

## Review of Financial Statements Carlisle City Council

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## Introduction

1. The purpose of this report is to highlight the findings from our audit of the Authority's 2003/2004 financial statements, to provide feedback on the quality of working papers supporting those statements and to explain the implications of those findings on our responsibilities under Statement of Auditing Standards (SAS), SAS 610 '*Communication of Audit Matters to those Charged with Governance*'. **Please note the accounts are still subject to final review by the District Auditor.**
2. The main body of the report is divided into two parts. Part I deals with those issues requiring amendments to the financial statements and other issues which require further action by the Authority prior to the opinion being issued. These include issues which, if unresolved, could give rise to qualification of the accounts (if the sums are material) and /or reference/recommendation in the Annual Audit and Inspection Letter. A summary of the adjustments required to reduce the cumulative value of unadjusted errors within the primary statements to an acceptable level, is set out in Appendix 4.
3. Part II of this report deals with other (non material) items, not referred to in part I, which do not require amendments to be made to the 2003/2004 financial statements (although appropriate adjustments should be made to the ledger during 2004/2005). Unless forming part of a larger error, misstatements of less than £10,000 have not been included in this report.
4. Whilst not requiring amendment to the financial statements unadjusted items (in excess of £100,000) noted in part II of this report will form the basis of our report to members in compliance with the requirements of SAS 610. It is of course at the discretion of the Authority to adjust some or all of the unadjusted items listed in part II of this report thereby negating the need for disclosure of those items to members within the SAS 610 report.

## Audit Opinion

5. It is our intention to issue an unqualified opinion on the Council's financial statements for the year ended 31 March 2004. This is however subject to the amendments and satisfactory clearance of the other key issues highlighted in this report.

## SAS610

6. As last year, Statement of Auditing Standards (SAS), SAS 610 *Reporting to those charged with governance* requires auditors to report to those charged with governance (members) certain matters before they give an opinion on the financial statements.
7. Following receipt of our SAS 610 report you will need to determine whether or not to adjust the financial statements to take account of the identified misstatements. Should you chose not to do so, we are required by SAS 610 to request from you a letter of representation explaining why you are not going to adjust the financial statements. The letter should include specific details of the misstatements and/or other qualitative aspects of reporting, either in the body of the letter or in a document appended to it.

## Timetable

8. Completion of audit fieldwork and publication of our draft report of matters arising was initially scheduled for 15 October 2004. However as set out in the agreed managed audit protocol document, this timetable was based on a number of key assumptions including
  - the provision , by the agreed dates, of good quality working papers and records to support the accounts, grant claims and performance data
  - officers will provide requested information within agreed time-scales and with clear supporting documentation
  - submission of all grant claims (and supporting working papers) requiring certification by the due date
9. During the course of the audit significant delays were experienced in connection with the receipt of appropriate working papers from the Authority together with other difficulties in obtaining adequate responses to requests for further information. In addition a number of the grant claims scheduled for submission and /or audit during the course of the audit were received late, submitted without adequate supporting working papers, or required significant amendments prior to certification. These included the 2005/2006 HRA base data return (05B2), 2003/2004 HRA Subsidy final claim, IEG (2004-2005) and National Waste Minimisation and Recycling Fund grants.
10. As a consequence the original timetable for completion of the audit has been delayed beyond the original scheduled completion date. However, the timing of the next scheduled Council meeting on 23 November means that these delays are not expected to impact adversely on the timing of our opinion beyond the statutory deadline of 30 November 2004. Nevertheless, this experience does underline the need for the Authority to adhere strictly to the agreed managed audit protocol and for the Authority to undertake a review of its existing arrangements for approval of the statements and consideration of our SAS 610 report in order to ensure compliance with the revised closure timetables introduced by the *Accounts and Audit Regulations 2003*.

## Closedown Arrangements – working papers

11. One area where improvement is required for the 2004/2005 final accounts audit is the quality and availability of working papers and supporting evidence. Despite the establishment of an agreed protocol, provision of a final accounts seminar for finance staff and ongoing assurances from officers, a significant number of the requested working papers were not available at the start of the audit. Amongst the omissions noted were several core working papers and other items of evidence including
  - Comparisons of revenue and capital out-turn data with prior year actuals, original and revised estimates
  - Explanation and corroborative evidence to support significant variances from budget and /or prior year comparatives (capital and revenue) based on criteria set out within the appendices to the managed audit protocol)
  - Summary schedules (including detailed analyses of working capital balances and supporting evidence for material balances – as set out in the appendices to the managed audit protocol)
  - Ledger prints and other documentation supporting the analysis of revenue cash flows within the cashflow statement

- Working papers supporting the HRA, external borrowing and capital controls
- Capital accounts and SORP disclosure checklists

As noted in our final SAS610 report, the Head of Finance has acknowledged the need for improvement in the standard of working papers and audit evidence and the Authority is to take steps to address areas of weakness.

12. The Audit Commission is committed to reducing the burden of audit and inspection through strategic regulation. The dividends of this approach will however only be fully realised with the full support and co-operation of audited and inspected bodies towards the development of joint working arrangements as well a clear commitment to delivering improvements to internal processes. In so far as the statement of accounts are concerned this will include
- ensuring adherence to agreed protocols and timetables,
  - securing ongoing improvements to the quality of working papers and the value of those working papers to the closedown process – both in terms of form and content and timeliness, and
  - demonstrating a clear commitment to implementing agreed recommendations.

## Status of our reports to the Council

*Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to non-Executive Directors/Members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Director/Member or officer in their individual capacity, or to any third party.*

Part I Summary of Errors and Omissions requiring amendments to the financial statements and/or further action by the Authority

Issue	Recommendation	Action / Comments
<b>Fixed Assets – Assets under construction/development costs</b>		
<p>13. Included within the total additions to Development Costs of £352,208 is a total of £254,994 in respect of IEG related costs. This includes payments on account of £200,000, accrued at 31.3.04, in relation to the provision of consultancy, software and hardware products connected with the creation of a customer contact centre. A further £223,336 relating to this scheme is included in additions to Operational land and buildings, including amounts relating to accrued payments on account of £180,000. All items posted to developments costs along with those posted to Operational land and buildings were written off to the FARR during 2003/2004. In contrast the GGDA balance c/fwd at 31.3.04 includes a total of £400,000 in respect of IEG grant.</p>	<p>Reverse write off of IEG costs (£478,332) previously written off to FARR</p>	
<p>14. Total contract value for the customer advice centre is £940k. The project consists of a mix of consultancy services alongside the provision of software and IT hardware products. However, the contract documentation whilst listing in detail the key outputs of the project does not assign financial values to the various elements of the contract. In order to facilitate the subsequent capitalisation and disclosure of project costs within the financial statements and asset records, as well as the calculation of capital charges (depreciation and interest), arrangements will therefore need to be established to assign valuations/fair values to individual assets or groups of similar assets and other elements of the project in accordance with the requirements of the SORP and capital accounting guidelines</p>	<p>Establish arrangements to facilitate assignment of valuations/fair values to assets and other elements of the project in accordance with the requirements of the SORP and capital accounting guidelines</p>	

Issue	Recommendation	Action / Comments
<b>Fixed Assets – Assets under construction/development costs</b>		
<p>15. The contract was signed on 6 April 2004 and an initial on account payment of 430,000 (due following signing of the contract by both parties) invoiced by the main contractor (Capita) on 15 April 2004. This payment, representing 50% of the contract value net of initial consultancy costs previously invoiced was accrued at 31.3.04. The result is an overstatement of creditors at 31.3.04 matched by corresponding overstatements of fixed asset additions (development costs £200,000; Operational land and buildings £180,000 and service expenditure costs £50,000).</p>	Reverse accrual	
<p>16. Although the category of AUC is not specifically recognised under the 2003 SORP (see proposed changes to 2004 SORP) it is recommended that the expenditure incurred customer advice centre (£478,332 less reversal of accrued amounts £380,000) is capitalised and carried forward at historic cost under Non Operational Properties – AUC/Payments on Account reflecting the non operational status of the asset at 31.3.04 (and its exclusion from the capital charges calculations for 2004/2005). Corresponding adjustments should be made to the additions and revaluation totals for development costs and operational land and buildings</p>	Subject to revisions to accrued expenditure and reversal of amounts previously written off to the FARR transfer capitalised costs from Development costs and Operational land and buildings to 'Payments on Account and Assets under Construction'	
<b>Fixed Assets - Retained Asset Valuations</b>		
<p>17. The revaluation of retained HRA assets was completed in 2003/2004 prior to seeking formal approval to transfer those assets, no longer used or held under powers contained in part II of the Housing Act 1985 or s74 LGHA 1989, from the HRA to the General Fund. The resulting revaluation surplus of £301,500 has not however been reflected in the reported balances, ledger or fixed asset records. Non operational surplus assets and investment asset balances are correspondingly understated by £91,500 and £210,000 and the FARR understated by £301,500.</p>	Amend statements and supporting notes (including notes to HRA)	

Issue	Recommendation	Action / Comments
<b>Fixed Assets – other adjustments</b>		
<p>18. In addition to the adjustments referred to above a further adjustment of £783k is required to the gross valuation and accumulated depreciation totals appearing in note 1 in relation to 'Other land and buildings' in order to reflect the reversal of accumulated depreciation on revaluations completed during 2003/2004. An adjustment of £149,292dr is also required to the net book value of vehicles and plant to reverse the write-off of costs associated with the kerbside recycling scheme to the FARR and ensure consistency with the treatment given to other related assets (DEFRA Recycling Scheme)</p>	<p>Amend statements and supporting notes</p> <p>Update asset records to reflect reversal of accumulated depreciation and revaluation/impairment adjustments</p>	
<b>Note 1 (Fixed Assets) – Note 1.2 Bases of Valuation</b>		
<p>19. No working papers were provided in support of the existing disclosures made in the pre audit statements in relation to note 1.2 (analysis of gross book value by year of valuation) whilst our review of the existing analysis indicates the need for extensive revisions to existing disclosures in order to reflect, amongst others, the impact of disposals and revaluations completed during 2003/2004. Existing disclosures included in note 1.2 are essentially a replica of those appearing in the 2002/2003 statements with the exception of an additional line ('2003/2004') showing the net movement in the gross net book value between 31.3.03 and 31.3.04. No attempt has been made to update the remaining analysis. One obvious consequence of this approach is the disclosure of a negative (2003/2004) valuation of £170,000 for non operational surplus assets. At the same time assets with a gross value of £7.78m are reported with a valuation date more than five years prior to the balance sheet date (£5.74m 'other land and buildings; £1.83m vehicles and plant; £ 0.210m non operational investments). Of this £2.5m relates to assets with a valuation date prior to 31 March 1998 including</p> <ul style="list-style-type: none"> <li>• £603,000 – other land and buildings - leasehold improvements</li> <li>• £1,225,000 - in respect of vehicles and plant valued at historical cost</li> </ul>	<p>Adjustments required to note 1.2 to reflect the correct of gross book values by year of valuation over the years</p> <ul style="list-style-type: none"> <li>• 2003/2004 (31/3/04)</li> <li>• 2002/2003 (31/3/03)</li> <li>• 2001/2002 (1/4/02)*</li> <li>• 2000/2001 (31/3/01)</li> <li>• 1999/2000 (31/3/00)</li> <li>• 1998/1999 (31/3/99) &amp; prior</li> </ul> <p>* accounted for in 2001/2002 statements</p> <p>Prepare working papers to support revised disclosures showing on an asset by asset basis, and subtotalled by asset category and year of valuation, the gross cost and accumulated depreciation for all assets included in the bal sheet at 31.3.04.</p> <p>Update valuations for leasehold improvements during 2004/2005 (Irthing Centre – net book value £459k) currently included in the balance sheet at historical cost (1997/1998 construction cost)</p>	

