/10 Fee proposal per audit plan
Financial Statements (main authority accounts)	£168,000	£168,000
(pension fund accounts)	£35,000	£38,500
Use of Resources/ VFM conclusion *	£80,000	£80,000
Total audit fee	£283,000	£286,500
Certification of claims and returns	£50,000 estimate	£50,000
Total fee	£333,000	£336,500

* A significant element of the Use of Resources Assessment work, included in the fee above, was undertaken during the spring / summer of 2009 and relates to the 2008/09 assessment. As such there is no reduction in fee shown above despite the Government ceasing work on the 2009/10 Use of Resources Assessment just before its completion as it relates to a different assessment period. A fee will be charged in 2010/11 to reflect work performed during the spring of 2010, before the Government announcement, in relation to the 2009/10 assessment

Appendix A: Draft management representation letter

(Appointment letterhead)

[Date]

To PriceWaterhouse Coopers
80 Strand
London
WC2R 0AF

This representation letter is provided in connection with your audit of the financial statements of the London Borough of Bromley for the year ended 31 March 2010.

Your audit is conducted for the purpose of expressing an opinion as to whether the financial statements of the authority give a true and fair view of the state of affairs of the authority as at 31 March 2010, of its income and expenditure and cash flows for the year then ended and of the financial transactions of the pension fund during the year ended 31 March 2010, and the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year, and have been properly prepared in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009.

My responsibilities as Chief Financial Officer for preparing the financial statements are set out in the Statement of Responsibilities for the Statement of Accounts. I am also responsible for the administration of the financial affairs of the authority. I also acknowledge that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of the London Borough of Bromley with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation, to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief and having made the appropriate enquiries, the following representations:

Accounting records

I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you (the authority's auditors) are aware of that information, including that:

- All the accounting records, whether for the purposes of financial reporting or any other purpose, have been made available to you for the purposes of your audit and all the transactions undertaken by the authority have been properly reflected and recorded in the accounting records.
- All other records and related information which might affect the fair presentation of, or necessary disclosure in, the financial statements, including minutes of Audit Sub Committee and relevant management meetings, have been made available to you and no such information has been withheld.

So far as I am aware, there is no relevant audit information of which you are unaware.

Accounting policies

I confirm that I have reviewed the authority's accounting policies and estimation techniques and, having regard to the possible alternative policies and techniques, the accounting policies and estimation techniques selected for use in the preparation of the financial statements are the most appropriate to give a true and fair view for the authority's particular circumstances, as required by the Code of Practice on Local Authority Accounting in the United Kingdom 2009.

Related party transactions

I confirm that authority has disclosed all related party transactions relevant to the authority and that I am not aware of any other such matters required to be disclosed in the financial statements under the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2009.

Employee benefits

I confirm that the authority has made you aware of all employee benefit schemes in which employees of the authority participate.

Contractual arrangements/agreements

All contractual arrangements (including side-letters to agreements) entered into by the authority with third parties have been properly reflected in the accounting records or, where material (or potentially material) to the financial statements, have been disclosed to you.

Laws and regulations

I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the authority conducts its business and which are central to the authority's ability to conduct its business or that could have a material effect on the financial statements.

I am not aware of any irregularities, or allegations of irregularities including fraud, involving members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the financial statements.

The pension fund has not made any reports to the Pensions Regulator nor am I aware of any such reports having been made by any of our advisors. I confirm that I am not aware of any late contributions or breaches of the payment schedule/schedule of contributions that have arisen which I considered were not required to be reported to the Pensions Regulator. I also confirm that I am not aware of any other matters which have arisen that would require a report to the Pensions Regulator.

There have been no other communications with the Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

Fraud

I acknowledge responsibility for the design and implementation of internal control to prevent and detect fraud.

I have disclosed to you:

- i) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud

- ii) my knowledge of fraud or suspected fraud affecting the authority involving:
- members
 - management
 - employees who have significant roles in internal control, or
 - others where the fraud could have a material effect on the financial statements;
- iii) my knowledge of any allegations of fraud, or suspected fraud, affecting the authority's financial statements communicated by members, employees, former employees, analysts, regulators or others.

Misstatements detected during the audit

I acknowledge my responsibility for the design and implementation of internal control to prevent and detect error.

