

# Annual Governance Report

Swale Borough Council

Audit 2008/09

16 September 2009

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## 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.
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Ladies and Gentlemen

**2008/09 Annual Governance Report**

I am pleased to present the final version of my report on the results of my audit work for 2008/09.

A draft of the report was discussed and agreed with the Interim Head of Finance on 10 September 2009.

The report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the revised financial statements;
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 5).

Yours faithfully

Andy Mack  
District Auditor  
16 September 2009

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# Key messages

**This report summarises the findings from the 2008/09 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.**

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## Audit opinion

- 1 The 2008/09 audit is substantially complete. Outstanding items at the time of writing are detailed in paragraph 5. Subject to satisfactory clearance of these matters, I plan to issue an unqualified opinion on the financial statements on 30 September 2009. Should any further matters arise in concluding the outstanding work that need to be reported, we will raise them with the Chairman of the Audit Committee.

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## Financial statements

- 2 The financial statements submitted for audit were complete and submitted in advance of the deadline of 30 June. The accounts contained one material accounting error and 15 non-trivial errors. With the exception of two non-trivial errors which are discussed below, these have subsequently been corrected in the accounts. As a result, senior finance officers have agreed that the revised accounts be re-approved by the Committee.
- 3 Last year we noted an improvement in arrangements for the production of your financial statements. This year however a combination of sickness absence and staff turnover within the finance team, together with the need to induct temporary staff unfamiliar with the Council, adversely impacted on the efficiency and quality of arrangements. In particular, the working papers provided were less clear and complete and as a result additional audit time was incurred. Furthermore, some key reconciliations had not been performed by the time of our audit visit. Senior officers show a strong commitment to improvement and are working hard to rebuild capacity within the finance team as soon as possible.

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## Use of resources

- 4 We propose issuing an unqualified value for money conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

# Next steps

**This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.**

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- 5** This report has been prepared for presentation to the Audit Committee on 30 September 2009. Members are invited to:
- consider the matters raised in the report before approving the revised financial statements;
  - take note of the adjustments to the financial statements which are set out in Appendix 2;
  - agree to adjust the errors in the financial statements I have identified which management has declined to amend or set out the reasons for not amending the errors (see Appendix 3 for details);
  - take note of the VFM Conclusion;
  - approve the draft letter of representation set out in Appendix 4 on behalf of the Council before I issue my opinion and conclusion; and
  - agree your response to the proposed action plan (see Appendix 5).

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# Financial statements

**The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.**

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## Opinion on the financial statements

- 6 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.
- 7 The key outstanding matters at the time of writing this report are:
  - detailed review and agreement of amendments to the financial statements;
  - receipt of a signed letter of representation; and
  - closing audit procedures, including a final review of any events after the balance sheet date.
- 8 I will report to you the outcome of the above matters at the Audit Committee meeting on 30 September 2009

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## Errors in the financial statements

- 9 The audit of the accounts seeks to ensure that the accounts are materially correct and present fairly a view of the financial transactions of the Council in 2008/09. Materiality is defined in auditing standards as 'information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement.'
- 10 Our materiality for the audit was set at £1.25 million for the Council's accounts. We also set, in accordance with International Standards on Auditing (UK and Ireland), a threshold below which we judge any errors to be 'trivial' and do not seek any amendments to the accounts. The trivial threshold was set at £12,500 for the Council's accounts.

### Adjustments to the financial statements

- 11 We are also required to bring to your attention misstatements that have already been corrected by management where we consider them relevant to your wider governance responsibilities. One material and 13 non-trivial misstatements have been corrected by management, details of which are recorded in Appendix 2.
- 12 The material error relates to reflecting the deferred repayment terms put in place with a number of NNDR ratepayers following new legislation coming into force. The Non-

## Financial statements

Domestic Rating (Collection and Enforcement) (Local Lists) (Amendment) (England) Regulations 2009 ('SI 204/2009') came into force on 9 March 2009. This meant that businesses facing certain backdated business rates bills issued before 31 March 2010 will, subject to meeting certain criteria, be able to pay their backdated liability in equal interest-free instalments up to eight years, rather than immediately. Under this new legislation, in April 2009 the Council granted deferred repayment terms to eight ratepayers in relation to liabilities of £6.7 million.