Issue	Recommendation	Action / Comments
<b>Fixed Assets - interim valuations</b>		
<p>20. Fixed Assets are currently subject to a five year rolling revaluation program although no formal arrangements currently exist to trigger interim or 'off program' revaluations of material assets. At 31.3.04 assets with a gross book vale of £76.3m (approximately 80% of assets by value) were identified as having a valuation date prior to 31.3.04. This includes £62.13m in respect of non operational investment properties valued between 2000/2001 and 2002/2003 of which £26.310m relates to 4 properties last revalued in 2000/2001 (31.3.01). Of this £20m relates to the Lanes Shopping Centre.</p>		
<p>21. The SORP does not adopt fully the interim valuation requirements of FRS15. instead the requirements of the 2003 SORP are that</p> <p><i>When an asset is included in the balance sheet at current value, it should be revalued at intervals of not more than five years and the revised amount should be included in the balance sheet. A full valuation may be performed on a rolling basis to cover all the properties over a five year cycle.</i></p> <p>Capital Accounting by Local Authorities: Consolidated Guidance Notes for Practitioners 2003 state that</p> <p><i>Notwithstanding this basic principle the CFO should consider revising asset values at each year end to ensure that the accounts do not include values which are completely erroneous following major and permanent changes in asset values. Where material changes are identified between quinquennial revaluation dates, authorities are required to make immediate [formal] revaluations and disregard the five year rule. Amendments to the accounts should be made when:</i></p> <ul style="list-style-type: none"> <li>• <i>values have changed materially</i></li> <li>• <i>the change is permanent</i></li> <li>• <i>it is prudent to do so.</i></li> </ul> <p><i>For non-operational assets which are on the market, this may necessitate formal revaluation more frequently than once every five years, while for assets held for disposal and which are material to the accounts, it may be appropriate to carry out a review on an annual basis.</i></p>	<p>Review valuations of all material assets completed prior to 31.3.04 and consider the need for further adjustments to the financial statements in order to reflect material revisions to asset valuations</p> <p>Establish arrangements to monitor the valuations of material assets/classes of assets and prompt the completion of [formal] 'off programme', valuations before the end of the quinquennial revaluation cycle, in circumstances where material and permanent changes in the property market are deemed to have a material affect on all or a significant part of the Authority's property portfolio.</p>	

Issue	Recommendation	Action / Comments
<b>Fixed Assets - Leisure Assets</b>		
<p>22. Leisure services were transferred to Carlisle Leisure limited in 2002/2003 however no adjustments have been made to the carrying value of leisure assets in 2002/2003 or 2003/2004. This includes both property assets and equipment.</p>	<p>Evidence compliance with FRS5 and SORP requirements regarding asset recognition and carrying value of leisure assets</p>	
<b>Deferred Charges</b>		
<p>23. An adjustment of £76,427 is required to note 4 in respect of the 'Grants Received' and 'Amounts written off' totals for improvement grants expenditure in order to more accurately reflect grants receivable (£99,216) and applied in year (rather than amounts received). A corresponding adjustment of £76,327 (i.e. £76,427 less posting error of £100 identified in the Authority's consolidation working papers) is also required to Housing GF expenditure and Appropriations to Capital Reserves in order to correct the current understatement in the net expenditure charged to revenue (£202,498) and align the amounts recorded in the CRA with corresponding entries made in the Capital Financing Reserve (£278,825).</p>	<p>Amend note 4</p>	
<p>24. No adjustment has been made in respect of the identified difference of £11,175 between the net grants receivable in 2003/2004 (£88,041) (i.e. after adjusting for prior year items not previously accounted for) and the amount of grant applied (£99,216)</p>	<p>No adjustment required to 2003/2004 statements however steps should be taken to ensure that all grants are properly accounted for on an accruals basis consistent with both the SORP and statutory guidance</p>	

Issue	Recommendation	Action / Comments
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**Investments in Companies**

25. No working papers or other documentation were included within the Authority's closedown papers relating to the existence and/or nature of interests in corporate bodies. An assessment of interests in corporate bodies was undertaken by the Authority in 1999/2000 based on TR11/96a however no evidence of the ongoing review of interests was identified.

For the purposes of our opinion on the 2003/2004 statements an appropriate paragraph(s) is required in the Letter of Representation referring to

- review of all interests in corporate bodies and other outside bodies
- consideration and opinion on requirement of the Authority to prepare group accounts

The Letter of Representation should also include as an appendix a listing of all relevant interest in corporate bodies as at 1.4.03 and 31.3.04.

Draft summary of interests for inclusion in letter of Representation. This should include as a minimum.

- Name of Company
- Details of interest (e.g. % of shareholding/voting rights)
- Status of interests as defined by the Local Authorities (Companies) Order 1995
- Details of any changes, between 1.4.03 and 31.3.04

List to be 'signed off' by Head of Finance and Head of Legal and Democratic Services'.

**Bank Reconciliation Procedures**

26. Following implementation of new financial ledger software in April 2004 the Authority has implemented new bank reconciliation procedures based on the systems bank reconciliation module. Which it is hoped will increase the level of automation and at the same time reduce the time taken to complete monthly reconciliation procedures between nominal ledger and bank statements. However, as a consequence of errors, anomalies and other inconsistencies identified between system generated reports the revised system is not yet fully operational. At the time of our audit of the 2003/2004 financial statements, work to address these issues remains ongoing. However as yet, none of the monthly reconciliations for 2004/2005 have been completed.

The absence of bank reconciliations represents a significant weakness in the Authority's internal control arrangements and failure to resolve these issues will significantly increase the financial risks for the Authority and the audit risk assessment. The Annual Audit and Inspection Letter is to include reference to our concerns regarding the Authority's bank reconciliation procedures along with details of any action being taken by the Authority to address those concerns.

Issue	Recommendation	Action / Comments
<b>Debtors / Creditors</b>		
<p>27. The following adjustments are required to debtor and creditor balances included in the balance sheet and supporting notes (notes 7 and 8) in order to address errors identified during the course of our audit</p>	<p>Amend balance sheet and supporting notes</p>	
<p><b>Debtors</b> (net adjustment £492,211cr)</p>	<p>WGA will add to the importance of disclosures made in respect of inter authority debtor and creditor balances. This is likely to include the requirement to agree invoiced and accrued balances with other relevant bodies. In the run up to implementation of WGA the Authority should therefore ensure that appropriate arrangements are in place to ensure efficient access to the information required to both meet existing disclosure the requirements and the requirements of the WGA process</p>	
<p><b>Government Departments</b> (£329,146cr)</p>		
<ul style="list-style-type: none"> <li>• £107,783cr- consolidation of debtor and creditor balances in respect of the balance of HRAS subsidy due from the ODPM (currently presented as a creditor of £107,783 and a debtor of £117,619. i.e. a net debtor of £9,836)</li> </ul>		
<ul style="list-style-type: none"> <li>• £52,839dr – understatement of HRAS receivable</li> </ul>		
<ul style="list-style-type: none"> <li>• £274,202cr – consolidation of balance due to DWP in respect of council tax and housing benefit (shown as separate debtor and creditor balances within the pre audit accounts)</li> </ul>		
<p><b>Housing Rents Debtors</b> (£135,000dr)</p>		
<ul style="list-style-type: none"> <li>• £135,000dr (tbc) - transfer of FTAs from Sundry Debtors</li> </ul>		
<p><b>Other Local Authority Debtors</b> (£431,048cr)</p>		
<ul style="list-style-type: none"> <li>• £431,048cr – overstatement of balance due from Cumbria County Council resulting from errors in the summary of balances extracted from the debtors ledger and omission of adjustments to debtor balances as a result of late bankings posted to the financial ledger</li> </ul>		
<p><b>Sundry Debtors</b> (£132,983dr)</p>		
<ul style="list-style-type: none"> <li>• £7,935dr – adjustment to balance due to/from CHA (excluding amendment for error in calculation of transfer value for CTAs )</li> </ul>		
<ul style="list-style-type: none"> <li>• £431,048dr – see ‘Other local Authorities’</li> </ul>		
<ul style="list-style-type: none"> <li>• £171,000cr – correction to useable capital receipts - see para 30</li> </ul>		
<ul style="list-style-type: none"> <li>• £135,000cr - transfer of FTAs to ‘Housing Rents’ - see para 57</li> </ul>		

Issue	Recommendation	Action / Comments
<b>Debtors / Creditors</b>		
<p><b>Creditors</b> (net adjustment £839,904dr)</p> <p><b>Government Departments</b> (£381,985dr)</p> <ul style="list-style-type: none"> <li>• £274,202dr consolidation of balance with DWP in respect of council tax and housing benefit (shown as separate debtor and creditor balances within the pre audit accounts)</li> <li>• £107,783dr consolidation of debtor and creditor balances in respect of the balance of HRAS subsidy due from the ODPM</li> </ul> <p><b>Sundry creditors</b> (£457,919dr)</p> <ul style="list-style-type: none"> <li>• £430,000dr – reversal of accrual re customer contact centre (see paragraph 15)</li> <li>• £33,665dr – correction of amounts due to CHA re CTA balances (see adjustments to HRA)</li> <li>• £5,746cr – FTA credit balances - see adjustments to HRA</li> </ul>	<p>Amend balance sheet and supporting notes</p>	
<b>Capital Financing and Controls</b>		
<p><b>PCL memorandum account</b></p> <p>28. The PCL memorandum account balance is understated by £44,732. Where the commutation adjustment exceeds the MRP regulation 138(2) of the Local Authorities (Capital Finance) Regulations 1997 only allows MRP to be reduced to nil and not to become negative (i.e. a credit to revenue). A debit adjustment of £44,732 is therefore required to the CRA (to reverse the existing credit entry) with corresponding credit entries being required to the CFR (via CRA Appropriations to/from Capital reserves) and PCL memorandum account</p>	<p>Amend CFR and PCL note.</p>	

Issue	Recommendation	Action / Comments
<b>Reserves</b>		
<b>Useable Capital receipts</b>		
<p>29. The balance of useable capital receipts at 31.3.04 (£5,989,000cr) includes the following amounts in respect of debtor balances at 31.3.04 and other items non cash transactions</p> <ul style="list-style-type: none"> <li>• £4,889,000cr- amounts receivable from Carlisle Housing Association in respect of PRTB receipts (contra- Sundry Debtors)</li> <li>• £217,000cr – reversal of accrual made at 31.3.04 in respect of funding of pension fund deficit attributable to staff transferring from the Authority to CHA following LSVT</li> <li>• £171,000cr - amounts receivable in respect of the disposal of former HRA land (see 'Sundry Debtors')</li> </ul>	See below	
<p>30. The balance of £171,000 relates to the balance of the sales price payable in relation to the sale of former HRA land at Moor Road, Longtown. A deposit of 10% was received on exchange of contracts in August 2003 with the reserved portion of this £9,500 (£19,000 x 50%) included in the calculation of reserved HRA receipts for 2003/2004. The balance of £171,000 was received by the Authority following completion of the sale, on 31 March 2004 although the receipt was not banked/receipted until 1 April 2004. An adjustment of £171,000 is therefore required to reported cash balances with the UCR, CFR and PCL (memorandum) balances adjusted to reflect the reserved portion of the receipt (£85,500)</p>	Amend balance sheet, cash flow statement, STMR and supporting notes	Update credit ceiling calculations at 31.3.04 to reflect revisions to reserved capital receipts (together with corresponding adjustments to the certified value of property ceasing to be accounted for within the HRA – see HRA Audit Base Data Return (05B2) (HRA credit ceiling/capital financing requirement only)
<p>31. At 31 March 2004 a debtor of £4,889,000 has been recognised in the financial statements in respect of amounts receivable under the PRTB sharing agreement with CHA with an on account payment of £4.8m being paid to the Authority in April 2004.</p>	See below	

Issue	Recommendation	Action / Comments
<b>Reserves – continued</b>		
<p>32. Under the terms of the LSVT contract the pension fund deficit attributable to staff transferring from the Authority to CHA (estimated in September 2002 at a value of approximately £4.1m) is to be met by the Authority from amounts which would otherwise be receivable under a Right to Buy (RTB) sharing agreement with the PRTB agreement not coming into force until the accrued pension fund deficit has been reduced to zero. During 2002/2003 an initial contribution of £2,100,000 towards this deficit was met directly from the LSVT transfer receipt along with an additional cash contribution of £72,000.</p>	<p>See below</p>	
<p>33. The transfer contract also sets out details of the Associations responsibilities with regard to procuring from the actuary an actuarial statement for transferring employees at the relevant transfer date i.e.</p> <ul style="list-style-type: none"> <li>• Employees other than DSO employees (9 December 2002)</li> <li>• DSO (1 October 2003)and</li> <li>• Support service employees (date of termination of the support service agreement)</li> </ul> <p>Information required by the actuary to complete this exercise has not yet been forwarded by the Authority and as a result the actuarial valuations of the transfer deficit have not yet been completed. The requirement for the Housing Associations to obtain from their auditors certification of the residual pension deficit/balance of PRTB receipts payable to the Authority has also not been completed.</p>	<p>Forward required information to the scheme actuary</p> <p>Seek confirmation from CHA of their intentions in respect of the procurement of the required valuations</p> <p>Ensure that a copy of the certificate from the Associations auditors confirming the residual pension deficit/balance of PRTB receipts payable to the Authority is obtained as part of the closedown arrangements for 2004/2005 and subsequent years.</p>	
<p>34. In the absence of actuarial valuations of the pension fund deficit attributable to transferring employees the debtor recognised in the Authority's statements at 31.3.04 has been based on the estimated valuations completed by the scheme actuary in September 2002 (prior to the date of transfer) and updated in October 2003 (in respect of the deficit relating to transferred DSO staff- £2,040,000). The calculation of the accrued receipts and year end debtor is also based on the assumption that the contributions of £2,172,000 made in 2002/2003 fully (and exactly) extinguish the deficit attributable to the first tranche of staff transferred to CHA on 9 December 2002.</p>	<p>Ensure that basis of valuations / assumptions contained in actuarial calculations are consistent with the valuation requirements specified in the LSVT contract.</p>	