I confirm that the financial statements are free from material misstatement, including omissions

I confirm that the reason why the misstatement that you have brought to the attention of those charged with governance has not been adjusted in the financial statements is as follows:

The Council has not adjusted for the waste management vehicles in the 2009/10 financial statements because we have not yet been able to obtain sufficient information from the Council's contractor, Veolia Environment Services (UK) regarding individual values for the vehicles. The net book value of the vehicles identified (£489k as at 31 March 2010) is considered immaterial and if additional information becomes available, we will adjust the accounts in 2010/11 under IFRS.

Taxation

I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any direct tax or any indirect taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest.

In particular:

- In connection with any tax accounting requirements, I am satisfied that our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities.
- I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken the authority's benefit or any other party's benefit.
- I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the authority or any associated company for whose taxation liabilities the authority may be responsible.

Pension fund assets and liabilities

All known assets and liabilities (other than liabilities to pay pensions and benefits after the end of the year) including contingent liabilities, as at the 31 March 2010, have been taken into account or referred to in the financial statements.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the 31 March 2010 have been properly valued and that valuation incorporated into the financial statements.

The pension fund has satisfactory title to all assets and there are no liens or encumbrances on the pension fund's assets.

The value at which assets and liabilities are recorded in the net assets statement is, in the opinion of the authority, the bid value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the pension fund. Any significant changes in those values since the date of the financial statements have been disclosed to you.

Pension fund registered status

I confirm that the London Borough of Bromley is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

Bank accounts

I confirm that we have disclosed all bank accounts to you including those that are maintained in respect of the pension fund.

Financial Instruments

- All embedded derivatives have been identified and appropriately accounted for under the Code of Practice on Local Authority Accounting in the United Kingdom 2009.
- Where we have designated hedging relationships of either firm commitments or highly probable forecast transactions, we confirm that our plans and intentions are such that these relationships qualify as genuine hedge arrangements.
- Where we have assigned fair values to financial instruments, we confirm that the valuation techniques, the inputs to those techniques and assumptions that have been made are appropriate, and reflect market conditions at the balance sheet date, and are in line with the business environment in which we operate.
- Where we have reclassified financial assets out of the categories of fair value through profit or loss or available for sale in the year, we confirm that the authority has the intention and ability to hold the assets for the foreseeable future or until maturity.

Subsequent events

There have been no circumstances or events subsequent to the period end which require adjustment of or disclosure in the financial statements or in the notes thereto.

As minuted by the General Purposes and Licensing Committee at its meeting on 27 September 2010

.....

.....

Chief Financial Officer

Date

For and on behalf of

Appendix B: Value for Money conclusion criteria

The Audit Commission publishes Code of Practice criteria on which auditors are required to reach a conclusion on the adequacy of an audited body's arrangements for economy, efficiency and effectiveness in its use of resources. The criteria are linked to Key Lines of Enquiry (KLoEs). The Commission specifies which KLoEs will form the 'relevant criteria' for the VFM conclusion for each type of body each year. The table below shows the KLoEs specified for the conclusion in 2009/10 and 2008/09.

Managing Finances

Key Lines of Enquiry		Specified in 2009/10	Specified in 2008/09
1.1	Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	✓	✓
1.2	Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	✓	✓
1.3	Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	✓	

Governing the Business

Key Lines of Enquiry		Specified in 2009/10	Specified in 2008/09
2.1	Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	✓	✓
2.2	Does the organisation produce relevant and reliable data and information to support decision making and manage performance?	✓	✓
2.3	Does the organisation promote and demonstrate the principles and values of good governance?	✓	✓
2.4	Does the organisation manage its risks and maintain a sound system of internal control?	✓	✓

Managing Resources

Key Lines of Enquiry		Specified in 2009/10	Specified in 2008/09
3.1	Is the organisation making effective use of natural resources?		✓
3.2	Does the organisation manage its assets effectively to help deliver its strategic priorities and service needs?	✓	✓
3.3	Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?	✓	

Appendix C: Summary of recommendations contained in this letter

Page	Recommendation	Management Response	Target Implementation Date
4	<p>The Council should identify and obtain the information required to account correctly for the waste management vehicles as required by IFRIC 12.</p> <p>The Council should continue its work to prepare for the full implementation of IFRS in 2010/11. We are happy to work with the Council on this and early consultation on technical matters or areas of judgement will help to ensure an efficient and effective audit of the 2010/11 financial statements.</p>	<p>We will continue to try to identify information that will enable the correct accounting treatment as required by IFRIC12 and to prepare for full implementation of IFRS in 2010/11.</p>	<p>31 March 2011 (i.e. for 2010/11 closedown).</p>
5	<p>The Council would benefit from a more formal process for monitoring valuation movements, to ensure that the balance sheet at the 31st March accurately reflects the value of its asset base. This additional work should include:</p> <ul style="list-style-type: none"> 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. 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. 	<p>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.</p>	<p>31 March 2011 (i.e. for 2010/11 closedown).</p>

