

East Devon District Council

Audit of Accounts 2008-09

Annual Report to those Charged with Governance

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To the Audit and Governance Committee of East Devon Borough Council

The purpose of this memorandum is to highlight the key issues affecting the results of the Council and the preparation of the Council's financial statements for the year ended 31 March 2009. It is also used to report to those charged with governance to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

In addition, we have a number of statutory responsibilities under the Code of Audit Practice, which we report in this document. Most significantly, our responsibility to provide an opinion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of Resources.

We take responsibility for this memorandum, which has been prepared on the basis of the limitations set out at Appendix C.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

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1 Executive summary

1.1 Status of audit

We were presented with the draft statement of accounts on 25 June 2009. We have performed our final accounts audit in accordance with the Audit Commission's Code of Audit Practice and applicable auditing standards.

Our audit is substantially complete although we are finalising our procedures in a number of areas. These are set out in Section 2.

We do not anticipate that the completion of our work in these areas will give rise to any material adjustments.

The appointed day for electors to ask the auditor questions on the accounts this year was 10 August 2009. There were no electors that exercised their right to ask us any questions in respect of the 2008-09 accounts.

1.2 Overall conclusion

The Council presented its accounts by the 30 June 2009 deadline and they were approved by the Audit and Governance Committee on 25 June 2009.

The key matters arising from the audit are set out below. The Audit and Governance Committee should formally consider the matters set out in the table below and determine whether it agrees with the treatment adopted in the accounts.

Key matters	
Reclassification of earmarked reserves to general fund balance	Two earmarked reserves with a total value of £3.190m have been reclassified to the general fund balance because they do not meet the recognition criteria required for an earmarked reserve.
Statement of movement on general fund balance	A number of adjustments have been processed impacting on the statement of movement on the general fund balance.

Loans made by the Council

The deficit for the year has been reduced by £0.250m due to the incorrect treatment of a loan made by the Council, accounted for as expenditure rather than a debtor.

We commend the Council for their overall improvement in the accounts preparation process. Whilst a number of amendments have been identified, the Council has made good progress to improve the accuracy of their accounts, and to ensure that these amendments have been processed in 2008-09. We will continue to work with the Council to continue this progress.

Full details of the above matters and other significant issues are set out in Section 3. We also provide an action plan at Appendix B, that summarises the key recommendations arising from our audit of the Council's accounts.

1.3 Statement of accounts opinion

We anticipate providing an unqualified opinion on the Council's financial statements, following the acceptance of this report by the Audit and Governance Committee on the 24 September 2009 and the subsequent re-adoption of the Council's accounts.

1.4 Use of resources conclusion

As well as providing our opinion on the financial statements, we are required to reach a conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources. This conclusion is informed by our work on the Council's use of resources.

The outcome of our use of resources work will be reported in full in a separate report to the Council at the next Audit and Governance Committee. However, in section 3.6 we have reported the results of our assessment which are subject to final confirmation, that show that the Council has adequate management arrangements in place for all areas with the exception of managing risks and maintaining a sound system of internal control. We anticipate issuing an unqualified 'except for' use of resources conclusion, at the same time as we issue the accounts opinion.

1.5 Next steps

The Audit and Governance Committee is required to approve the annual accounts of the Council for the year ended 2008-09. In forming its conclusions the Committee is required to assess unadjusted items detailed at Appendix A and form a conclusion on the appropriateness of their exclusion from the accounts.

We are required to provide an audit opinion on the consolidation pack that is to be completed as part of the Whole of Government Accounts. This work is not covered by our opinion on the Council's accounts. We will complete this work once the accounts audit has been finalised and in time for the 1 October 2009 deadline.

2 Key audit issues

2.1 Matters identified at the planning stage

In the conduct of our audit, we have not had to alter or change our audit plan, which we communicated to the Audit and Governance Committee in our Annual Audit Plan on 26 June 2008.

Status of audit

Our audit is substantially complete although we are finalising our procedures in the following areas:

- receipt and review of the revised cash flow statement;
- agreement of the correct disclosure of members allowances in relation to two members;
- completion of our review procedures;
- review the final version of accounts;
- obtaining and reviewing the Council's letter of representation; and
- updating our post balance sheet events review up to the date of signing of the accounts.