Issue	Recommendation	Action / Comments
<b>Reserves – continued</b>		
<p>35. In accounting for capital receipts the SORP requires that income from the disposal of fixed assets should be credited to the usable capital receipts reserve, and accounted for on an accruals basis with, where applicable, the proportion reserved for the repayment of external loans, credited to a capital financing reserve leaving only usable monies in the Usable Capital Receipts Reserve. The 2003 practitioners guidance notes go on to state that in addition to accounting for disposals on an accruals basis income from disposals should be dealt with on a basis that matches the appropriate capital controls.</p>		
<p>36. Part IV of the LGHA 1989 and ODPM LSVT Transfer Guidelines requires subsequent capital receipts derived from a disposal under a Right to Buy claw-back agreement to be set aside as PCL, with the rate of set aside being subject to the same rules as apply to the main LSVT receipt. In effect, they are treated as part of that receipt. However set aside of the reserved receipts is not required until the cash is received by the authority (s58 (1) LGHA 1989). No set aside is therefore required in 2003/2004. The ODPM have also confirmed that following implementations of LGA 2003 and 2003 capital finance regulations from April 2004 PRTB receipts will not form part of the pooling arrangements applicable to Housing receipts. PRTB receipts will therefore be 100% useable although there is an expectation that the PRTB receipts would be spent in ways that help deliver the Authority's housing strategy.</p>	<p>Confirm the existence of a clear strategy for the use of PRTB receipts consistent with the expectations of the ODPM</p>	
<p>37. Whilst the LGA 2003 and 2003 capital finance regulations shift recognition of capital receipts for capital financing purposes from a cash basis to an accruals basis under part IV LGHA 1989 – applicable to the 2003/2004 statements – capital receipts are recognised on a cash basis and as such are not useable until received. In order to distinguish amounts useable at 31.3.04 under part IV rules a and reconcile the cash based requirements of part IV with the accruals based requirements of the SORP it is recommended that the accrued balance of £4,889,000 in respect PRTB receipts is transferred from the UCR to deferred capital receipts account.</p>	<p>Amend statements</p>	

## Reserves – continued

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| <p>38. Regardless of the destination of the credit posting in respect of the PRTB receipts receivable at 31.3.04 a note should be added to the notes to the balance sheet explaining the availability of the UCR balance to finance expenditure. This note should also refer to the estimated basis of the amounts recognised in the 2003/2004 statements and the issues, most notably actuarial confirmation of the pension fund deficit impacting on the amount ultimately receivable. This note should be cross referenced to existing disclosures made in note 6 to the HRA which should be updated to reflect the position at 31.3.04</p>   | <p style="text-align: center;">Insert note to accounts</p> <p style="text-align: center;">Amend note 6 to HRA to reflect contributions paid (£2,172,000) and estimated deficit (££4,212,000)</p>   |
| <p>39. The balance of £217,000 relates to the reversal of an accrual of £217,000 made at 31.3.03 in respect of contributions payable to meet the pension fund deficit in respect of staff transferring to CHA. This reversal being made by debiting accruals and crediting the UCR account. The balance of £217,000 was included within the total of £2,438,983 identified in 2002/2003 in respect of the incidental and administrative costs incurred by the Authority in connection with the LSVT disposal and included in the calculation of the reserved portion of the LSVT receipt. Excluding this contribution from these costs would leave a balance of £2,221,982 compared to a maximum permitted deduction of £2,397,510 and in turn imply an understatement of the reserved part of the LSVT receipt of £175,528. This figure and subsequent adjustment to UCR and CFR balances is of course dependent on the final actuarial valuation of the pension fund deficit for transferring employees.</p> | <p>No adjustment required to 2003/2004 statements. Revisit set aside calculations following receipt of actuarial valuations for pension fund deficits attributable to staff transferred to Carlisle Housing Association. Consider the need for revisions to the (2002/2003) LSVT set aside calculations to reflect actuarial valuation of the pension fund deficits and other relevant events since 31 March 2003.</p> |

Issue	Recommendation	Action / Comments
<b>Net Pensions Liability/Pension reserve (FRS 17)</b>		
<p>40. Comparison of transactions making up the movement on the net pension liability and corresponding pension reserve balance with entries included on the FRS 17 statement provided by the scheme actuaries has highlighted a number of inconsistencies and other errors associated with the treatment of pension costs in accordance with FRS 17. Among the issues identified are</p> <ul style="list-style-type: none"> <li>• A difference of £120,314 between employers contributions recorded in the authority's 2003/2004 statements (£1,274,180 + £319,362 (£260,761 unfunded benefits plus £58,601 actuarial strain) less rounding adjustments of £48) and the corresponding total included in the actuarial statement (£1,473,640). The impact of this is the potential misstatement of pension costs (NDCs) of £36,748, net pension liability and pension reserve balances (£24,604) and CRA appropriations (£36,748)</li> <li>• A difference of £288,801 between employers contributions to the scheme recorded in the authorities 2002/2003 statements (£1,483,962) and removed from operating costs and the corresponding total (£1,772,763 (tbc) included in the actuarial statement</li> <li>• Omissions of adjustment of £277,467 [£171,745 (NDC) £40,619 and £65,104 – other service revenue accounts ] in respect of added years contributions and actuarial strain from amounts reversed out of the 2002/2003 CRA (via appropriation to pension reserve) resulting in the potential overstatement of service revenue costs (£105,723), non distributable costs (£171,744). (total £277,467 – based on total per actuarial statement)</li> </ul>	<p>Reconcile employers contributions recorded in the ledger in both 2002/2003 and 2003/2004 with amounts reported in the actuarial statement.</p>	<p>Ensure that a reconciliation of employers contributions recorded in the ledger in with amounts reported in the actuarial statement is included in future closedown task lists</p>

Issue	Recommendation	Action / Comments
<b>Net Pensions Liability/Pension reserve (FRS 17)</b>		
<ul style="list-style-type: none"> <li>inconsistencies in the treatment of employers contributions associated with staff transferring from the authority to CHA in 2002/2003 and 2004/2004. In 2002/2003 contributions to the pension fund included contributions of £141,211 attributable to Housing staff transferring to CHA. In contrast the 2003/2004 totals exclude contributions of £95,359 paid in respect of DSO staff transferring to CHA on 1 October 2003. This apparent inconsistency in presentation raises a number of questions concerned with the measurement of other components of the overall movement on the net pension liability and in particular those elements of the overall movement attributable to current service cost and settlement and curtailment gains</li> </ul>	<p>Obtain confirmation from the actuary on the approach adopted with regard to recognition of employers contributions and FRS 17 costs – in particular the calculation and recognition of current service costs and settlement gains associated with transferred staff – within the actuarial (FRS17) statements for 2002/2003 and 2003/2004 and the impact of the adopted approach on the reported movements on the net pension liability</p>	
<p>41. One potential implication of this anomaly is the omission from the total current service cost of the current service costs (CSCs) relating to DSO staff for the period prior to transfer. The result that whilst crediting to DSO trading accounts contributions of £95,359 the value of CSC debited to DSO trading accounts and other service revenue accounts (via apportionment of the total CSC) will be understated. Based on CSCs of 12.9% of pensionable pay the estimated understatement of service revenue/DSO trading costs is £114,928 (along with corresponding misstatement of non distributable costs (NDCs) –assuming compensating adjustment to settlement gains). It should however be noted that in the absence of revised FRS17 statements from the actuary addressing the discrepancies and other anomalies identified on the component elements making up the overall movement on the net pension liability it is not possible to make a definitive assessment of the adjustments that may be required to the financial statements. The adjustments referred to in this section are therefore intended only to provide an illustration of the potential amendments required along with an estimate of the scale of those adjustments</p>	<p>Agree a consistent approach to the measurement and recognition of FRS 17 costs within the CRA consistent with the requirements of the SORP.</p>	

Issue	Recommendation	Action / Comments
<b>Net Pensions Liability/Pension reserve (FRS 17)</b>		
<p>42. Among the key elements of the movement in the net pension liability during 2002/2003 and 2003/2004 were settlement and curtailment gains of £1.702m and £1.621m representing, for the most part, the impact on recognised pension liability arising from the transfer of staff during 2002/2003 (housing) and 2003/2004 (DSO) to Carlisle Housing Association .</p>	<p>Ascertain reasons underlying the identified variances between settlement and curtailment gains and pension fund deficits and consider the impact (if any) of these reasons on</p> <ul style="list-style-type: none"> <li>- the FRS17 costs/gains recognised within revenue account and STMR</li> <li>- the estimated value of PRTB income</li> <li>- LSVT set aside calculations</li> </ul>	
<p>43. In contrast to these figures included in the FRS statements for 2002/2003 and 2003/2004 the pension fund deficit funded from the original LSVT receipt and PRTB sales in 2003/2004 amounts to £4.212m (i.e. £2,172,000 – HRA equating to the initial payment of £2,100,000 plus additional payment of £72,000 and £2,040,000 DSO). A difference of £0.889m. Correspondence from the pension scheme actuaries in support of the estimated pension deficit attributable to transferring staff states that the key financial assumptions used in assessing the liabilities of the scheme in respect of staff transferring correspond with those adopted for the purposes of FRS17 (but noting that these differ from the assumptions adopted for 2001 valuation – resulting in lower deficit than would be recognised under the 2001 valuations assumptions).</p>	<p>Confirm that final and estimated valuations of the accrued deficit –used in calculation of accrued PRTB receipts receivable at 31.3.04 – are consistent with the terms of the LSVT contract. Assess implications for disclosure of settlement gains arising from variations in calculation of scheme liabilities.</p> <p>Note: the LSVT contract document refers to the calculation of accrued benefits on the 'past service reserve basis'. In contrast FRS 17 liabilities are calculated on a projected units basis.</p>	

Issue	Recommendation	Action / Comments
<b>Consolidated Revenue Account and Supporting Notes</b>		
<b>Adjustments impacting on GF balances</b>		
<p>44. The following adjustments impacting on GF balances are required to the CRA</p> <ul style="list-style-type: none"> <li>• £18,394cr transfer of <i>Careline</i> income associated with General fund user groups from HRA to GF (credit to Housing GF income).</li> <li>• £50,000cr – reversal of accrual re consultancy costs (see other creditors)</li> <li>• £122,810dr transfer of movement on bad debt provision associated with FTAs and HBOPs from GF to HRA. (contra posting to General Fund SEA consistent with current posting)</li> <li>• £37,184dr transfer of rent rebate expenditure (net overpayments) from GF to HRA (debit to Housing GF expenditure)</li> <li>• £43,795dr understatement of HRA item 8 interest</li> <li>• £44,792dr – misstatement of MRP (see adjustment to PCL)</li> </ul> <p>Other adjustments involving revisions to the presentation of items within the CRA and other adjustments not impacting on the GF balance are summarised in appendix 4. Details of these adjustments can be found elsewhere in this report</p>	Amend Statements	
<b>Appropriations to/from CRA</b>		
<p>45. In addition to the impact of matters referred to above in connection with adjustments to the PCL balance (£44,732) and deferred charges (£76,427) the following amendment is also required to the CRA appropriations in order to reflect the use of the renewals fund to finance capital expenditure during 2003/2004.</p> <p>Dr Contributions to/ from Capital Reserves    £212,303*</p> <p>Cr Contributions to/from Specified Reserves' £212,303*</p>	<p>Amend Statements</p> <p>To confirm the accuracy of CRA appropriations ensure that CRA appropriations totals are reconciled with the net movement on CFR and other specified reserve balances as part of future closedown arrangements.</p> <p>*Note: this revision is essentially presentational in nature and has no impact on reported reserves</p>	