Appendix D: Current and future developments

We provide regular accounting and technical updates for the Authority through annual training events and our periodic accounting publication for local government 'Authority on Accounting'.

Set out is an overview of significant new and emerging accounting and reporting developments in local.

International Financial Reporting Standards (IFRS) implementation for 2010/11 accounts

The adoption of International Financial Reporting Standards (IFRS) represents a significant change in financial reporting in the UK public sector. The process has already started for local authorities, as this year's SORP adopted the new accounting arrangements for PFI and service concessions, while previous SORPs have adopted IFRS style accounting for financial instruments.

The IFRS-based Code of Practice on Local Authority Accounting (the IFRS-based Code), will complete the transition process and applies to local authority accounts from 1 April 2010. As well as preparing the 2010/11 accounts under the IFRS-based Code, authorities must restate their balance sheet at the point at which the Code is adopted (1 April 2009), and present restated comparatives for 2008/09.

The format of the financial statement will change, with the Income and Expenditure Account and Statement of Total Recognised Gains and Losses being combined to form a new Comprehensive Income and Expenditure Statement. In addition, the Statement of Movement on the General Fund Balance will be replaced by the new Movement in Reserves Statement.

As well as these changes to the format of statements, there will be significantly increased levels of disclosure in the notes to the account and certain items may be brought onto the balance sheet for the first time.

You should not under estimate the challenge of the impact of adopting IFRS. Should you require assistance in the IFRS transition process please contact Stuart Brown or Matthew Williams.

Transport Infrastructure Assets

In 2006 HM Treasury and the Department for Transport commissioned CIPFA to carry out a review of accounting, management and finance mechanisms for local authority transport infrastructure assets. Following consultation, the final review report was issued in 2008, and the Government's response, which accepted the review's findings and recommendations, was published in January 2009. To support implementation, the Government asked CIPFA to produce a new Code that would deliver robust, consistent financial information to support transport asset management, financial management and reporting.

The code will be used to report the assets on a current value basis in Whole of Government Accounts. HM Treasury has set a timetable for a gradual transition to reporting on this basis, starting with a limited, unaudited data submissions for 2009/10, building up to a full audited dry run in 2011/12 and the withdrawal of historic cost-based reporting from 2012/13.

The Code of Practice on Local Authority Accounting is not expected to adopt accounting for these assets at current value until 2012/13. However, the Authority should have prepared an estimate of gross replacement cost for carriageway assets for the whole of government accounts submission for 2009/10.

The Authority should also have put in place appropriate arrangements to value transport infrastructure assets over the coming year, in accordance with the CIPFA Code of Practice on Transport Infrastructure Assets, ready for the audited dry run submission in September 2011.

CIPFA /SOLACE review of Delivering Good Governance in Local Government Framework

CIPFA has issued an Application Note to Delivering Good Governance in Local Government as an addendum to the CIPFA /SOLACE Governance Framework Delivering Good Governance in Local Government. The guidance builds on the Statement on the role of the Chief Financial Officer in Local Government published by CIPFA. The Statement recommends that the CFO should be a member of the leadership team, with a status at least equivalent to other members. It sets out the key features of the role that CIPFA expects the CFO to play as well as outlining the skills and personal attributes required for successful performance.

The Application Note is intended to be a temporary measure that will operate for the financial years 2009/10 and 2010/11 during which time CIPFA aims to carry out a full review of the CIPFA/SOLACE Framework including consultation.

CIPFA consultation: Statement on the role of the Head of Internal Audit in public service organisations

CIPFA's consultation on the draft Statement on the role of the Head of Internal Audit in public service organisations close[s/d] on 10 September. The statement is intended to raise the profile and clarify the role of the Head of Internal Audit (HIA). It sets out best practice for HIAs to aspire to and for Audit Committees and others to measure internal audit against. The proposed principles-based framework is intended to apply to all HIAs in the UK, irrespective of the particular part of the public services in which they work. The Statement draws on the best practice and regulatory requirements in public services, as well as the requirements of CIPFA, other professional accountancy bodies' and the Institute of Internal Auditors' codes of ethics and professional standards.