- 13** Our review of the Council's implementation of the new legislation identified that the liability included with the deferred repayment schemes granted was more generous than that specified by SI 204/2009. In total, some £0.9 million of liability has been included in excess of that defined by SI 204/2009 as 'backdated liability'. Whilst this issue does not impact on the Council's accounts for 2008/09, it does impact on the timing over which future payments should be made to the national NNDR pool. If the Council adheres to the schemes it has granted it could potentially incur unbudgeted financing costs over the eight years as the £0.9m will be immediately payable to the national NNDR pool.
- 14** The above issue also has significant implications for the annual 2008/09 NNDR return to the CLG which we are due to certify by 25 September 2009. We have raised this issue with officers, and they are currently in discussion with the CLG about the best way to manage the cash flow implications of the deferred repayment schemes.

### Recommendations

- R1** Review the way in which the new legislation regarding NNDR was implemented and seek to identify if there are any lessons to be learnt to ensure the Council is not exposed to business risks.
- R2** Ensure future levels of NNDR bad debt provisions are adequate and sufficient by closely monitoring associated ratepayers' adherence to Schedules of Payments and their underlying creditworthiness.

- 15** Two of the non-trivial errors relate to the level of bad debt provisions held in relation to NNDR and council tax arrears. In both instances we identified that the basis of provisioning had been relaxed compared with previous years and this had resulted in reductions in the level of both provisions. Given the likely impact of the economic downturn we considered this to be optimistic. Although management have agreed to increase the level of provisions in view of our findings, we would emphasise the importance of fully documenting the rationale and supporting evidence in relation to the basis upon which significant accounting estimates are derived. Such documentation should be updated on an annual basis as appropriate.

### Recommendation

- R3** Document the basis upon which significant accounting estimates are derived, including reasons for any alterations made each year.

### Unadjusted misstatements

- 16** We are required to report to you all unadjusted misstatements that we have identified during the course of our audit, other than those that are clearly trivial. There are two

unadjusted misstatements for us to bring to the attention of members. Details in relation to these misstatements are recorded in Appendix 3.

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**Material weaknesses in internal control**

- 17 We have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware. We have however identified some areas where improvement can be made and, as with previous years, these will be reported to management in our forthcoming Accounts Memorandum.
- 18 We have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made. We have reported only those matters which have come to our attention because of the audit procedures we have performed.

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**Letter of representation**

- 19 Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation I seek to obtain from you.

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**Key areas of judgement and audit risk**

- 20 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table 1.

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**Table 1      Key areas of judgement and audit risk**

Issue or risk	Finding
Issues or risks identified in our Audit and Inspection Plan dated April 2008	
Any new partnership/trust arrangements may not be fully considered for both financial and accounting implications.	No new material partnership/trust arrangements were identified, with MKIP proposals due to start to take effect from 2009/10 onwards.
Material contract costs may not be fully captured in the accounts.	We found that costs recognised in relation to the waste management/street cleansing, grounds maintenance and leisure contracts were fairly stated, subject to a non-trivial error (see item 8 (non-trivial) of Appendix 2 for more details).