Issue	Recommendation	Action / Comments
<b>Consolidated Revenue Account and Supporting Notes</b>		
46. An adjustment of £274,088 is also required to the CRA Appropriation to/from the HRA reserves to reflect adjustments required to the HRA – refer to paragraphs 53 to 58.	Amend Statements	
<b>Notes to CRA</b>		
<b>Annual commitments under operating leases</b>		
47. No working papers were included in closedown file to support the SSAP 21/SORP disclosures made in respect of annual commitments under (non- cancelable) operating leases	Complete analysis of operating lease commitments in support of disclosures made in note 3. Complete note 3 to reflect number of asset acquired through operating leases in 2003/2004	
<b>Trading Undertakings - DSO activities</b>		
<p>48. The following issues are noted in connection with the disclosure relating to DSO trading activities</p> <ul style="list-style-type: none"> <li>• Recognition of operating results of Continuing / discontinuing activities</li> <li>• Recognition FRS 17 costs – potential understatement of current service costs £114,928 (see paragraphs 40 to 41 )</li> <li>• Surplus/deficits on trading activities of £159,735 not repatriated to service revenue accounts</li> </ul>	<p>Amend DSO revenue and appropriation account to distinguish continuing and discontinued operations</p> <p>No further action required in respect of the repatriation of net surplus however steps should be taken during 2004/2005 closedown to ensure presentation of revenue remains consistent with 'proper practices'</p>	

Issue	Recommendation	Action / Comments
<b>Statement of Total Movement in Reserves</b>		
<p>49. Based on the transactions appearing in the Authority's pre audit statements (<i>i.e. excluding any corrections arising from audit adjustments to the CRA and Balance sheet</i>) the following adjustments are required to the STMR and supporting notes in order to comply fully with SORP disclosure requirements and ensure consistency with amounts reported elsewhere within the financial statements</p> <p><b>CFR</b></p> <ul style="list-style-type: none"> <li>Correction to 'Net Surplus Deficit' total from £4,878,000 to £4,353,000 reflecting removal of capital grants from the reported balance. A corresponding adjustment being required to the 'financing of capital expenditure' total</li> </ul> <p><b>Capital Grants and Contributions Unapplied</b></p> <ul style="list-style-type: none"> <li>Amendments of to 'net surplus deficit for year', grants receivable and 'financing of capital expenditure' of £525,000, £1,387,000 and £862,000 respectively</li> </ul> <p><b>Government Grants Deferred</b></p> <ul style="list-style-type: none"> <li>Amendment to 'net surplus deficit for year' (£748,000)</li> </ul> <p><b>Pension Reserve</b></p> <ul style="list-style-type: none"> <li>Insertion of an additional line 'Actuarial gains and losses' - value £7,019,000 with a corresponding adjustment being required to the 'Net Surplus Deficit' total.</li> </ul>	<p>Amend STMR – See Appendix 3. Note the amendments listed in appendix 3 exclude corrections to reserves arising from proposed adjustments to the CRA and Balance sheet. Further adjustments, in addition to those noted in Appendix 3 will therefore are required.</p> <p>Ensure that all further revisions arising from audit adjustments are incorporated into the revised STMR including :</p> <p><b>Useable Capital Receipts</b> Restatement of 'capital receipts' total to show amounts receivable separately from cash received and reflect audit adjustments to cash balances at 31.3.04</p> <p><b>Deferred Capital Receipts</b> Amendment required to 'capital receipts' total to reflect capital receipts receivable at 31.3.04 (see corresponding adjustment to useable capital receipts)</p>	
<b>Notes to the STMR</b>		
<ul style="list-style-type: none"> <li>A number of additional notes, relating primarily to disclosures associated with full implementation of FRS 17 in 2003/2004, are required in support of the STMR. Details of current omissions and departures from SORP requirements in relation to these items are listed in Appendix 2</li> </ul>	<p>Insert additional notes to STMR – Refer to Appendix 2 for detail of required disclosures</p>	

Issue	Recommendation	Action / Comments
<b>Cashflow Statement</b>		
<p>50. A large number of errors were again noted in the cashflow statement including errors of £10.7m (overstatement) in respect of Other Government Grants (revenue) and £19.8m in respect of DWP Housing Benefit Subsidy. Other errors noted include:</p> <ul style="list-style-type: none"> <li>• Other Operating Costs ( £7.224m understated)</li> <li>• NNDR Income (£2.344m understated)</li> <li>• Cash Received for Goods and Services (£3.527m overstated)</li> <li>• Interest received (£256k overstated)</li> <li>• Purchase of fixed assets ( £426k understated)</li> <li>• Other capital cash payments ( £425,696 overstated)</li> </ul> <p>Other errors resulting from misstatements within the primary statements include</p> <ul style="list-style-type: none"> <li>• Receipts from sale of Fixed Assets (£171,000 understated)*</li> <li>• Net cash decrease (£171,000 overstated)*</li> </ul> <p>* items subject to proposed amendments to balance sheet</p>	<p>Amend Cash Flow Statement and supporting notes (See Appendix 1 for details or required corrections). Note adjustments highlighted in Appendix 1 exclude adjustments to the cashflow statement and supporting notes exclude additional adjustments generated as a result of audit adjustments affecting the CRA and Balance sheet. Further amendments in addition to those noted in Appendix 1 will therefore need to be revised to accommodate these changes.</p> <p>Update 2003/2004 working papers to reflect adjustments required to the cashflow statement and provide a foundation for preparation of the 2004/2005 statement.</p>	
<p>51. Adjustments are also required to the following supporting notes</p> <ul style="list-style-type: none"> <li>• Reconciliation of Surplus to Revenue Activities Cash Flow (note 1)</li> <li>• Note 2 reconciliation of net cash outflow to net debt*</li> <li>• Analysis of Net Funds* (note 3)</li> <li>• Analysis of Government Grants (note 5)</li> </ul>	<p>Amend notes to Cash Flow statement (See Appendix 3 for details or required corrections)</p>	

Issue	Recommendation	Action / Comments
<b>Cashflow Statement (continued)</b>		
<p>52. These amendments were the result of a number of issues including</p> <ul style="list-style-type: none"> <li>• correction of errors in supporting working papers</li> <li>• revisions to the allocation of movements in debtor and creditor balances across reported cash flow headings</li> <li>• Incomplete or inadequate working papers</li> </ul>	<p>Revise arrangements applied to the coding of debtor and creditor balances within the nominal ledger to better support the compilation of the detailed analyses required to facilitate accurate preparation of the cashflow statement and balance sheet notes</p>	
<b>Housing Revenue Account</b>		
<p>53. Our review of transactions posted to the HRA has identified a significant number of errors and other misstatements. Whilst many are not material in the context of the consolidated statements the relatively low value of transactions posted to the statutory HRA account during 2003/2004 means that many of those issues identified are considered material in the context of the HRA account itself. Total value of errors identified were £233,874 (net understatement of HRA balances) of which an adjustment of £274,088 (see below) is required to HRA.</p>	<p>Amend HRA and supporting notes. Corresponding adjustments required to CRA.</p>	
<b>Net Cost of Services &amp; Other Operating Income/Expenditure</b>		
<p>54. The following errors and misstatements were identified in the HRA account requiring adjustment to HRA</p> <ul style="list-style-type: none"> <li>• £41,600cr – (dwelling rents - £33,665cr; Bad Debts - £7,935cr) in respect of the overstatement of amounts due to CHA and arising from revisions made to the amount payable by CHA for CTA balances following the award of backdated benefits after transfer for the pre transfer period.</li> <li>• £52,839cr – (HRA subsidy receivable/Government Department Debtors) understatement of HRAS grant receivable (corresponding adjustments required to note 3 to HRA). Income restated in line with HRAS final claim for 2003/2004.</li> </ul>	<p>Amend HRA and supporting notes</p>	

Issue	Recommendation	Action / Comments
<b>Housing Revenue Account</b>		
<b>Net Cost of Services &amp; Other Operating Income/Expenditure</b>		
<ul style="list-style-type: none"> <li>• £43,795cr (Investment income – item 8) – understatement of HRA item 8 interest arising from use of revised budget income rather than ‘actual’ calculated in accordance with the 2003/2004 item 8 determination.</li> <li>• £122,810cr (Bad Debts item 7) – transfer of movement on bad debt provision associated with FTAs and HBOPs from GF to HRA. (contra posting to General Fund SEA consistent with current posting)</li> <li>• £37,184cr (Rent Rebates) – transfer of rent rebate expenditure (net overpayments) from GF to HRA (debit to Housing GF expenditure)</li> <li>• £18,394dr (Charges for Services and facilities) – transfer of <i>Careline</i> income associated with General fund user groups from HRA to GF (credit to Housing GF income). Income invoiced in arrears but not accrued at 31.3.03</li> <li>• £5,746dr – (Dwelling rents) reversal of write-off of credit balances on former tenant accounts (transfer to creditors)</li> </ul>	Amend HRA and supporting notes	
<p>55. In addition to the above the following changes are also required to the presentation of items within the HRA (and corresponding totals within the CRA)</p> <ul style="list-style-type: none"> <li>• £ 11,302cr ( Dwelling rents) - transfer of garage rents adjustment (2002/2003 income payable to CHA) to ‘Non Dwelling rents’</li> <li>• £49,318cr (Dwelling rents) – transfer of net write –off to ‘Bad debts (item 7 debit)</li> </ul>	Amend HRA and supporting notes	

Issue	Recommendation	Action / Comments
<b>Housing Revenue Account</b>		
<b>Adoption of FRS 17</b>		
<p>56. No adjustments have been made to the comparative totals appearing in the HRA (or to the net expenditure totals recorded for Housing Services costs within the HRA) following implementation of FRS 17. Guidance on the application of <i>FRS 17 Retirement Benefits</i> to the Housing Revenue Account for 2003/2004 was set out in a letter from CIPFAs LAAP panel to CFO's (<i>'Accounting for Defined benefit Retirement Benefit's</i>) the essence of that guidance being that:</p> <ul style="list-style-type: none"> <li>• preparation of the HRA involves intricate consideration of statutory requirements and proper practices that must ultimately be determined by each authority and the LAAP is not able to issue firm guidance on the required accounting entries</li> <li>• authorities should ensure that they have followed a robust process in reaching their decision on the accounting treatment of retirement benefits in the HRA and that the reasons for the decision are adequately documented.</li> </ul>	<p>Confirm reasons underpinning accounting policy adopted in respect of HRA pension costs</p> <p>Update accounting policies note to reflect adopted policy</p>	
<b>Notes to HRA</b>		
<p>57. Amendments are also required to notes 4 and 5 to the HRA to show outstanding HRA debts including residual rent arrears (FTAs) and HBOP (IMAN) balances retained post LSVT and the corresponding provisions for bad and doubtful debts. Details of other adjustments required to the disclosures within the notes to the HRA are included in Appendix 2</p>	<p>Amend Notes 4 and 5 to the HRA</p>	

Issue	Recommendation	Action / Comments
<b>Housing Revenue Account</b>		
<p>58. In addition to the above other items (total value £40,114), relating primarily to unadjusted items brought forward from 2002/2003. These items, listed below, are not considered material and adjustment to the 2003/2004 statements is not therefore required. These include</p> <ul style="list-style-type: none"> <li>• £15,346dr transfer from HRA to GF, <i>Careline</i> income and costs attributable to GF user groups</li> <li>• £27,952dr understatement of Item 8 interest charge arising from errors in calculation of HRA MYCC</li> <li>• £3,184cr unadjusted errors at 31.3.03</li> </ul>	<p>Cumulative value of unadjusted items b/f not material. No further adjustments required to 2003/2004 statements.</p>	
<b>Presentation and Disclosure</b>		
<p>59. Despite previous recommendations regarding completion of CIPFAs SORP disclosure checklist as part of the closure program our review of the financial statements for compliance with the requirements of the Local Authority SoRP (2003) highlights a number of departures from existing disclosure requirements. A full list of errors and omissions is set out in Appendix 2.</p>	<p>Amend Statements – see Appendix 2 for details of required corrections</p> <p>Ensure completion of CIPFAs SORP disclosure checklist as part future closedown arrangements</p>	
<b>Statement on Internal Control</b>		
<p>60. Our review of the statement has identified a number of issues and departures from the requirements of the Local Authority SORP and 2003 Accounts and Audit Regulations (as set out in CIPFA's statement on Internal Control in Local Government: <i>Meeting the Requirements of the Accounts and Audit Regulations 2003*</i>) both in terms of the contents and format of the published statement. Further details of these issues are contained in Appendix 2</p>	<p>Redraft the statement in line with the form and content set out in CIPFA's statement on Internal Control in Local Government* to cover all significant matters under each of the following section headings prescribed in the guidance</p> <ol style="list-style-type: none"> <li>1. Scope of responsibility</li> <li>2. Purpose of the system of internal control</li> <li>3. The internal control environment</li> <li>4. Review of effectiveness</li> <li>5. Significant internal control issues</li> </ol>	