2.2 Matters identified at the planning stage

Issue	Auditor response
<p>2008 Statement of Recommended Practice</p> <p>The 2008 SORP is currently under consultation and it is expected that there will be some presentation and disclosure adjustments that will impact on the 2008-09 accounts. There is a risk that the new requirements may not be met.</p>	<p>The SORP changes have been considered as part of the audit work and the majority have been reflected within the accounts. However the disclosure of area based grant was incorrectly included within net cost of services, this has been corrected by management.</p>

Issue	Auditor response
<p>Introduction of International financial Reporting Standards (IFRS)</p> <p>CIPFA have confirmed that local authorities will be required to follow IFRS for the financial period 2010-11. Therefore, comparative information from 1 April 2009 will require restatement. Whilst this will not have a direct impact on our audit of the 2008-09 accounts, the Council should ensure that plans are implemented to prepare for forthcoming developments.</p> <p>There is a risk that the Council will not identify the future impact of these requirements on their medium term financial plans.</p>	<p>We have had discussions with the finance team around the introduction of IFRS, specifically with regard to finance leases and holiday pay accruals. We will continue to work with the Council's finance team to ensure that accounting issues that might impact adversely on Council's finances are identified and potential solutions developed as early as possible before the introduction of the new standards.</p>
<p>Delivery of the Internal Audit Plan</p> <p>The Audit and Governance Committee have agreed an Internal Audit plan for 2008-09. Following our review of the Internal Audit service in 2007-08 we have concerns that there is sufficient capacity to effectively deliver this Internal Audit plan, and be able to gain sufficient assurance for our opinion work.</p> <p>There is a risk that an adequate Internal Audit service is not maintained during 2008-09.</p>	<p>As part of our interim audit, we reviewed the Internal Audit service against the CIPFA Internal Audit standards.</p> <p>As a result of this work, we made a number of recommendations regarding the delivery of the Internal Audit service, which we reported to the Audit and Governance Committee on 25 June 2009 in our interim report.</p>
<p>Debt free status</p> <p>Members have approved the Council to borrow for the first time. This funding was not required in 2007-08 and funding from revenue may now be available in 2008-09 instead of borrowing.</p> <p>However if the borrowing is required in 2008-09, there is a risk the Council does not comply with the Prudential Code, or correctly account for the borrowings and related disclosures.</p> <p>In addition, the Council would need to ensure that they prudently provide for the minimum revenue provision (MRP), at a rate equal to the depreciation of any assets purchased with the borrowings, if this exceeds the nominal 4%.</p>	<p>This risk did not materialise in 2008-09 because the Council has remained debt free to date. Funding from revenue and reserves was available to finance the Council's expenditure for the year.</p>

Issue	Auditor response
<p>Change to the asset management system</p> <p>During 2008-09 the Council plans to change their asset management records, to record all assets on one system.</p> <p>There are a number of related risks that this poses:</p> <ul style="list-style-type: none"> • financial and asset information is not correctly transferred to the new system; • financial information is not correctly transferred from asset management system into the ledger; and • financial information from the asset management system is not correctly included in the accounts. <p>There is also a risk that this may impact on the housing grants, resulting in amendments or qualification to those grants.</p>	<p>The migration of the asset management records into a single system is still in process. We have not identified any errors in fixed assets in relation to the risk identified, while performing our audit procedures.</p> <p>We will assess the control environment for preparing housing grants as part of our certification of the housing grants and subsidies, which we will report to the Audit and Governance Committee in our grants report, on completion of the work.</p>

2.3 Other key considerations arising from the audit

In addition to the issues that we identified at the planning stage, there have been a number of other areas that have come to attention, either as a result of national developments or from our specific work at the Council, that we have considered as part of our audit. These are detailed below.

Issue	Auditor response
<p>Members allowances</p>	<p>As a part of our audit we reviewed the arrangements for members expenses.</p> <p>We identified that adequate controls were only in place for part of the financial year and that for earlier part of the year, not all members expense claims were approved. Internal Audit reported this weakness to management and these control deficiencies have now been rectified. We consider the controls now in place to be adequate.</p> <p>Following the recent commentary around the arrangements for MPs expenses, the Council has not formally reviewed their members expenses policy or and considered whether it requires revision. We have made a recommendation in relation to this in Appendix B.</p>

Issue	Auditor response
Treasury management	We performed a review of the Council's treasury management as a part of our audit. The treasury management policy was reviewed and revised in February 2009. The main change relates to authorisation limits for external debt. We have concluded that the Council's arrangements are adequate.