## Financial statements

Issue or risk	Finding
Accounting treatment adopted in respect of any material asset disposals may not comply with recently revised accounting requirements.	We found that revised accounting requirements had been met in that assets were not revalued at the point of disposal.
In light of the projected maintenance backlog and the recent decision to defer refurbishment of Swale House, there is a risk that material fixed asset impairments may not be recognised.	A full impairment review was undertaken as at the year end, including Swale House – see below.
<b>Issues or risks identified subsequent to our Audit and Inspection Plan</b>	
General – changes in finance team personnel and increased reliance on external contractors.	As noted in paragraph 3, reduced capacity in the finance team had an adverse impact on closedown arrangements.
Impairments – likely material impairments in light of the economic climate in 2008/09 and the recent feasibility study in relation to Swale House.	All properties over £20,000 valued in 2006/07, 2007/08 and 2008/09 (as at 1 April 2008) as part of the five year rolling programme of revaluations (including Swale House) were revalued as at the year end date as part of an impairment review. Other properties were subject to further separate consideration by the Estates Surveyor. The revaluations undertaken were found to have been appropriately reflected in the financial statements.
Bad debt provisions – likely increase in bad debts in light of external economic climate.	As noted in paragraph 15, we found that the basis of the NNDR and council tax provisions had been relaxed contrary to our expectations.
Lack of segregation of duties – as in previous years, additional risks arise from the lack of segregation of duties in relation to debtors and Agresso system administration.	Our additional substantive testing in these areas did not identify any non-trivial or material errors.
Debtors – material backdated NNDR liabilities raised to business operating from the port of Sheerness.	Although increased rateable values had been correctly processed, it was noted that deferred payment schemes were granted in April 2009 in an apparent breach of SI 204/2009 (see paragraphs 12 and 13).

Issue or risk	Finding
Early retirements of a number of senior officers – risk of incorrect year end cut-off in relation to termination/pension payments and associated emoluments disclosures.	Accounting entries in relation to contributions payable to the KCC Pension Fund to fund the award of added years for early retirees were found to be in breach of pensions regulations – see item 3 (non-trivial) of Appendix 2 for more details. Senior officer emoluments disclosures were found to be fairly stated.

### Accounting practice and financial reporting

21 I consider the qualitative aspects of your financial reporting. Table 2 contains the issues I want to raise with you.

**Table 2**

Issue or risk	Finding
Additional disclosure requirements could make the accounts less user friendly for readers of the accounts and make meaningful analysis more difficult.	The approved accounts are long compared with other Kent districts. This was partly due to an increase in the font size due to equality standards but also due to some duplication and longer than average Explanatory Foreword, Annual Governance Statement and Glossaries. We appreciate that the Council's intention was to increase the readability of the accounts.
Quality and timeliness of supporting working papers.	There were a number of gaps in working papers provided to us at the start of the audit, especially relating to fixed assets and the reconciliation between the ledger and the accounts. It was also evident that most working papers had not been compiled as part of the closedown process, but rather as an additional exercise after the accounts were approved. The clarity of certain working papers was also adversely affected by the use of external contractors. Furthermore, the housing benefit subsidy claim and NNDR3 return had not been reconciled to the ledger at the time of our audit visit.
In previous years our work has found significant governance issues have been omitted from the Annual Governance Statement approved by members in June.	Our work this year has not found any omitted significant governance issues, which indicates a more robust annual review of the effectiveness of the governance framework took place.

<b>Recommendations</b>	
<b>R4</b>	Consult stakeholders as to the merit in providing additional accounts disclosures as opposed to more succinct accounts.
<b>R5</b>	Ensure more timely preparation of working papers as part of the closedown process and ensure they are complete by the start of the audit visit.
<b>R6</b>	Allocate all balance sheet codes to named officers and ensure fully reconciled as part of the closedown process.

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# Use of resources

I am 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.

I am 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.

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## Use of resources judgements

- 22** In arriving at our use of resources judgement we have used the methodology set out in the Audit Commission's [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 1 to 4, with 4 being the highest. I have 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.
- 23** We shared initial feedback from our work on use of resources with senior officers on 12 August 2009. We will advise you of final scores once the Audit Commission's national quality assurance process has been completed on 14 September. We can confirm however that the Council continues to have sound arrangements in place in all the areas we assessed.

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## Value for money conclusion

- 24** We assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission, taking into account the results of our work in assessing your use of resources.
- 25** We intend to issue an unqualified conclusion stating that in 2008/09 the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of our draft report.