Issue	Recommendation	Action / Comments
<b>Statement on Internal Control</b>		
<p>61. The guidance acknowledges that it may be unreasonable and unrealistic to expect all authorities to be in a position to obtain the necessary assurances required to support the full SIC for the accounting year 2003/2004. As a result authorities have the option to produce an interim statement for 203-2004. This statement should indicate in sections 3 and 4 the extent to which it has been able to comply with the guidance and setting out in section 5 the action plan in place to ensure full compliance for 2004-2005</p>	See paragraph 60 above	
<b>Explanatory Forward</b>		
<p>62. In addition to issues concerning the extent of disclosures made within the explanatory forward (see Appendix 2) a number of other adjustments are required to the financial information reported within the explanatory forward in order to ensure consistency between the financial statements, budget estimates and reported out-turn data. These changes include</p> <ul style="list-style-type: none"> <li>• Correcting references to Comprehensive (not Corporate) Performance Assessment and the Audit Commission (not ODPM)</li> <li>• Amending totals appearing in note 1.3.2 in line with amounts reported in the HRA</li> <li>• Inserting an additional line within note 1.3.4 (summary revenue budget analysis) to distinguish interest payable from net expenditure on services</li> <li>• Amending the actual balances for 'Interest Receivable' within note 1.3.4 to achieve consistency with amounts reported in the CRA</li> <li>• Revise reference to 'Pension Reserve' within note 1.3.4 to distinguish the establishment of a earmarked reserve to fund future pension fund contributions from the Pension Reserve required under SI 515 (Capital Finance Regulations 2003 – amendment No 2)</li> </ul>	Amend Explanatory Forward – see Appendix 2 for further details	

Issue	Recommendation	Action / Comments
<b>Partnerships and Joint Arrangements</b>		
<p>63. The Authority currently participates in a number of partnership arrangements as well as acting as accountable body to a number of those partnerships. However no evidence was identified during the course of our audit to suggest consideration of the requirements of the Local Authorities SORP/FRS9 regarding the accounting treatment afforded to assets, liabilities and cash flows of to those arrangements.</p> <p>In order to assess compliance with LAS SORP/FRS9 and/or the potential impact of any aspects of non compliance the following additional information is required.</p> <ul style="list-style-type: none"> <li>• List of 'partnerships' (including joint arrangements) setting out details of the authority's financial involvement, status of the partnership arrangement (as defined by FRS9) and the terms of the arrangement (including the agreed funding arrangements; liability to meet deficits/share in surpluses). The list should also highlight the relevant accountable body.</li> <li>• Partnership accounts for each of the partnerships listed showing how the assets, liabilities and cash flows for each of the partnership arrangements have been measured according to the terms of the agreement and reflected in statements of the 'participating bodies'</li> <li>• Copies of partnership agreements highlighting key financial and operational arrangements relevant to the classification of the arrangement/entity under the SORP FRS9 and or other relevant standard</li> </ul> <p>64. FRS 9 requires that participants within a joint arrangement - i.e. contractual arrangements under which participants engage in joint activities that do not create an entity – should account for their own [share of] assets, liabilities and cash flows measured according to the terms of the governing agreement. Although the standard does not refer specifically to the revenue impact of those transactions this in nevertheless implied through the requirement to account for changes in assets and liabilities.</p>	<p>Compile summary of partnerships and joint arrangements and assess compliance with LAS SORP/FRS9 and/or the potential impact of any aspects of non compliance on the 2003/2004 statements.</p>	

## Part II Summary of Unadjusted Errors and Omissions

Issue	Recommendation	Action / Comments
<b>Fixed Assets</b>		
65. In addition to the issues highlighted above the following (ongoing) issues in relation to fixed asset accounting are noted:	Ensure identified errors are corrected in 2004/2005 capital charges calculations	
<b>Capital Charges</b>		
<ul style="list-style-type: none"> <li>• Omission of depreciation on vehicles plant and equipment from the capital charges debited to services £215,614</li> <li>• Omission of Impairment loss on land operational land and buildings £16,000</li> <li>• Overstatement of notional interest charges of £259,638 arising from (misstatement of opening asset values – 2002/2003 audit adjustments not accounted for)</li> <li>• Estimated overstatement of depreciation (£242,678) on operational land and buildings based on extrapolation of sample. The overstatement reflects a number of underlying issues including depreciation of land, misstatement of asset lives and a failure to update depreciation calculations to reflect the most recent asset valuations. A similar error was noted in 2002/2003 resulting in an estimated overstatement of depreciation and understatement of asset carrying values of £120,505. This error has so far not been corrected in the financial ledger or fixed asset records.</li> </ul>		
The net impact of these errors is:		
<ul style="list-style-type: none"> <li>• a net misstatement of £28,024dr in respect of the balance on the asset management revenue account</li> <li>• Understatement of service expenditure costs of £270,702</li> <li>• Understatement of the CFR of £242,678cr and CRA contributions to capital reserves of £242,678dr</li> <li>• Understatement of fixed assets £363,183 (£242,678 plus £120,505) (operational land and buildings)</li> </ul>		

Issue	Recommendation	Action / Comments
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**Fixed Assets**

<p>66. Other errors noted in respect of the fixed asset balances but which do not require amendment to the 2003/2004 statements are</p> <ul style="list-style-type: none"> <li>• £126,662dr/cr - capitalisation of revenue costs associated with the Raffles Environmental Task Force and Estate Wardens annual contract payments (expenditure subsequently written off to the FARR)</li> <li>• £27,332dr – (operational land and buildings) - omission of retentions</li> <li>• £250,000dr estimated understatement of Tullie House museum in respect of fixtures and fittings associated with millennium gallery exhibition space (estimate based on contract value for fitting out of exhibition space) (cr to FARR)</li> <li>• £120,505dr – Estimated overstatement of depreciation 2002/2003 (unadjusted error b/f)</li> <li>• £89,171dr – (assets under construction) reversal of revaluation/impairment adjustments in respect of costs associated with the Sheepmount redevelopment (cr to FARR)</li> <li>• £(40,000) cr write-off of to revenue consultancy costs associated with review of existing hardware and software infrastructure (customer contact centre)</li> <li>• £133,265dr (vehicles and plant)- overstatement of revaluation adjustment (cr to FARR)</li> <li>• £34,110dr (vehicles and plant) – transfer of software development costs to plant and equipment (consistent with capitalisation of related hardware costs)(cr FARR)</li> <li>• £37,656cr - overstatement of fixed asset balances arising from the capitalisation of IT revenue costs (financed from renewals fund)</li> </ul>	<p>Identify fixtures and fittings omitted from valuation of Tullie House museum / Millennium Gallery and establish an appropriate valuation for those assets consistent with SORP requirements</p>	
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Issue	Recommendation	Action / Comments
<b>Fixed Assets</b>		
<b>Asset Depreciation (Asset Lives)</b>		
<p>67. As noted in our previous reports no attempt has yet been made to identify major subcomponents of assets necessary to achieve full compliance with FRS15. Further action is therefore required to address this issue through future programmed revaluations and the development of existing asset records.</p>	<p>Ensure requirements of FRS 15 regarding asset lives and separate recognition of asset subcomponents are accommodated in future revaluations</p>	
<b>Asset disposals</b>		
<p>68. Procedures for updating the nominal ledger balances and fixed asset registers in respect of asset disposals are directed primarily by the identification of capital receipts. No formal procedures currently in place for identifying the disposal of assets (vehicles and plant) scrapped or sold for values less than applied de minimis limits. Between 1998/1999 and 2003/2004, the balance sheet analyses of movements in fixed asset balances report no disposals of vehicles and plant. Whilst it is acknowledged that many of the assets will have a net book at or close to nil at the time of disposal the current arrangements are likely to provide a further contributing factor to the £3.6m gross value of plant and vehicles included in note 1.2 with a valuation date more than 5 years prior to the balance sheet date. The absence of established asset identification procedures along with the current practice of aggregating expenditure within the asset register by year of acquisition, rather than by asset, further contributes to difficulties in identifying asset disposals.</p>	<p>Undertake physical verification of assets recorded within existing asset records' and update to reflect the values of (owned) assets held.</p> <p>Implement procedures for monitoring and recording asset disposals including those scrapped or sold for amounts below current de minimis levels.</p> <p>Establish arrangements for the periodic review of asset records to confirm the accuracy of those records and the physical verification of recorded assets.</p>	
<b>Valuation of plant and vehicles</b>		
<p>69. At 31.3.04 vehicles and plant with a gross book value of £3.6m are included in the balance sheet at historical cost. With the exception of infrastructure assets and community assets, the SORP requires all fixed assets to be included in the balance sheet at their current value. The SORP does however allow certain short-lived assets, such as vehicles, plant and equipment, to be included at historical cost as a proxy for current value, but only on the grounds of materiality. Arrangements to monitor compliance with the SORP requirements or policy on the use of historical cost are not currently in place.</p>	<p>Establish policy on the use of historical cost in accounting for fixed assets</p> <p>Establish arrangements to monitor compliance with SORP requirements relating to the use of historical cost as a proxy for current value for asset valuations.</p>	

Issue	Recommendation	Action / Comments
<b>Fixed Assets</b>		
<b>Revaluation of assets - Tullie House/Millennium</b>		
<p>70. The revaluation adjustment of £ 1.7m (increase in asset carrying values) includes a total of £2.8m (increase) in respect of Tullie House and the Millennium Gallery. Internal valuation of this asset was last undertaken during 2002/2003 (1.4.02) and a valuation certificate issued by Property Services confirming application of the DRC valuation basis and compliance with the internal asset valuations terms of references document. Further revaluation in 2003/2004 increased the gross book value of the asset from £6m at 31.3.03 to £8.5m at 31.3.04 an increase of 42%. Further investigation has however highlighted that much of the 2003/2004 revaluation adjustment is attributable to the errors generated by the valuation methodology underpinning the 2002/2003 valuation and in particular the estimation methods applied. The impact of these errors is an estimated understatement of fixed asset balances at 31.3.03 of £1.8m and an understatement of capital charges debited to services and credited to AMRA of £64,395 (notional interest). The estimated understatement of depreciation is included in the estimated misstatement of depreciation of £242,678 (see paragraph 66)</p>	<p>Although material this misstatement is not considered sufficiently fundamental to warrant recognition of a Prior Period Adjustment within the 2003/2004 statements. Whilst amendment to the statements is not required steps should nevertheless be taken to ensure that all future valuations are compliant with SORP requirements and in particular that</p>	<ul style="list-style-type: none"> <li>• all future valuations compliant with RICS Appraisal and Valuation Standards (The Red Book) and guidance notes agreed between the RICS and CIPFA.</li> <li>• valuation certificates state that it has been prepared in accordance with the Red Book or where the circumstances require departure from requirements of the Red Book, a clear statement is provided to this effect, together with the reasons, and the extent of the departure, which the valuer must be able to justify.</li> <li>• the person conducting the valuations holds a recognised and relevant professional qualification and has recent post-qualification experience, and sufficient knowledge of the state of the market in the location and category of the tangible fixed asset being valued</li> </ul>