3 Detailed findings

3.1 Audit opinion

We expect to issue an unqualified audit opinion on the Council's financial statements. This is subject to the approval of the financial statements by the Audit and Governance Committee on 24 September 2009.

3.2 Audit of the accounts

A number of accounting issues were identified during the course of our audit which are considered material to the reported financial position and they should therefore be considered by the Audit and Governance Committee prior to their approval of the financial statements.

The key issues for attention are set out below.

Treatment of earmarked reserves

In the draft accounts, the total brought forward general reserve balance of £12.211m had been transferred to earmarked reserves. These earmarked reserves were approved by the Executive Board in June 2009 for specific purposes. However, our review has identified that the following earmarked reserves do not meet the accounting criteria set out by CIPFA in LAAP bulletin 77 to set aside funds as earmarked:

- investment shortfall reserve of £673,000; and
- transformation fund (general reserve) of £2,517,000.

As these reserves do not meet the criteria to be treated as an earmarked reserve, the balances are required to be transferred into the general fund balance. This has the effect of increasing the carried forward general fund balance by £3.190m. The Council have amended the accounts to reflect this reclassification. This does not however prohibit the Council spending these funds in line with the plans approved by the Executive Board.

We will continue to review the Council's arrangements for identifying and utilising earmarked funds to ensure that appropriate accounting standards and guidance is adhered to. In particular, we will consider the planned utilisation of earmarked reserves to ensure that these have been properly approved and utilised in accordance with approved plans and timescales.

General fund balance

The general fund balance carried forward is £7.494m. The Council's policy regarding this balance is that it should be 7.5% of the net revenue budget, there is no maximum although the amount by which the balance is over the minimum is reviewed by the Executive Board when the outturn position is reported in June each year. The balance in this reserve compared to the policy and to the council tax demand is as follows.

- As a percentage of council tax in 2008-09, the general fund balance held at 31 March 2009, was 91%.
- As a percentage of net cost of services (after removal of the impairment due to fall in market prices) in 2008-09, the general fund balance at 31 March 2009 was 38%.

The draft general fund balance was adjusted for a transfer of £3.190m from earmarked reserves as detailed above. Of these amounts, £0.673m relates to a shortfall in investment income predicted in 2009-10, and £1.500m has been approved as 2009-10 expenditure. If these amounts were removed from the general fund balance, the carried forward position would be £5.304m.

- As a percentage of council tax demand for 2008-09, the general fund balance would have been 65%.
- As a percentage of net cost of services (after removal of the impairment due to fall in market prices) for 2008-09, the general fund balance would have been 27%.

The opportunity costs of holding this high balance was considered by the Executive Board in June 2009.

Statement of movement on the general fund balance (SMGFB)

A number of adjustments have been identified as part of the out audit testing, which impact on the SMGFB and the reconciliation of the movement in the general fund. The impact of these adjustments is to increase the general fund balance carried forward by £3.190m and to increase the net additional amount to be deducted from the I&E deficit for the year, by £3.948m. The total amendment is made up of the following adjustments.

- Depreciation and impairment of fixed assets (amount included in the I&E but required to be excluded when determining the general fund balance) - in the draft accounts, this amount incorrectly included the major repairs allowance of £2,461,000 which is required by the SORP to be deducted from this charge.
- Revenue expenditure funded from capital under statute (amount included in the I&E but required to be excluded when determining the general fund balance) - the draft accounts included an amount of £250,000 relating to the loan made to another organisation, which had been incorrectly treated as expenditure rather than a debtor.
- Capital expenditure charged in-year to the general fund balance (amount not included in the I&E but required to be included when determining the general fund balance) - a contra amount to the depreciation above, included in the draft accounts, included the major repairs allowance of £2,461,000 in error. The major repairs allowance should not be included as funded from the general fund, because it is funded from

the housing revenue account.

- Reclassification of reserves - £998,000 was included on the face of the SMGFB as a reclassification of reserves, including an additional line in this statement. This amount should be treated as a net transfer from earmarked reserves and included in the reconciliation rather than on the face of the SMGFB, within the transfer from earmarked reserves. This has the effect of increasing the net transfer from earmarked reserves by £998,000.
- Net transfer from earmarked reserves - an increase in the transfer of earmarked reserves of £3,190,000, as a result of the reclassification of earmarked reserves to the general fund balance as detailed above.