Capital finance regulation changes

Amendments made in 2010 to the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 have effect for 2010/11 as follows:

- The regulation allowing authorities to defer the revenue impact of Equal Pay back payments until cash is paid has been extended from 31 March 2011 to 31 March 2013.
- Purchase of shares in the Local Authorities' Property Fund (LAPF) can no longer be regarded as capital expenditure.
- Capital receipts may now be used to:
 - finance costs of disposals for non-housing disposals, up to a maximum of 4% of the capital receipts generated, and
 - to settle obligations arising on the disposal of an asset in relation to agreements made at the time the asset was acquired.

Government spending review

The Government has published details of reductions to individual local authority grant allocations for 2010-11, which will contribute £1.166bn of local government savings in 2010/11. The changes include measures to remove ring fencing of certain grant streams. The grant reductions are part of a total of £6.2bn cross government savings in 2010/11 intended to tackle the UK's deficit in order to restore confidence in the economy and support the recovery. At the same time the government has committed to freezing levels of council tax for 2010/11.

The distribution and level of grants from 2011-12 onwards will be considered in the autumn Spending Review with further cuts and removal of ring fencing expected.

Carbon reduction commitment (CRC)

This mandatory emissions trading scheme started in April 2010. It aims to promote energy efficiency and help reduce carbon emissions. It is UK-wide, covering large businesses and public sector organisations. Authorities with an annual spend of more than £400,000 - 500,000 on electricity each year are likely to be in the scope of CRC.

All participants must monitor energy use and file an annual return with the Environment Agency which sets out their energy usage. They will then have to purchase allowances from the Government to use energy in the following year. The Government will compare the energy efficiency of each participant by ranking them in a published league table. The monies collected through the sale of allowances will then be returned to the participants, but with those who perform better in the league table receiving a bonus and those who perform badly suffering a penalty. Consequently there will be a cash flow impact for all participants, but both a reputational risk (via their standing in the league table) and financial downside for the poor performers.

The first annual reporting year is April 2010 – March 2011 and the first sale of allowances will take place in April 2011 – March 2012. Organisations that are required to participate fully in the scheme will need to consider how to account for the purchase of allowances, the obligation to deliver allowances and the receipt of revenue recycling payments. If you require assistance with getting to grips with the CRC scheme please contact [insert name of Audit Manager/other local sustainability contact].

Clarity International Standards on Auditing (UK & Ireland)

The Auditing Practices Board (APB) has issued 33 clarity ISAs (UK & I), based on the IAASB's clarity International Standards on Auditing (ISAs), effective for audits of financial statements for periods ending on or after 15 December 2010.

A number of the standards have been completely revised and new requirements have been introduced. There are approximately one-third more explicit requirements applying to entity audits and extra new requirements that apply to group audits, with about half of the total increase resulting from clarification of the existing standards, and about half relating to new requirements designed to improve audit quality and, consequently, financial reporting.

The actual impact on cost of audits will depend on a variety of factors such as the effectiveness of current execution; the size and complexity of the entity; and how effectively we can work with you to obtain any additional information needed to enable us to perform the required procedures.

The UK Bribery Act

The UK Bribery Act received Royal Assent in April 2010 and will come into force in April 2011. The Act seeks to enhance the UK's anti-bribery legislation, which is widely perceived as out of date and has been subject to serious criticism internationally.

The Act replaces previous offences with a general bribery offence and a specific offence relating to bribery of foreign public officials (both of which are applicable to individuals and UK-registered companies). It also introduces the specific corporate offence of failing to prevent bribery, which is designed to make companies and other corporate bodies responsible for bribery committed on their behalf. The key potential liability relates to failure to prevent active bribery for and on behalf of the corporate body by its employees, agents or subsidiaries. Corporate bodies found to have committed any bribery offence could face unlimited fines, while individuals could face a maximum 10 year prison sentence and/or an unlimited fine

In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), you are required to disclose any information contained in this report, we ask that you notify us promptly and consult with us prior to disclosing such information. You agree to pay due regard to any representations which we may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such information. If, following consultation with us, you disclose any such information, please ensure that any disclaimer which we have included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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