Issue	Recommendation	Action / Comments
<b>Debtors</b>		
<p>71. In addition to the adjusted errors outlined above the following errors and omissions, totalling £279,203 (net understatement), not requiring adjustment in the financial statements, were also noted including</p> <p><b>Government Department</b> (£10,176cr)</p> <ul style="list-style-type: none"> <li>• Overstatement of ODPM debtor £10,176 in respect of unadjusted errors re MRA receivable in 2002/2003 and current year entitlement in respect of DFG and PSRG (see adjustment to Government department creditors below)</li> </ul> <p><b>Local Taxpayers</b> (£284,556dr)</p> <ul style="list-style-type: none"> <li>• £242,000dr estimated overstatement of bad debt provision attributable to Council Tax based on comparison between the existing provision and underlying calculations and current collection rates (Collection fund reserve understated)</li> <li>• £42,556dr – potential understatement of reported council tax income arising from unreconciled differences between the nominal ledger and council tax system (Collection fund Reserve Understated)</li> </ul> <p><b>Other Local Authorities</b> (£16,217dr)</p> <ul style="list-style-type: none"> <li>• £16,217dr – misstatement of highways claimed rights debtor arising from errors in supporting calculations</li> </ul>	<p>Establish procedures for regular review and updating of BDP calculations in light of current experience of recovery rates</p> <p>Post all relevant adjustments to the financial ledger during 2004/2005</p> <p>Ensure completion of reconciliations between nominal ledger and all key and fundamental feeder systems as part of future closedown arrangements</p>	
<b>Creditors and Provisions</b>		
<p>72. Unadjusted errors and uncertainties totalling to £46,313dr were also noted in respect of creditors and provisions balances including.</p> <p><b>Other Creditors</b> (£46,632cr)</p> <ul style="list-style-type: none"> <li>• £27,332cr - omission of retentions on capital contracts</li> <li>• £19,300cr – DSO accruals incorrectly reported under provisions (contra to provisions)</li> </ul> <p><b>Other local authorities</b> (£15,104dr)</p> <ul style="list-style-type: none"> <li>• £15,104 – omission of creditor in respect of recycling costs</li> </ul>	<p>Cumulative value of unadjusted errors not material. Further amendments to the 2003/2004 statements not required however steps should be taken to ensure that all relevant adjustments are posted to the financial ledger during 2003/2005</p>	

Issue	Recommendation	Action / Comments
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**Creditors and Provisions - continued**

**Government Department Creditors** (£57,446cr)

- £57,446cr - understatement of balance of HRAS subsidy payable to ODPM in respect of HRAS for 2002/2003 and 2003/2004 (see also unadjusted error re government department debtors £10,176 and UCR balances). Total adjustment £67,643, arising from misstatement of MRA receivable in 2002/2003 £70,466cr, £340cr in respect of adjustments to DFG/PRG due for 2003/2004 and £3,1846dr in respect of unidentified items b/f). The actual balance at 31.3.04 is £4,948cr compared to a reported balance of £62,675dr, the actual balance equating to a £50,337dr balance outstanding re 2002/2003 (per OPDM statement) plus £22,839dr HRAS subsidy receivable for 2003/2004 less £78,124cr in respect DFG/PSRG repayable re 2003/2004.

Ensure that capital retentions are recognised on an accruals basis through establishment of retention accounts within the nominal ledger and revision of existing coding arrangements. Introduce arrangements to ensure regular monitoring of retention balances (including subsequent payment and or use)

**Provisions** (£129,300dr)

- £110,000dr – overstatement of provisions and service expenditure in respect of DSO internal income in advance not eliminated within the consolidated statements
- £19,300dr misclassification of accruals

Confirm that all other internal transactions have been eliminated from the consolidated statements

**Fixed Asset Restatement Reserve**

73. In addition to adjustments of £779,832 referred to in part I further errors, totalling £696,312cr were also matched by understatement of fixed asset balances (£506,546dr– see above ) and service revenue costs (£189,766) the latter comprising of the following items

Cumulative value of unadjusted errors not material. Further adjustments to the 2003/2004 financial statements not required.

- £126,662cr – overstatement of FARR balance arising from capitalisation and subsequent write-off of revenue costs associated with the Raffles Environmental Task force and Estate Wardens contract payments
- £63,104cr – capitalised revenue costs (written off to FARR) relating to demimimis IT hardware costs and other items of revenue expenditure.

Establish clear guidelines to support the coding of capital transactions consistent with internal demimimis limits and SORP requirements governing the initial measurement of fixed assets

Issue	Recommendation	Action / Comments
<b>Capital Financing Reserve</b>		
<p>74. Total (net) unadjusted errors identified in respect of the CFR balance amount to £245,064cr comprising</p> <ul style="list-style-type: none"> <li>• £242,678cr – overstatement of depreciation (operational land and buildings)</li> <li>• £2,356cr - omission of PSRG recoupments 2003/2004</li> <li>• £6,174cr - adjustment to capital financing costs associated with PSRG recoupments and other adjustments to capital grants received posted directly to the CRA</li> <li>• £175,528cr – correction to reserved portion of LSVT receipt (see paragraph 39)</li> <li>• £120,505cr – estimated understatement of depreciation 2002/2003 – 2002/2003 unadjusted items b/f not adjusted</li> <li>• £8,902cr – (dr Renewals Fund) adjustment to renewals fund balance to reflect amounts applied in 2003/2003 (per capital financing statement)</li> <li>• £126,662dr adjustment to capital financing entries in respect of revenue costs include within fixed asset additions (see fixed assets)</li> <li>• £40,000dr adjustment to capital financing costs in respect of unadjusted misstatement of fixed asset balances (capitalised consultancy costs- revenue)</li> <li>• £85,525dr (£33,000cr property reserve; £52,524 UCR ) - adjustment to capital financing costs in respect of unadjusted misstatement of fixed asset balances (deminimis capital and other revenue costs)</li> <li>• £11,175dr – understatement of net cost of deferred charges written off to revenue (correction to DFG/PSRG grants receivable see paragraph 24 )</li> <li>• £10,062dr overstatement of HRA reserved capital receipts (unadjusted error b/f from 2002/2003)</li> <li>• £37,656 – correction capital financing entries associated with revisions to fixed asset balances in respect of revenue costs financed from renewals fund</li> </ul>	<p>Cumulative value of unadjusted errors not material. Further adjustment of the 2003/2004 financial statements not required.</p>	

Issue	Recommendation	Action / Comments
<b>Useable Capital Receipts (UCR)</b>		
<p>75. In addition to the matters referred to above the following the following errors relating to the balance of useable capital receipts are also note (net misstatements £66,748dr)</p> <ul style="list-style-type: none"> <li>• unadjusted errors b/f at 1.4.03 of £60,404dr : <ul style="list-style-type: none"> <li>• £70,466dr – understatement of capital receipts applied in 2002/2003 arising from the overstatement of MRA income credited to the HRA in 2002/2003 and the resulting difference between MRA receivable and amounts paid to CHA in 2002/2003 (see 2002/2003 review of financial statements for further details)</li> <li>• £10,062cr – overstatement of HRA reserved capital receipts</li> </ul> </li> <li>• £2,356dr – omission of PSRG recoupments 2003/2004</li> <li>• £6,174dr - adjustment to capital financing costs associated with PSRG recoupments and other adjustments to grants received posted directly to the CRA (repayment of exchequer grant - capital expenditure under regulation 5 of the Local Authorities Capital Finance Regulations 1997)</li> <li>• £217,000dr – reversal of 2002/2003 accrual for pension contributions payable to CHA in respect of the pension deficit attributable to transferring staff (see para 39)</li> <li>• £126,662cr - adjustment to capital financing entries in respect of revenue costs include within fixed asset additions (see fixed assets)</li> <li>• £40,000cr - adjustment to capital financing costs in respect of unadjusted misstatement of fixed asset balances (capitalised consultancy costs- revenue)</li> <li>• £52,524cr – adjustment to capital financing costs in respect of unadjusted misstatement of fixed asset balances (deminimis capital and other revenue costs )</li> </ul>	<p>Cumulative value of unadjusted errors not material in the context of the 2003/2004 statements. Further amendment of the financial statements is not required. However as appropriate adjustments should be made to the financial ledger during the current financial year (2004/2005) for all unadjusted errors</p>	

Issue	Recommendation	Action / Comments
<b>Consolidated Revenue Account</b>		
<b>Contributions to/from Capital Reserves</b>		
<p>76. In addition to the adjustment of £333,462dr other errors and omissions amounting to £427,761dr were noted in respect of appropriation between the CRA and the Capital Reserves reflecting the unadjusted errors of £489,880dr associated with the CFR balance, £70,466cr in respect of unadjusted errors within the UCR account and £8,347dr in respect of appropriations to/from specified reserves (see below)</p>	<p>Cumulative value of unadjusted errors not material in the context of the 2003/2004 statements. Further amendment of the financial statements is not required.</p>	
<b>Appropriations to/from specified reserves</b>		
<p>77. Unadjusted errors and omissions totalling £12,553cr were also noted in respect of appropriations to/from specified reserves and comprising</p> <ul style="list-style-type: none"> <li>• £20,900dr – omissions of appropriations to/from earmarked reserves</li> <li>• £8,347cr - adjustment to appropriation from renewals fund in order to align postings between the renewals fund and CFR with amounts appearing in the 2003/2004 capital financing statement (contra to contributions to/from capital reserves)</li> </ul>	<p>Cumulative value of unadjusted errors not material in the context of the 2003/2004 statements. Further amendment of the financial statements is not required</p> <p>Complete reconciliation of appropriations with movements on corresponding reserve accounts as part of future closedown arrangements.</p>	

## Summary of Adjustments to Cash Flow Statement and Supporting Notes

Heading	Original £'000	Revised £,000	Adjustment £'000	Adjusted Y/N	Notes
Paid to or on behalf of Employees	16,550	16,870	320	Y	Omission of payments to pension scheme in respect of unfunded added years benefit and actuarial strain (£319,363)
Other Operating Costs	4,626	11,850	7,224	Y	Balancing figure
Housing Benefits	17,005	17,081	77	Y	Movement on IMAN debtor balances in respect of HB overpayments
Rents After Rebates	(4,518)	(4,441)	77	Y	Omission of rents £40,468 (included in note 3.3) ; Debtor at 31.3.04 £117,000
Council Tax	(34,372)	(34,354)	18	Y	£18,234 difference between 'direct banking' total per CT control account (ledger) and CT system
Non Domestic Rate Income	(23,568)	(25,912)	(2,344)	Y	£1,812,852 reversal of 2002/2003 income journal; £509,156 accrual of income received march receipted April 2004; £21,996 - difference between ledger bank income total and 'cash income' summary (cash-book).
Housing Benefit Subsidy	0	(19,851)	(19,851)	Y	Reported balance relates (incorrectly) to ODPM HRAS rather than DWP benefit grant. See 'Other Government grants' Adjustment (£1,277,199 decrease) also required to 2002/2003 comparatives
Other Government Grants	(14,517)	(3,804)	10,713	Y	Omission of DWP grant receipts July 2003 and November 2003 to March 2004 - £10,924,013 Repayment of HRAS (£2,385,854) - included in other operating costs Omission of revenue grants £728,941 (see note 5) Transfer of DWP grant income (rent allowance) to 'Housing Benefit Subsidy' (£19,851,019) Adjustment for movement in debtors £130,649 (New Deal and ODPM contribution to HIA (net repayment)) Corresponding adjustments required to note 5 – see below. Adjustment (increase) of £1,277,199 required to comparative to include DWP benefit grant (rent allowance) under 'Housing Benefit Subsidy' whilst including ODPM HRAS under 'Other Government Grants'

Heading	Original £'000	Revised £,000	Adjustment £'000	Adjusted Y/N	Notes
Cash Received for Goods and Services	(13,941)	(10,414)	3,527	Y	Correction to address errors in supporting working papers – including omission of adjustments in respect of FRS 17 settlement costs (non cash transaction) misstatement of adjustments made in respect of movements in debtor and creditor balances and other adjustments in respect items reported elsewhere in the cashflow statement  Revision required to heading to Cash Received for Goods and Services and Other Operating Cash Receipts
<i>(Cash Received for Goods and Services and Other Operating Cash Receipts)</i>					
Revenue activities – net cash flow	(4655)	(4893)	(238)	Y	See amendments to note 1
Interest received	(1,922)	(1,667)	255	Y	PWLB unamortised discount b/f incorrectly accounted for in supporting working papers £458,634 (£229,317 x 2) less £203,307 (unamortised discount c/f omitted from calculation of cash inflow)
Purchase of Fixed Assets	3,125	3,549	424	Y	Correction to analysis of movement of capital creditors. (creditors relating to deferred charges expenditure – c/f £425,696)
Other capital payments	1,144	719	(424)	Y	Correction to analysis of movement of capital creditors.
Capital Grants received	(772)	(787)	(15)	Y	Misposting of movements in debtor balances £1,346,911 (£672,455 x 2) and omission of grants receivable £1,361,658 from cash flow calculations