The Council have amended the accounts to reflect these changes.

Loans made by the Council

Loans made by the Council to other organisations should be accounted for as debtors until the repayments are received, and the reserve entry should be made to the capital adjustment account. Our audit work identified two errors in relation to the treatment of loans made by the Council, which are set out below.

- Historically the reserve entry for loans made has been posted to the deferred capital receipts reserve rather than the capital adjustment account. The total balance was £187,000.
- In 2008-09 a loan was made for £250,000, which had been incorrectly treated as expenditure rather than a debtor, overstating expenditure in the income and expenditure account.

The Council have amended the accounts to reflect the correct accounting treatment, as set out in appendix A.

FRS 17 liability

In order to obtain pension asset valuations from the actuary for inclusion in the draft accounts, council's frequently use data to the end of February with estimated costs for March. It is normal for the final asset values to be different to the estimated figures, and these final figures are received during the course of the audit.

The actuary has confirmed that the audited net asset of the Devon pension fund as at 31 March 2009 were £1,783m. However the assumed value of assets used by the actuary in the FRS 17 report to the scheduled and admitted bodies was £1,768m. There has therefore been an underestimation of £14.700m. East Devon's share of this difference has been calculated as £358,000 using the actuarial calculation of the percentage share of the assets.

Cash flow statement

We identified a number of errors within the cash flow statement and related notes in the draft accounts, where the figures prepared did not meet the requirements in the SORP or the relevant financial reporting

standard. The Council is preparing a revised cash flow statement and related notes for inclusion in the final version of the accounts.

Misclassifications

In addition to the issues set out in detail above, our audit identified a number of other amendments and changes to disclosure notes that have been discussed with management. The most significant issues are set out below.

- Receipts in advance of £2,054,000 relating to housing rents, council tax and NNDR have been misclassified as creditors, rather than included with other receipts in advance. To correct this the Council have combined creditors and receipts in advance into one category on the balance sheet.
- Receipts in advance and debtors have both been overstated by £537,000, as a result of income for 2009-10 services being accounted for in 2008-09 and then reversed through the balance sheet.
- All HRA fixed assets were included in the Council Dwellings category in the fixed asset note. This category should only include council dwellings, and therefore HRA assets which are not council dwellings of £8,788,000 should be classified under the appropriate fixed asset category.

Where appropriate, we have made recommendations to improve arrangements as set out in the action plan at Appendix B of this report. We have discussed these and other matters arising with the finance team and formal management responses are included in the action plan.

3.3 Misstatements

All of the adjusted misstatements are set out at Appendix A. The net impact on the income and expenditure account as a result of the adjusted misstatements is to decrease the deficit by £0.250m, this has no impact on the general fund balance because it is reserved in the SMGFB. The aggregate impact of the adjusted misstatements on the carried forward general fund balance is an increase of £3.190m.

The unadjusted misstatements are also set out in Appendix A. The aggregate impact of unadjusted misstatements, were they to be processed, would result in a £358,000 decrease in the deficit in the income and expenditure account. We require the Audit Committee's confirmation, as those charged with governance, that they are satisfied that these amendments should not be processed.

The Audit Committee should discuss the matters noted above and consider the managements' decision not to adjust or disclose the misstatement in Appendix A, or it require the changes to be made.

3.4 Improvements in disclosure notes

Our review identified that the various disclosure notes in the financial statements could be improved to aid understanding and clarity of the financial statements. These are detailed on Appendix A.

3.5 Annual Governance Statement (AGS)

We have reviewed the Council's arrangements and process for compiling the AGS. In addition, we read the AGS and consider whether the statement is consistent with our knowledge of the Council. Our review has identified a number of areas in the statement where enhancements around the internal control weaknesses have been recommended to ensure that the statement provides a balanced and fair reflection of the Council's internal control environment. These enhancements are all within the action plan, and are set out below:

- enhancement in the disclosure of risk management;
- inclusion of an area for improvement in relation to performance indicators, required following completion of the internal audit report in this area; and
- re-inclusion of the area for improvement in relation to licensing administration, because the 2007-08 AGS action plan shows this weakness has not yet been addressed.

The proposed adjustments have been agreed with the Head of Internal Audit and Corporate Director and processed in the final AGS.

