

Audit Summary Report

Date

Last saved: 19/09/2007 12:46:00

Final accounts memo

Sedgefield Borough Council

Audit 2006/07

- Audit Commission descriptor to be inserted by Publishing-

Document Control

Author Paul Heppell

Filename Final accounts memo v1

Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

© Audit Commission 2006

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

www.audit-commission.gov.uk

Contents

Introduction	4
Background	4
Audit approach	4
Main conclusions	5
Main issues arising	5
Appendix 1 – Issues arising from audit	6
Action Plan	7

DRAFT

Introduction

- 1 Sedgefield Borough Council is responsible for the preparation of:
 - financial statements that present fairly its financial position as at 31 March 2007 and its income and expenditure in the year then ended; and
 - a Statement of Internal Control in accordance with the provisions of the Code of Practice on Local Authority Accounting in the UK: A Statement of Recommended Practice.
- 2 We are responsible for undertaking an audit and reporting:
 - Whether, in our opinion, the Council's financial statements present fairly its financial position; and
 - any inconsistencies with the disclosure made by the Council within its Statement of Internal Control.

Background

- 3 The Council approved the statement of accounts on 29 June 2007 and submitted them to us for audit in accordance with the agreed timetable. We have now completed our audit of these accounts. This report provides feedback to officers of the Council as to the issues identified during the audit.
- 4 A separate report meeting the requirements of ISA+260 ("the Annual Governance Report") has been prepared for members, identifying the more significant issues requiring bringing to the attention of those charged with governance. This report covers issues both within the Annual Governance Report and other less significant discussion points in order to provide management with a comprehensive record of changes and issues identified from the audit of the 2006/2007 accounts.

Audit approach

- 5 It should be noted that our audit does not seek either to obtain absolute assurance that the financial statements present fairly your financial position or assurance that they are accurate in every regard. We have planned and conducted our audit so as to identify any material errors in your financial statements that might distort the interpretation of the statements. During 2006/2007, we calculated a materiality level of £1.75m although we reserved the right to review items of accounts below this level where we deemed them to be politically or numerically sensitive.

Main conclusions

- 6 We expect to give an unqualified opinion on the amended accounts on 28 September 2007, following consideration of our Annual Governance Report by the Council.
- 7 We did not identify any inconsistencies in the Statement of Internal Control disclosed by the Authority with our cumulative knowledge of internal controls.
- 8 We have discussed the issues arising from the audit with the Director of Resources and Accountancy Services Manager and agreed the remedial action outlined in the action plan at Appendix 1.

Main issues arising

- 9 The revaluation and disposal lines of the fixed assets note are understated by £1,250K. This error arose as assets weren't revalued at the time of disposal, rather the difference between the existing book value in the accounts and the disposal proceeds was incorrectly accounted for as a profit or loss on disposal. Consequently:
 - the profit / loss on the income and expenditure account is overstated by £1,250K (rather than a profit on disposal of £1,012K, the accounts should show a loss on disposal of £238K)
 - there is a compensating error in the Statement of Movement in the General Fund.
- 10 The asset register and accounts omit a jointly owned piece of land at the Gables, neighbouring Sedgefield Net-park. The value of Sedgefield's share of this land is estimated at £262K.
- 11 Since preparation and approval of the accounts by the Council, the Secretary of State announced that she was minded to implement a proposal for a single unitary council for County Durham if and when the Local Government and Public Involvement in Health Bill 2007 is enacted. This is clearly a significant post balance sheet event which warrants acknowledgement within the accounts to fully inform readers. The relevant accounting standard is ISA+570 which requires disclosure if there is any uncertainty about continuing operations.

Appendix 1 – Issues arising from audit

- 12 Note 1a to the balance sheet does not show a break-down of non-operational assets and infrastructure required by the SORP, and is potentially misleading as infrastructure additions not increasing value are within the non-operational total. In addition, brackets are missing from the negative total figures.
- 13 There is non compliance on Q114 of the SORP disclosure checklist as there is no note to the Cash Flow reconciling the movement in the cash to the movement in the debt.
- 14 The rent reconciliation does not agree to the Housing Rent Arrears Statement, although the value of the difference being trivial. Officers consider that this is attributable to the write-off of former tenant arrears.
- 15 The debtors balance for Housing benefit overpayments is understated by £30,265.
- 16 The 2005/2006 columns are not headed 'restated' as required by the SORP.

DRAFT

Action Plan

Para. no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<i><Recommendation Title></i>					
9	<p>17 The Council should consider amending the accounts in respect of a non-trifling error relating to the accounting treatment of assets on disposal. This error arose as assets weren't revalued at the time of disposal, rather the difference between the existing book value in the accounts and the disposal proceeds was incorrectly accounted for as a profit or loss on disposal. As a consequence the revaluation and disposal lines of the fixed assets note are understated by £1,271K, with other consequential changes.</p>	3	Accountancy Services Manager / Council	Agreed	Accounts amended. Revisions to be referred to Council meeting on 28 September 2007 for approval.	
10	<p>18 The Council should consider amending the accounts in respect of a non-trifling error relating to the omission from the asset register and accounts a jointly owned piece of land at</p>	3	Accountancy Services Manager / Council	Agreed	Accounts amended. Revisions to be referred to Council meeting on 28 September 2007 for approval.	

8 Final accounts memo | Appendix 1 – Issues arising from audit

Para. no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	the Gables, neighbouring Sedgfield Net-park. The value of Sedgfield's share of this land is estimated at £259K. 19					
12	20 Under the accounting standard ISA+570 (which requires disclosure if there is any uncertainty about continuing operations), the Council should consider including a note to the accounts detailing the position with regard to the possible future local government reorganisation in County Durham.	3	Director of Resources / Council	Agreed	Note included in the accounts. Referred to Council meeting on 28 September 2007 for approval.	
13	21 Amend note 1a to the balance sheet to show the breakdown of operational and non-operational assets separately and include brackets for negative totals. Also to provide a breakdown non-operational assets on the face of the CBS.	1	Accountancy Services Manager	Agreed	Accounts amended.	
14	22 Ensure compliance with SORP	1	Accountancy	Agreed	Accounts amended	

Para. no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	Q114 by including a note to the Cash Flow Statement reconciling the movement in the cash to the movement in the debt.		Services Manager			
15	23 Ensure the rent reconciliation agrees to the Housing Rent Arrears Statement .	1	Accountancy Services Manager	Agreed	Reconciliation will be done - attributable to the write-off of former tenant arrears.	
16	24 Consider amending the debtor balance in the balance sheet in respect of housing benefit overpayments which are currently understated by £30,265.	1	Accountancy Services Manager	Agreed	Accounts amended	
17	25 Consider amending the accounts in respect of the "2005/2006 columns", so that they are headed 'restated' as required by the SORP.	2	Accountancy Services Manager	Agreed	Accounts amended	