## Notes to Cash Flow Statement

Heading	Original £'000	Revised £,000	Adjustment £'000	Adjusted Y/N	Notes
<b>Note 1</b>					
Transfers to/from Reserves	(1,996)	3,838	5,834	Y	Revisions to reported balance in line with movement on balance sheet reserve accounts including £4,348 – PWLB premia – reported separately
Increase/Decrease in Debtors	(4,689)	(5,818)	(1,129)	Y	Revision to reported balance in line with balance sheet movements [£1,346 (£673k x2 re capital grants - see above) less £217,000 re sale of fixed assets (reversal of pension accrual – incorrectly included in debtors movement)]
Increase/Decrease in Creditors	2,229	1,634	(595)	Y	Revisions to reported balance in line with balance sheet movements [£-77k ODPM creditor (DFG); £217k (see above); £200 re capital grants (IEG); £255 (£229+£26k) re interest payable].
Interest Payable	(2,180)	(2,154)	26	Y	Duplication of adjustment for PWLB premia (amortisation) (£26k)
Interest receivable	1,698	1,672	(26)	Y	Amortisation charges in respect of PWLB incorrectly added to external interest charge per AMRA (contra to adjustment made to interest payable)
PWLB Premia	0	(4,348)	(4,348)	Y	£4,348 – PWLB premia – reported separately under 'items shown elsewhere in the statement'
Net Cash Inflow/Outflow	(4,655)	(4,893)	(238)	Y	
<b>Note 5</b>					
ODPM HRAS	0	(2,386)	(2,386)	Y	Transfer of repayment from 'Other Operating costs'
Housing Benefit Subsidy (Rent Allowance)	14,155	4,353	(9,273)	Y	Disclosed separately on face of cash flow statement
CT benefit Subsidy				Y	
Housing Benefit Administration				Y	
Planning Delivery Grant				Y	
Sure Start		479	479	Y	
New Deal	246*	147	(99)	Y	Adjustment for movement in income in advance
CCTV – Crime Reduction	109*	109	-	-	
Other Grants*	7*	498	491	Y	
Total Government Grants (Revenue)	14,517	3,804	(10,713)	Y	See above

**Note:** The amendments above are based on the contents of the primary statements approved by members on DATE and as such exclude the impact of any errors/uncertainties (adjusted or unadjusted) affecting primary statements. Restatement of comparative totals required consistent with amendments to 'Housing Benefit Subsidy' and 'Other Government Grants' cash inflow totals

## Local Authority Statement of Recommended Practice: Summary of Omissions and other errors relating to required disclosures

Requirement	SORP Ref	Comments	Action/Recommendation
<b>General</b>			
Statement of Accounts signed and dated by the responsible financial officer and certified that it presents fairly the financial position of the authority at the end of the period to which it relates and its income and expenditure for that period	2003 Reg 10 (2)(3)	Signed by Deputy CFO	Amended statements to be signed by CFO
<b>Explanatory Forward</b>			
An understandable guide to the most significant matters reported in the accounts?	SORP 4.10	Limited commentary	No further action required in 2003/2004. However steps should be taken to review the format and content of the explanatory forward in 2004/2005.
An explanation in overall terms of the authority's financial position		Comparison of budget v actual but limited commentary of reasons for variances (amounting to approximately 10% of the net budget requirement)	Insert details of key variance and reasons for under/overspends
A commentary on the major influences on the authority's income, expenditure and cash flow			Insert commentary
A brief note explaining the significance of any pensions liability or asset disclosed or recognised			Inset note (link to note explaining impact of implementing FRS17)
Details of any significant change in accounting policies with a note on the reason for the change and the effect on the accounts	SORP 4.11	Note 4 refers to implementation of FRS17 but does not explain impact on accounts	Insert details of impact of FRS 17 on
a summary of the authority's internal and external sources of funds available to meet capital expenditure and other financial commitments		Summary of income/expenditure (revenue) based on cash flows rather than the CRA. This includes a balancing item for 'other operating costs' (to balance total expenditure with revenue cash income) No reference made to financing cash flows or use of revenue funds to finance capital expenditure	Revise analysis contained in note 1.2.2 based on CRA and collection fund balances rather than cashflows (avoiding the need for balancing items to address movements in working capital balances and providing consistency with accruals based amounts appearing in note 1.3). Consider similar analysis for capital activities

Requirement	SORP Ref	Comments	Action/Recommendation
<b>Statement of Accounting Policies</b>			
Disclosure of the accounting convention adopted	SORP 4.13		Insert reference to accounting convention
Details of any changes in the accounting policies followed compared to the previous period been disclosed (NB for 2003/04 this will apply to the new policies for accounting for retirement benefits.)			Insert reference to implementation of FRS 17 and to the measurement, recognition and presentational criteria contained in the standard / SORP
In respect of details of changes in accounting policies:	SORP 4.13		
The effect of a prior period adjustment on the results of the preceding period		No reference made to impact of implementation of FRS17	Insert reference to implementation of FRS 17 – See above
An indication of the effect of the change on the results of the current period (where practical)			See above (impact of FRS 17)
Disclosure of accounting policies in respect of	SORP 4.16		
<ul style="list-style-type: none"> <li>Interest charges</li> </ul>			Delete reference to internal interest
<ul style="list-style-type: none"> <li>Pensions</li> </ul>			Revise note 2.13 to reflect requirements of FRS17/SORP and n the relationship between FRS17 and the 'statutory' basis for the recognition of pension costs. Reference should also be made to the adjustments made to reconcile the two (CRA Appropriations / Pension reserve)

Requirement	SORP Ref	Comments	Action/Recommendation
<b>Statement on Internal Control</b>			
the statement of internal control been prepared as a summary of the authority's annual review of the effectiveness of its system of internal control	SORP 6.2	No reference made to the requirements contained in the 2003 Accounts and Audit Regulations to review annually the effectiveness of the system of internal control. Emphasis is on internal financial controls	Revise statement in line with the form and content set out in CIPFA's statement on Internal Control in Local Government: <i>Meeting the Requirements of the Accounts and Audit Regulations 2003 and covering</i> 6. Scope of responsibility 7. Purpose of the system of internal control 8. The internal control environment 9. Review of effectiveness 10. Significant internal control issues
Have significant events or developments relating to the system of internal control (including financial control) occurring between the end of the financial year and the date on which the statement of accounts is signed by the responsible financial officer also been reported?		No reference made to implementation of new financial ledger or to other current issues relating to the implementation of revised internal financial control procedures and in particular the delays in implementing bank reconciliation procedures during the current financial year	See above
Contents of the SIC: An indication of the level of assurance that a system of internal control can provide? (As a minimum this should include an indication of the level of assurance that a system of internal financial control can provide.)		References to the purpose of the system of internal financial control and inherent limitations in the level of assurance provided by any such system refer only to assurances against material misstatement or loss. No reference is made to the wider risks associated with the achievement of the Authority's policies aims and objectives.	See above

Requirement	SORP Ref	Comments	Action/Recommendation
<b>Statement on Internal Control</b>			
A brief description of the main features of the system of internal control (covering as a minimum the system of financial control)		Brief references are made to risk management, financial reporting and constitutional arrangements (e.g. schemes of delegation, codes of conduct). No reference is made to other aspects of the internal control environment including those relating to <ul style="list-style-type: none"> <li>• establishing and monitoring achievement of the Authority's objectives</li> <li>• ensuring economical, effective &amp; efficient use of resources, &amp; for securing continuous improvement in the way in which its functions are exercised, as required by the Best Value duty</li> <li>• performance management and reporting</li> </ul>	See above
Details of any other reviews informing the assessment of the effectiveness and operation of internal control undertaken during the year		Reference is made only to the role of Internal Audit. No reference is made to the role of executive managers, members or other review agencies /inspectorates or to the requirements under the 2003 Accounts and Audit Regulations to review annually the effectiveness of the system of internal control	See above
A concise explanation of any identified significant weaknesses in the system of internal control, together with the actions undertaken or planned to address these?		No reference made to any significant weaknesses in the system of internal control or to actions taken or planned to address these. (e.g. bank reconciliation procedures, risk management arrangements)	See above Remove Authority's opinion on the strength of corporate governance arrangements
<b>Consolidated Revenue Account</b>			
Gross expenditure, income and net expenditure of discontinued operations	SORP 4.23	DSO building maintenance activities transferred to CHA included in 'Trading Undertakings' Discontinued element not separately reported	Amend disclosures relating to DSO revenue account to distinguish continuing and discontinued operations

Requirement	SORP Ref	Comments	Action/Recommendation
<b>Consolidated Revenue Account</b>			
Have the nature of any acquired or discontinued operations and the details of any outstanding liabilities in respect of discontinued operations been disclosed in notes to the accounts	SORP 4.23	Housing Services transferred to CHA included as Discontinued Operations DSO Services transferred to CHA included within Trading Undertakings – discontinued element of DSO operations not disclosed separately	Amend disclosures relating to DSO revenue account to distinguish continuing and discontinued operations
Has the effect of prior period adjustments on the outturn for the preceding period been disclosed where practicable	SORP 3.19	No explanation in notes to impact of FRS17	Insert explanation
Pooled Budgets <ul style="list-style-type: none"> <li>• the purpose of the pool</li> <li>• the identity of the partner bodies</li> <li>• gross income and expenditure of the pool</li> <li>• the authority's contribution</li> <li>• comparative figures, where applicable</li> </ul>	SORP 4.23		Identify pooled budget arrangements Insert relevant disclosures
Disclosure of the following information in respect of the Local Government Pension Scheme: <ul style="list-style-type: none"> <li>• The fact that under the projected unit method the current service cost will increase as the members of the scheme approach retirement (for schemes in which the age profile of the active membership is rising significantly)</li> </ul>	SORP 4.23		Omission not material. No further action required
A cross-reference to the disclosures required by note (u) to the balance sheet (see question 108) and note (c) to the Statement of Total Movements in Reserves (see question 118)			Insert cross reference
<b>HRA</b>			
Within the notes to the accounts:			
The vacant possession value of dwellings within the authority's HRA as at 1 April	SORP 4.24	Omission not material	No further action required
An explanation that the vacant possession value and balance sheet value of dwellings		Omission not material	No further action required

Requirement	SORP Ref	Comments	Action/Recommendation
<b>HRA</b>			
<p>A summary of total capital expenditure on the following items within the authority's HRA during the year</p> <ul style="list-style-type: none"> <li>• land</li> <li>• houses</li> <li>• other property</li> </ul>			Insert note
<p>A breakdown of the items of capital expenditure above broken down according to the following funding sources</p> <ul style="list-style-type: none"> <li>• borrowing</li> <li>• usable capital receipts</li> <li>• revenue contributions</li> <li>• MRR</li> </ul>			Insert note
Explanation of the Capital Charges Accounting Adjustment	SORP 4.24	Analysis of items comprising adjustment included in note 4 to HRA.	Omission of explanation not material No further action required
<p>The value of, and an explanation of, any impairment charges in respect of the following items within the authority's HRA (calculated in accordance with proper practices)</p> <ul style="list-style-type: none"> <li>• Land</li> <li>• Houses</li> <li>• Other Property</li> </ul>		No impairments charged in 2003/2004. Impairments of £942,000 charged in 2002/2003	Insert note (see 2002/2003 statements)
<p>The total charge for depreciation within the authority's HRA for the following items</p> <ul style="list-style-type: none"> <li>• Land</li> <li>• Houses</li> <li>• Other Property</li> <li>• Operational assets comprising dwellings and other land and buildings;</li> <li>• non operational assets</li> </ul>		Note omitted. No depreciation charged in 2003/2004. Charge for 2002/2003 £1.34m	Insert note (see 2002/2003 statements)