3.6 Use of resources

We are required to consider how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and give a scored use of resources judgement. We are also required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

In forming our scored use of resources judgements, we have used the methodology set out in the use of resources framework. Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from one to four, with four being the highest. Level one represents a failure to meet the minimum requirements. We have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.

From 2008-09, the use of resources assessment is more demanding than previous assessments. The KLOE are more broadly based than previously and embrace wider resource issues such as workforce planning and the use of natural resources. The KLOE focus more on value for money achievements, outputs and outcomes rather than on processes. As part of the continuing drive to improve standards the scoring arrangements have been adjusted so that to attain level two the council must show that it has arrangements that are consistent with established professional practice and guidance, meet statutory requirements and operate effectively.

To achieve a level three, councils now need to demonstrate a higher standard of performance which includes the following:

- operating consistently above minimum requirements;
- demonstrating a forward-looking and pro-active approach;
- evidencing outputs and outcomes which demonstrate impact; and
- effective partnership working.

This is a significant challenge and it follows that 2008-09 use of resources scores are not directly comparable with those for the previous year. The Council's 2008-09 use of resources theme scores are shown below. The key findings and conclusions for the three themes, and the underlying KLOE, will be reported separately at the next Audit and Governance Committee. These scores are subject to national quality assurance review by the Audit Commission and, as such, they are provisional at this stage. We have included them for information but they should not be shared more widely until we have confirmed the final assessment.

Theme	Provisional score
Managing finances	(2)
1.1 Planning for financial health	2
1.2 Understanding costs and achieving efficiencies	2
1.3 Financial reporting	2
Governing the business	(2)
2.1 Commissioning and procurement	2
2.2 Use of information	2
2.3 Good governance	2
2.4 Risk management and internal control	1
Managing resources	(2)
3.1 Natural resources	n/a *
3.2 Strategic asset management	n/a *
3.3 Workforce	2

Underlying principles of performance:
 Level 1 - performs inadequately
 Level 2 - performs adequately
 Level 3 - performs well
 Level 4 - performs excellently

* Note that in 2008-09 natural resources and strategic asset management are not included within the use of resources assessment and therefore do not inform the use of resources conclusion.

The key reasons why we have assessed risk management and internal control as inadequate are set out below. We acknowledge that the Council is taking action to address these areas:

- the corporate risk register has not been formally updated or monitored by the Audit and Governance Committee during the 2008-09 financial year;
- there is limited proactive fraud work carried out due to the resource pressures faced by Internal Audit; and
- there have been continued problems faced in delivering the internal audit service due to resourcing issues.

Based on the work carried out to date, supported by local use of resources work, we propose to issue a qualified Use of Resources conclusion.

A Adjustments to the financial statements

Adjusted misstatements

Detail	Accounting statement affected	Impact in the accounts
Earmarked reserves Earmarked reserves of £3.19m required to be reclassified as general fund balance because they do not meet the requirements of an earmarked reserve.	Balance sheet	Decrease earmarked reserves by £3,190,000. Increase the general fund balance by £3,190,000.

Detail	Accounting statement affected	Impact in the accounts
<p>SMGFB</p> <p>A number of adjustments have been made to the Statement of Movement in the General Fund and the corresponding reconciliation.</p>	<p>SMGFB</p>	<p>Decrease depreciation and impairment of fixed assets by £2,461,000.</p> <p>Decrease capital expenditure changed in-year to the general fund balance by £2,461,000.</p> <p>Increase transfer from earmarked reserves by:</p> <ul style="list-style-type: none"> • £988,000 incorrectly included as reclassification of reserves; and • £3,190,000 due to reclassification of earmarked reserves to general fund. <p>The net impact of these adjustments is to increase the general fund balance carried forward by £3,190,000.</p>
<p>Historic treatment of loans made by the Council</p> <p>Historically the reserve entry for loans made has been posted to the deferred capital receipts reserve rather than the capital adjustment account. The total balance was £187,000.</p>	<p>Balance sheet</p>	<p>Increase capital adjustment account by £187,000.</p> <p>Decrease deferred capital receipts by £187,000.</p>
<p>Treatment of a loan made in the year</p> <p>A loan made in the year for £250,000 was incorrectly treated as expenditure and 'revenue funded from capital under statute', when it should have been treated as a long term debtor because the recipient will be required to repay the loan in the future.</p>	<p>Income and expenditure account, SMGFB and balance sheet</p>	<p>Increase long term debtors by £250,000.</p> <p>Decrease expenditure by £250,000.</p> <p>Decrease revenue funded by capital under statute of £250,000.</p> <p>No net impact on the general fund balance carried forward.</p>