# Independence

- 26** The Code of Audit Practice and the APB's Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.
- 27** We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 28** We communicate to you:
- any relationships between us and the Council, and its senior management that might affect our objectivity and independence and any safeguards put in place;
  - total fees charged to you for audit and non-audit services; and
  - that we have arrangements in place to ensure independence and objectivity.
- 29** We have not identified any relationships that might affect our objectivity and independence.

## Audit fees

- 30** We reported our fee proposals as part of the Audit and Inspection Plan for 2008/09 dated April 2008. The table below reports the outturn fee against that plan.

**Table 3      Audit fees**

	<b>Plan 2008/09 £ (before VAT)</b>	<b>Actual 2008/09 £ (before VAT)</b>
Financial statements and Annual Governance Statement	91,738	96,238
Use of resources	24,093	24,093
Data quality	10,561	10,561
Whole of government accounts	1,587	1,587
<b>Total audit fees</b>	<b>127,979</b>	<b>132,479</b>
<b>Advice and assistance</b>	15,000	-
<b>Total</b>	<b>142,979</b>	<b>132,479</b>

- 31** The actual audit fee for the year is £4,500 higher than our original planned fee. This relates to the additional audit time required to resolve queries arising from the audit, particularly in respect of incomplete working papers and issues requiring adjustment to the accounts.

- 32 The planned advice and assistance work in relation to use of resources improvement planning was not undertaken due to the subsequent change in the use of resources framework compared with the previous year.

# Appendix 1 – Draft auditor’s report

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## Independent auditor’s report to the Members of Swale Borough Council

### Opinion on the financial statements

I have audited the Authority accounting statements and related notes of Swale Borough Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Swale Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

#### **Respective responsibilities of the Head of Finance and auditor**

The Head of Finance’s responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I

become aware of any apparent misstatements or material inconsistencies with the accounting statements. My responsibilities do not extend to any other information.

### **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

### **Opinion**

In my opinion the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

## **Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Authority’s Responsibilities**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

### **Auditor’s Responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

## Appendix 1 – Draft auditor’s report

### Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, I am satisfied that, in all significant respects, Swale Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2009.

### Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

To be signed by....

*Andy Mack*  
*District Auditor*  
*Audit Commission, 16 South Park, Sevenoaks, Kent TN13 1AN*  
*[ ] September 2009*

# Appendix 2 – Adjusted amendments to the accounts

The following misstatements were identified during the course of my audit and the financial statements have been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities.

**Table 4**

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
<b>Material</b>					
1. The ageing of NNDR arrears and amounts payable to the NNDR national pool do not reflect the deferral arrangements put in place (subject to meeting certain criteria) with a number of ratepayers following new legislation coming into force.	Reflect the new Schedules of Payments agreed by the Council with ratepayers in the ageing of relevant accounts balances.	-	-	5,887 (NNDR arrears >1 year)	5,887 (NNDR arrears <1 year)
				5,887 (Amounts payable to pool <1 year)	5,887 (Amounts payable to pool >1 year)

## Appendix 2 – Adjusted amendments to the accounts

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
<b>Non-trivial</b>					
1. The basis of the NNDR provision has been relaxed compared with last year at a time when recoveries have been deteriorating due to the economic downturn. Additionally, up to date credit ratings on ratepayers were not utilised in all instances.	Increase the level of bad debt provision so that it is broadly consistent with the basis applied last year and also takes into account latest intelligence on creditworthiness.	1,150 (NNDR income - Collection Fund) #	1,150 (Payment to National NNDR pool – Collection Fund) #	1,150 (Amounts payable to pool <1 year)	1,150 (Provision for bad debts)
2. Accounting entries in relation to the funding of housing repair loans using the Regional Housing Board grant are not considered to be SORP compliant.	Revise accounting entries for the past two years in line with clarified SORP requirements.	822 (Other income) #	822 (Stmt of Movement in General Fund Balance) #	822 (Capital Adjustment Account)	822 (Govt Grants Deferred Account)
3. Contributions to KCC Pension Fund to fund the award of added years to early retirees in late 2008/09 have been accrued for. However, as these were not paid to the Fund until 2009/10 under pension regulations this is when the payments should be reflected in the accounts.	Remove accrual from 2008/09 accounts, with the contributions made in 2009/10 to be recognised in the 2009/10 accounts.	-	558 (Stmt of Movement in General Fund Balance)	558 (Pensions reserve) 558 (Sundry creditors)	558 (Pensions liabilities)