Requirement	SORP Ref	Comments	Action/Recommendation
<b>HRA</b>			
The amount of rent arrears (excluding amounts collected for other agencies)		Nil balances reported in note 4 for 2003/2004	Amendment required to note HRA 4 to show outstanding HRA debts including residual rent arrears (FTAs) and HBOP (IMAN) balances retained post LSVT
The aggregate balance sheet provision necessary in respect of uncollectable debts		Nil balances reported in note 4 for 2003/2004	Amendment required to HRA note 5 to show BDP attributable to residual rent arrears (FTAs) and HBOP balances retained post LSVT
<b>Balance Sheet</b>			
Details of the nature and amount of trust funds where the authority acts as sole trustee disclosed in notes to the account	SORP 4.32		Confirm details of trust funds where the authority acts as sole trustee. Insert relevant details in note to accounts
For other trust funds and other third party funds administered by the authority, an overall indication of the nature and amounts administered by the authority disclosed in the notes to the account	SORP 4.32		Confirm details of other trust funds and other third party funds administered by the authority. Insert relevant details in note to accounts
In respect of each material defined benefit pension scheme: <ul style="list-style-type: none"> <li>The fair value of the attributable assets (if any) held by the pension scheme with the proportion of assets held in the following classes, disclosed together with the <b>expected rate of return assumed for the period and the subsequent period</b> <ul style="list-style-type: none"> <li>equities</li> <li>bonds</li> <li>other (sub-analysed if material)</li> </ul> </li> <li>An explanation of the impact of the surplus or deficit on overall reserves (alternatively, this explanation could be included in the explanatory foreword)?</li> </ul>	SORP 4.32	Expected rate of return assumed for the subsequent period shown but not the current period (note 17)	Amend note 17  Insert explanation

Requirement	SORP Ref	Comments	Action/Recommendation
<b>Cash Flow Statement</b>			
Disclosed separately in the statement: <ul style="list-style-type: none"> <li>DWP grants for benefits</li> <li>cash received for goods and services</li> <li>other operating cash receipts</li> </ul>		Total for Housing Benefit Subsidy shown on the face of the Cashflow statement relates to ODPM funding for rent rebates. DWP grant for benefits (rent allowances) is not included on the face of the statement. Note 5 to the cash flow includes the combined amounts receivable for DWP Rent Allowance, Council Tax Benefit and Housing benefit administration grants  Cash received for goods and services includes cash received for goods and services as well as other operating cash receipts not included in the other listed categories	See Appendix 1 for details of required amendments to the Cashflow statement and supporting notes
<b>Statement of Total Movement in Reserves</b>			
Notes to STMR:	SORP 4.35		
the cumulative effect on reserves of any prior period adjustments made during the period – disclosed at the foot of the statement		No reference made to impact of PPA made in connection with full implementation of FRS17	Insert additional note to STMR
The following information in respect of defined benefit schemes, for the accounting period <b>and the previous four accounting periods</b>	SORP 4.35		
The difference between the expected and actual return on assets (expressed as an amount and a percentage of the scheme assets at the balance sheet date)		See note 17 to balance sheet Information included for current period only	Amend note 17
Experience gains and losses arising on the scheme liabilities (expressed as an amount and a percentage of the scheme liabilities at the balance sheet date)		See note 17 to balance sheet Information included for current period only	Amend note 17
The effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities (expressed as an amount and a percentage of the scheme liabilities at the balance sheet date)		See note 17 to balance sheet Information included for current period only	Amend note 17
A descriptive note on the Pension Reserve			Insert additional note to STMR

Requirement	SORP Ref	Comments	Action/Recommendation
<b>Accounting Policies General</b>			
Where there is reason to believe that the value of fixed assets has changed materially in the period, has the value at which assets are included in the balance sheet been adjusted accordingly	SORP 3.38	Approximately 94% of the carrying value of fixed assets is accounted for by Non Operational Investment Properties (net book value £63m) and Other Land and Buildings (net book value £24m). The majority of properties concerned were last revalued in 2002/2003 and prior years. This includes investment assets with a book value of £26m last revalued in 2000/2001	Review valuations of all material assets completed prior to 31.3.04 and consider the need for further adjustments to the financial statements in order to reflect material revisions to asset valuations
Has provision for depreciation been made by allocating the cost, (or revalued amount) less estimated residual value of the assets, as fairly as possible to the periods expected to benefit from their use?		No evidence to indicate reference to residual values in calculating depreciable base	No further action required in 2003/2004. Review depreciation calculations in 2004/2005 and ensure appropriate consideration of residual values
Where the useful life of a fixed asset has been revised, has the carrying amount of the fixed asset been depreciated over the revised remaining useful life		See matters arising from verification of depreciation calculations (part II)	No further action required in 2003/2004. Review depreciation calculations in 2004/2005 and agree asset lives applied to most recent valuation report.
Estimation of the useful lives of assets been estimated on a realistic basis?	SORP 3.42	Limited formal assessment of asset lives	Issue to be addressed through ongoing revaluation program
Where the fixed asset comprises two or more major components with substantially different useful economic lives, each component been accounted for separately for depreciation purposes and depreciated over its individual useful life	SORP 3.48	No sub-division of asset values (land and buildings only). Material items of integral plant or building structure not separately valued.	Issue to addressed through ongoing revaluation program
Is depreciation based on the amount at which the asset is included in the balance sheet, whether net current replacement cost or historical cost?		See matters arising from verification of depreciation calculations (Part II)	Review depreciation calculations in 2004/2005 and ensure use of use pf correct asset valuation in calculation of depreciable base.

## APPENDIX 3

## Statement of Total Movement on Reserves – Summary of Required Adjustments

Item	Draft £000	Amended £000	Change £000	Comments
<b>Capital financing reserve</b>				
Net surplus/deficit for year	(4,878)	(4,353)	525	Capital grants applied £524,689 per capital financing statement (posted to GGDA)
Financing of capital expenditure	1,939	1,414	525	Capital grants applied £524,689 per capital financing statement (posted to GGDA)
<b>Useable capital receipts</b>				
Capital receipts	5,924	5,924	-	See audit adjustments
Capital receipts (reserved portion)	(137)	(137)	-	See audit adjustments
<b>Capital Grants &amp; Contributions U/A</b>				
Net surplus/deficit for year	530	5	(525)	Capital grants applied £524,689 per capital financing statement. Adjusted balance reflects grants written off directly to CRA in 2004/2005 (£4,661 capital grants u/a b/f)
Capital grants receivable	0	1,387	1,387	Grants receivable 2003/2004 £1,386,861 i.e. £838,623 posted to Deferred Charges plus £748,238 posted to GGDA less £200,000 re 2002/2003 IEG grant posted to GGDA in 2003/2004
Financing of capital expenditure	(525)	(1,387)	(862)	See above (£1,386,861 - £524,689)
<b>Government Grants Deferred</b>				
Net surplus/deficit for year	680	(68)	(748)	£748,238 grants receivable per GGDA account transferred to ' Financing of capital expenditure leaving balance of £(67,625) (equating to credit to CRA re amortisation of deferred grants)
<b>Pensions Reserve</b>				
Net surplus/deficit for year	8,017	998	(7,019)	Insertion of additional column showing actuarial gains and losses (reserve movement only)
Actuarial Gains and losses	0	7,019	7,019	See above
<b>Deferred Capital Receipts</b>				
Capital receipts	-	-	-	See audit adjustments

Note: the above adjustments exclude those required as a result of audit adjustments to the primary statements

Summary Errors: - Consolidated Revenue Account, Balance Sheet (excluding adjustments impacting on notes to accounts only)

Account	Total Error £	Adjustment £	2002/2003 £	Unadjusted £	Items < £10,000	Report Para(s)
<b>Consolidated Revenue Account</b>						
SEA- unidentified	(537,070)	(50,000)	(105,723)*	(381,347)		(15); (40)-(43)
Housing GF	(96,367)	65,173	-	(161,540)		(23)- (24);(53)
Housing Services	(147,665)	(230,293)	-	82,628		(53)-(58)
NDC	(249,924)	-	(171,744)*	(78,180)		(40)-(43)
Net cost of services	(1,031,026)	(215,120)	(277,467)*	(538,439)		
AMRA	(32,552)	-	-	(32,552)	3,819	(65);(70)
Trading undertakings	274,663	-	-	274,663		(48)
Investment Income	(5,987)	-	-	(5,987)	(5,987)	-
Appropriations to HRA Reserve	233,974	274,088	-	(40,114)		(46)
Appropriation to/from capital reserves	761,223	333,462	-	427,761		(23);(28) (45);(76)
Appropriations to/from pension reserves	240,720	-	277,467*	(36,747)		(40)-(43)
Appropriations to/from specified reserves	(199,750)	(212,303)	-	12,553		(45)(77)
Appropriations to MRR	(70,466)	-	-	(70,466)		(75)
Net Impact on GF reserves	170,799	180,127	0	(9,328)		(44)
<b>Consolidated Balance Sheet</b>						
Fixed Assets	1,368,529	549,124		819,405		(13)- (22);(66)
Deferred Charges	-	-	-	-	-	(23)(24)
Investments	-	-	-	-	-	-
Cash	178,575	171,000	-	7,575	7,575	-
Debtors & PIA	(213,008)	(492,211)		279,203	(3,819) (7,575)	(27);(71)
Creditors & RIA	756,917	839,904		(82,987)	5,987	(27);(72)
Provisions	129,300	-	-	129,300		(72)
Deferred Capital Receipts	(4,889,906)	(4,889,906)	-	0		(31)-(38)
Net Pension Liability	(24,604)	-	-	(24,604)		(40)-(43)
FARR	(1,625,436)	(929,124)	-	(696,312)		(13)- (22);(73)

Summary of Errors: - Consolidated Revenue Account, Balance Sheet (excluding adjustments impacting on notes to accounts only)

Account	Total Error £	Adjustment £	2002/2003 £	Unadjusted £	Items < £10,000	Report Para(s)
<b>Consolidated Balance Sheet</b>						
CFR	(375,296)	(130,232)		(245,064)		(28); (30) (74)
Useable Capital Receipts	5,042,154	4,975,406	-	66,748	6,174	(30)- (38); (75)
Pension Reserve	(24,604)	-	-	(24,604)		(40)-(43)
Other Funds and Reserves	(24,098)	-	-	(24,098)	8,902	(74)
HRA Reserve	(233,974)	(274,088)	-	40,114		(53)-(58)
Collection Fund Reserve	(284,556)	-	-	(284,556)	-	(71)
General Fund Reserve	170,799	180,127	0	(9,328)	(5,987) 3,819	(44)
<b>Total</b>						

\* Unadjusted errors relating to implementation of FRS17 and 2002/2003 comparatives

Net credit adjustments shown in parentheses

Note: the errors summarised above are intended only as an indication of the overall value of errors and other potential misstatements based on information and explanations received during the course of our audit.

In a number of instances the errors listed represent estimates based on the extrapolation of findings from audit testing procedures carried out on a sample basis and application of other estimation techniques.

Responsibility for the accuracy of the financial statements rests solely with the Authority. The Authority should therefore satisfy itself of the accuracy and validity of all proposed amendments prior to making changes to the financial statements and/ or underlying financial records.

## Summary of Unadjusted Errors Impacting on General Fund Balances

Account	Unadjusted Error £	Comments	Report Para(s)
<b>General Fund Reserve – Unadjusted Errors</b>			
SEA expenditure – unidentified	189,766	Revenue costs included in fixed asset additions/revaluation (see FARR – unadjusted errors £126,662 + £63,104)	(73)
SEA expenditure – unidentified	40,000	Revenue costs included in fixed asset additions/revaluation (see CFR/UCR unadjusted errors)	(74)
SEA Housing GF	340	Overstatement of DFG/PSRG grant income	(23)-(24)
Contributions to/from Capital Reserves	(11,175)	Overstatement of DFG/PSRG grant income	(23)-(24)
SEA expenditure – unidentified	(16,217)	Understatement of Highways Claimed Rights Debtor	(71)
SEA expenditure – unidentified	(15,104)	Overstatement of creditors (recycling costs)	(72)
SEA expenditure – unidentified	(110,000)	Overstatement of DSO provisions	(72)
Contributions to/from Capital Reserves	175,528	Overstatement of costs funded from LSVT receipt	(39)
SEA Housing GF	(217,000)		(39)
Appropriations to/from HRA	(27,952)	Understatement of HRA Item 8 interest 2002/2004	(53)-(58)
Appropriations to/from HRA	(15,346)	Transfer of <i>Careline</i> income from HRA to GF (2002/2003)	(53)-(58)
Items < £10,000	(2,168)		
Net Unadjusted Error	(9,328)		