Detail	Accounting statement affected	Impact in the accounts
<p>Bank and cash</p> <p>An omitted bank account was identified with a total balance of £83,392.72. This included cash receipts which had been presented as debtors.</p>	<p>Balance sheet</p>	<p>Increase cash by £83,000. Decrease debtors by £83,000.</p>
<p>Creditor misclassification</p> <p>Receipts in advance of £2,054,000 relating to housing rents, council tax and NNDR have been misclassified as creditors, rather than included with other receipts in advance.</p>	<p>Balance sheet</p>	<p>Decrease creditors by £2,054,000. Increase receipts in advance by £2,054,000. To correct this the Council have combined creditors and receipts in advance into one category on the balance sheet.</p>
<p>Receipts in advance and debtors</p> <p>Receipts in advance and debtors have both been overstated by £537,000, as a result of income for 2009-10 services being accounted for in 2008-09 and then reversed through the balance sheet.</p>	<p>Balance sheet</p>	<p>Decrease debtors (debts for Council services provided) by £537,000. Decrease receipts in advance by £537,000.</p>
<p>Government grants deferred amortisation</p> <p>The supporting working paper for the amortisation of government grants deferred contained an error, resulting in an overstatement of amortisation of government grants deferred and an understatement of this balance.</p>	<p>Income and expenditure account, SMGFB and balance sheet</p>	<p>Decrease recreation and sport income by £26,000. Decrease government grants deferred amortisation matching depreciation by £26,000. Increase government grants deferred by £26,000. Increase capital adjustment account by £26,000. No net impact on the general fund balance carried forward.</p>

Detail	Accounting statement affected	Impact in the accounts
<p>Contribution to revenue funding</p> <p>The Council received a contribution which can be used for revenue funding, but this was coded to a capital account in 2007-08 when received. This has been spent on a revenue item in 2008-09.</p>	<p>Income and expenditure account and SMGFB</p>	<p>Increase recreation and sport income by £59,000. Decrease transfer from earmarked reserves by £59,000. No net impact on the general fund balance carried forward.</p>
<p>Interest payable</p> <p>Interest payable has been incorrectly net off the interest receivable in the income and expenditure account. Interest payable should be shown separately.</p>	<p>Income and expenditure account</p>	<p>Decrease interest receivable by £22,000. Increase interest payable by £22,000.</p>
<p>Area based grant</p> <p>The area based grant of £23,000 was included in environmental services within net cost of services in the income and expenditure account.</p> <p>In accordance with the SORP this is required to be disclosed as a separate line below net operating expenditure in the income and expenditure account.</p>	<p>Income and expenditure account</p>	<p>Decrease in environmental services income and therefore increase in net cost of services of £23,000. Increase of area based grant below net operating expenditure of £23,000.</p>
<p>Reclassification on non council dwelling HRA assets</p> <p>HRA assets which are not council dwellings of £8,788m should be classified under the appropriate fixed asset category.</p>	<p>Balance Sheet and related disclosure notes</p>	<p>Decrease council dwellings by £8,788,000. Increase other land and buildings by £8,413,000. Increase plant and equipment by £375,000.</p>

Detail	Accounting statement affected	Impact in the accounts
<p>Cash flow statement</p> <p>We identified a number of errors within the cash flow statement and related notes, where the figures prepared did not meet the requirements in the SORP or the relevant financial reporting standard.</p>	<p>Cash flow statement</p>	<p>Various changes of figures disclosed in the cash flow statement and related notes to be consistent with the requirements of the SORP and FRS1 on cash flow statements.</p>

The net impact on the income and expenditure account as a result of the adjusted misstatements is to decrease the deficit by £0.250m, this has no impact on the general fund balance because it is reserved in the SMGFB.

The aggregate impact of the adjusted misstatements on the carried forward general fund balance is an increase of £3.190m, and a corresponding decrease in earmarked reserves of the same amount.

Unadjusted misstatements

Detail	Accounting statement affected	Impact in the accounts
FRS 17 Net assets of the pension fund has been understated by £358,000, due to use of estimated figures in the accounts.	Income and expenditure account and balance sheet	Decreasing the pension liability by £358,000. Decreasing the pensions costs by £358,000.