## Appendix 2 – Adjusted amendments to the accounts

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
4. Various civic regalia previously omitted from the accounts have been included within fixed assets at insurance value whereas under SORP they should be included as community assets at depreciated historical cost (which in this case is unknown and therefore nominal value only should be used).	Transfer the assets from Plant & Equipment to Community assets and write down to nominal value.	-	-	204 (Revaluation reserve)	204 (Tangible fixed assets)
5. Council tax and NNDR cash posting accounts (reflecting cash received but not yet posted to personal accounts) have been included within Sundry creditors rather than offset against Council and NNDR arrears.	Amend analysis between debtors and creditors.	-	-	139 (Sundry creditors)	139 (Gross debtors – Taxpayers Accounts)
6. Council tax bad debt provision inconsistent with the current economic downturn and an overall increase in arrears.	Increase the level of bad debt provision so that it is broadly consistent with the basis applied last year.	90 (Collection Fund only) #	-	-	90 (Provision for bad debts)

## Appendix 2 – Adjusted amendments to the accounts

Adjusted misstatements	Nature of Adjustment	Income and Expenditure Account		Balance Sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
7. Historical differences of £87k between the fixed asset register and the accounts have been entirely written off to a single impairment account rather than each separate account concerned.	Allocate the write off of historical differences to each of the respective services.	87 (Net Cost of Services – various headings) #	87 (Net Cost of Services - Recreation and Sport) #	-	-
8. Utility costs due under the leisure contract for the period October 2008 to March 2009 have not been accrued for.	Accrue for costs based on invoices received up to September 2008.	57 (Net Cost of Services)	-	-	57 (Sundry creditors)
9. s106 commuted sum received in June 2009 not accrued for even though due in February 2009.	Accrue for the s106 receipt in the accounts	-	-	23 (Sundry debtors)	23 (Deferred s106 receipts)
10. Repayments received in relation to housing repair loans have not been reflected in the Capital Financing Requirement via a recycling of the receipts back into available capital resources.	Revise accounting entries in line with SORP requirements.	-	-	19 (Govt Grants Deferred Account)	19 (Unapplied Govt Grants)
11. Audit adjustment to the 07/08 housing benefit subsidy claim was not posted to the ledger during 08/09.	Reflect impact of the 07/08 audit adjustment in the accounts.	18 (Net Cost of Services)	-	-	18 (Debtors - Govt Grants)

## Appendix 2 – Adjusted amendments to the accounts

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
12. Error identified in the posting to the general ledger of that element of NNDR discretionary rate relief chargeable to the Council.	Revise accounting entries to be consistent with the NNDR3 annual return.	8 (NNDR discretionary rate relief – Collection Fund) #	17 (NNDR income – Collection Fund) #	9 (NNDR arrears <1 year)	-
13. Fixed asset additions found to be understated as costs meeting capitalisation criteria were written off to revenue.	Reflect the impact of the error identified, and fund the expenditure from revenue	-	14 (Net Cost of Services) #	14 (Tangible fixed assets) #	-

# = no impact on General Fund balance

# Appendix 3 – Unadjusted misstatements in the accounts

The following misstatements were identified during the course of my audit and the financial statements have not been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities. If you decide not to do so, please tell us why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