The overall impact of unadjusted misstatements would be to decrease the deficit in the income and expenditure account by £0.358m.

Disclosure adjustments

Our review identified that the financial statements had a number of areas where the disclosure notes could be improved.

Area	Commentary
Government grants and contributions, both applied and unapplied	The notes relating to these liabilities should be updated to clearly show the brought forward and carried forward position and the movements in the year on the accounts, to improve clarity for the user.
Financial instruments	The financial instruments note should be updated to improve understanding and to fully comply with the financial instruments financial reporting standards.
FRS17 pensions	The pensions disclosure note should be updated to reflect the position of funded and unfunded liabilities separately.

B Action plan

	Priority	Issue and risk	Recommendation	Management response, responsible officer and implementation date
1	Medium	<p>Bank and cash</p> <p>A bank account has been omitted from the accounts.</p> <p>As a result the cash balance has been understated and debtor balance overstated. There is also a risk that the bank accounts includes cash receipts which have not been included in debtors and therefore that income is understated.</p>	<p>The Council should ensure that the Alliance and Leicester bank accounts are included within the Council's year end bank balance, and that the cash is allocated out across the relevant debtor categories in the balance sheet.</p>	<p>Agree, will be implemented for Statement of Accounts 2009-10.</p> <p>Head of Finance</p> <p>Statement of accounts production 2009-10</p>

	Priority	Issue and risk	Recommendation	Management response, responsible officer and implementation date
2	Low	<p>Uncashed cheques</p> <p>We recommended in our 2007-08 ISA260 report, that uncashed cheques older six months should be cancelled.</p> <p>At this year end a total of 85 cheques over six months old had not been cancelled, with a total value of £10,528.39. We understand the finance team were asked by the council tax department to delay cancelling these cheques whilst a reconciliation was performed.</p> <p>At the start of September, there were 28 cheques dated February and earlier, with a total value of £1,520.</p> <p>There is a risk that out of date cheques are cashed fraudulently.</p>	<p>The Council should continue to ensure that un-presented cheques are reviewed, and that all cheques older than six months are cancelled and reissued, as appropriate.</p>	<p>Agree, will continue with this.</p> <p>Head of Finance</p> <p>Ongoing</p>

	Priority	Issue and risk	Recommendation	Management response, responsible officer and implementation date
3	Medium	<p>Bad debt provision</p> <p>The Council has made good progress towards implementing our recommendation in 2007-08 in relation to the bad debt provision. However our review of the calculation for 2008-09 found that clear evidence to support historic collection rates for general debtors, housing benefit debtors and housing rents was not available.</p> <p>There is a risk that the calculation is not accurate and does not comply with the SORP.</p>	<p>The Council should ensure that supporting documentation is available to support the historic collection rates for general debtors, housing benefit debtors and housing rents.</p>	<p>Agree, need to contact managers concerned and ensure documented appropriately for 2009-10 statement of accounts.</p> <p>Head of Finance</p> <p>Statement of accounts production 2009-10</p>
4	Low	<p>Creditor misclassification</p> <p>Receipts in advance of £2,054,000 relating to housing rents, council tax and NNDR have been misclassified as creditors, rather than included with other receipts in advance.</p>	<p>The Council should ensure that it distinguishes between receipts in advance and creditors, and classifies both appropriately.</p>	<p>Agree, this been corrected in the 2008-09 accounts.</p> <p>Head of Finance</p>

	Priority	Issue and risk	Recommendation	Management response, responsible officer and implementation date
5	Medium	<p>Cash flow statement</p> <p>We identified a number of errors within the cash flow statement and related notes, where the figures prepared did not meet the requirements in the SORP or the relevant financial reporting standard.</p>	<p>The Council should ensure that figures disclosed in the cash flow statement and related notes are consistent with the requirements of the SORP and FRS1 on cash flow statements.</p>	<p>Agree, this will be implemented in the 2008-09 accounts.</p> <p>Head of Finance</p> <p>September 2009</p>
6	Medium	<p>Accounts disclosures</p> <p>Our audit work identified that the financial statements had a number of areas where the disclosure notes could be improved to ensure compliance with the SORP.</p>	<p>The Council could improve the disclosures in the accounts and compliance with the SORP by enhancing:</p> <ul style="list-style-type: none"> • government grants and contributions disclosure; • financial instrument disclosure; and • FRS17 disclosure. 	<p>Agree, we will work with external audit during 2009-10 to improve the presentation of accounts disclosures.</p> <p>Head of Finance</p> <p>Statement of accounts production 2009-10</p>

	Priority	Issue and risk	Recommendation	Management response, responsible officer and implementation date
7	High	<p>Members expenses</p> <p>Following the recent MP expenses scandal, the Council has not formally reviewed their members expenses policy, and considered whether it requires revision. Compliance with the Council's policy has been reviewed by Internal Audit in 2008-09, and the recommendations made have been implemented.</p> <p>There remains a risk that members are paid inappropriate expenses and that the Council may be exposed to negative media if the policy is not considered to be appropriate.</p>	<p>The Council should formally review their members expenses policy in light of the recent MP expenses scandal and consider whether it requires revision.</p>	<p>The Councillors' expenses are currently checked on receipt by a Democratic Services Officer who compares the submission against the Members' Scheme of Allowances, record of attendance at meetings etc and will refer claims back to Members where clarification is needed. Further changes to procedure will be made to comply with the recommendations of the Audit and Governance Committee as a result of the reviews carried out by internal and external audit. The Democratic Services Manager will be responsible for ensuring that these new procedures are introduced and for compliance immediately after the recommendations of the audit have been approved.</p> <p>Guidance is sought from the Audit & Governance Committee if they feel a review of the Policy is required.</p> <p>Democratic Services Manager</p>

	Priority	Issue and risk	Recommendation	Management response, responsible officer and implementation date
8	Medium	<p>Declarations of interest</p> <p>At the time of writing our report, two declarations of interest in relation to two members had not been received by the Council.</p> <p>There is a risk that there are member interests which are not reflected appropriately in the accounts.</p>	<p>The Council should ensure all declarations of interest are obtained before the draft accounts are presented to the Audit and Governance Committee in June each year.</p>	<p>Agree, implementation for 2009-10 Accounts.</p> <p>Head of Finance and Chair of the Audit & Governance Committee</p> <p>Statement of accounts production 2009-10</p>

C Reporting requirements of ISA 260

Introduction

Together with the Audit Commission's Code of Audit, this section sets out the basis on which we have undertaken your audit.

Purpose of memorandum

This report has been prepared for the benefit of discussion between Grant Thornton UK LLP (us/we) and the Audit and Governance Committee East Devon District Council (the Council). The purpose of this report is to highlight the key issues arising from the audit of the Council's financial statements for the year ending 31 March 2009.

The document is used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) (ISAUK) 260, and to report audit findings to "those charged with governance", designated as the Audit and Governance Committee.

The Council is responsible for the preparation of financial statements which records its financial position as at 31 March 2009 and its income and expenditure for the year then ended. We as auditors are responsible for undertaking an audit and reporting whether, in our opinion, the Council's financial statements represent a true and fair view of the financial position.

Under the Audit Commission's Code of Audit Practice ('the Code') we are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. To reach this conclusion we have carried out the Use of Resources assessment using criteria prescribed by the Audit Commission. This work also informs our Use of Resources opinion.

We would point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of the Council.

Responsibilities of the Council and auditors

The Council is responsible for the preparation of the financial statements and for making available to us all of the information and explanations we consider necessary. Therefore, it is essential that the Council confirm that our understanding of all the matters in this memorandum is appropriate, having regard to their knowledge of the particular circumstances.

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- the form of reports expected

This report is made solely to the Members of the Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission. To the fullest extent permitted by law, Grant Thornton UK LLP does not accept or assume responsibility to anyone other than the Council or its Members as a body, for its audit work, for this report, or for the opinions it has formed.

Clarification of roles and responsibilities with respect to internal controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the Audit and Governance Committee that it has done so.

The Audit and Governance Committee is required to review the Council's internal financial controls. In addition, the Audit and Governance Committee is required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk.

We have applied our audit approach to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you.

In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We would be pleased to discuss any further work in this regard with the Audit and Governance Committee.

Independence and robustness

We are independently appointed by the Audit Commission, and have been assessed as complying with its quality standards. In addition, ethical standards require us to give you full and fair disclosure of matters relating to our independence

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

In accordance with best practice, we analyse our fees below.

	£
Audit of accounts	62,500
Use of resources	39,400
Certification of grants and claims	26,000
All other services (Paid to the Audit Commission)	5,972



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