**Table 5**

Description of error	Accounts effected	Value of error (£000s)
1. The change in accounting policy to value pension assets at bid price rather than mid price has been reflected in opening pensions reserve by way of a prior year adjustment. As the amount is immaterial it should be accounted for as a current year item under CIPFA guidance.	Comparatives for both pensions liabilities and pensions reserve are overstated – no impact on General Fund.	180
2. Longstanding unreconciled amount held on the NNDR refunds posting account.	Debit balance would be written off –impacts on General Fund unless amount can be justified for inclusion in the NNDR3 annual return.	22

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# Appendix 4 – Draft letter of representation

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Andy Mack  
District Auditor  
Audit Commission  
16 South Park  
Sevenoaks  
Kent TN13 1AN

Dear Andy,

## **Swale Borough Council - Audit for the year ended 31 March 2009**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other senior officers of Swale Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2009.

### **Compliance with the statutory authorities**

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which presents fairly the financial position and financial performance of the Council and for making accurate representations to you.

### **Uncorrected misstatements**

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. The misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting the items are as follows;

- reason 1 etc;
- reason 2

### **Supporting records**

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all committee meetings, have been made available to you.

### **Irregularities**

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

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

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

### **Law, regulations, contractual arrangements and codes of practice**

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

### **Assets**

Where applicable, the following have been properly recorded and when appropriate adequately disclosed in the financial statements:

- losses arising from sale and purchase commitments;
- agreements and options to buy back assets previously sold; and
- assets pledged as collateral.

### **Fair values**

I confirm the reasonableness of the significant assumptions within the financial statements, including:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;

- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require adjustment to the fair value measurement

### **Compensating arrangements**

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

### **Contingent liabilities**

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and,
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

### **Related party transactions**

I confirm the completeness of the information provided regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

### **Post balance sheet events**

Since the date of approval of the financial statements by members of the Council, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

### **Specific representations**

- The Council has carried out a risk assessment following an Equal Pay Audit and further legal advice. The current position is that the liability relating to equal pay is viewed as not significant, but that this will be kept under review as the new pay and reward strategy is implemented.
- There are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements.

## Appendix 4 – Draft letter of representation

Signed on behalf of Swale Borough Council

I confirm that this letter has been discussed and agreed by the Audit Committee on 30 September 2009.

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Name Eric Fisher

Position Interim Head of Finance

Date .....

# Appendix 5 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Annual Governance Report 2008/09 - Recommendations</b>						
7	Review the way in which the new legislation regarding NNDR was implemented and seek to identify if there are any lessons to be learnt to ensure the Council is not exposed to business risks.	3	Revenues Manager, Chief Accountant,	Yes	The Council is holding a “lessons learnt” meeting on the 2008/09 accounts which will include Finance and other relevant departments. This will include a review of the implementation of the relevant NNDR legislation.	Sept 2009
7	Ensure future levels of NNDR bad debt provisions are adequate and sufficient by closely monitoring associated ratepayers’ adherence to Schedules of Payments and their underlying creditworthiness.	2	Chief Accountant	Yes	Bad debt will be agreed between Finance and the relevant service departments.	Apr 2010
7	Document the basis upon which significant accounting estimates are derived, including reasons for any alterations made each year.	2	Chief Accountant	Yes	Bad debt will be agreed between Finance and the relevant service departments.	Apr 2010

## Appendix 5 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
10	Consult stakeholders as to the merit in providing additional accounts disclosures as opposed to more succinct accounts.	1	Chief Accountant	Yes	There is an online survey for the Summary of Accounts available currently and this will be amended to reflect the Statement of accounts.	Dec 2009
10	Ensure more timely preparation of working papers as part of the closedown process and ensure they are complete by the start of the audit visit.	2	Chief accountant	Yes	The 2007/08 audit was complimentary on the Council's working paper and we will arrange resources to achieve this standard again.	Jul 2009
10	Allocate all balance sheet codes to named officers and ensure fully reconciled as part of the closedown process.	2	Chief Accountant	Yes	This will be implemented as part of a regular monitoring process during the year.	Oct 2009

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# The Audit Commission

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Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

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