

AGENDA ITEM: 8 Page nos. 76 – 100

Meeting	Cabinet Resources Committee
Date	25 November 2004
Subject	External Auditor's Report on the 2003/4 Accounts Audit
Report of	Cabinet Member for Resources
Summary	To consider the detailed reports from the external auditor on matters arising from the audit of the 2003/4 accounts.

Officer Contributors	Borough Treasurer
Status (public or exempt)	Public
Wards affected	None
Enclosures	SAS610 reports for (1) the main accounts and (2) Pension Fund accounts
For decision by	Cabinet Resources Committee
Function of	Executive
Reason for urgency / exemption from call-in (if appropriate)	Not Applicable

Contact for further information: Clive Medlam, Tel: 020 8359 7110

1 RECOMMENDATIONS

- 1.1 That matters raised by the external auditor relating to detailed aspects of the 2003/4 accounts audit be noted.**
- 1.2 That the management response to matters raised by the external auditor be noted and the Committee agrees the adjustments not processed by management as set out in Appendix C to the SAS610 report on the main accounts.**

2. RELEVANT PREVIOUS DECISIONS

- 2.1 Cabinet Resources Committee 19 February 2004.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 Review of reports made under the Statement of Accounting Standard (SAS) 610 are an integral part of corporate governance.

4. RISK MANAGEMENT ISSUES

- 4.1 Whilst this report deals with the 2003/04 accounts it is important to advise Members of the requirement to bring forward the closing of accounts timetable in future years. The 2004/05 accounts will need to be close and committee approval to the Statement of Accounts will need to be obtained by 31 July 2005. The timetable for the 2005/06 accounts has to be brought forward a further month.

5. FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS

- 5.1 None.

6. COMMENTS, IF ANY, OF THE COUNCIL'S STATUTORY OFFICERS (Head of Paid Service, Chief Finance Officer, Monitoring Officer)

- 6.1 None.

7. BACKGROUND INFORMATION

- 7.1 In accordance with Statement of Accounting Standard (SAS) 610, the External Auditor is required to issue detailed reports on matters arising from the audit of the council accounts and pension fund accounts.
- 7.2 The two "SAS610" reports have to be considered by "those charged with governance" before the External Auditor can sign the accounts, which has to be done before 30 November.
- 7.3 The reports for the main accounts and pension fund accounts are attached. They contain the matters raised by the auditor, his recommendations on the issues, and the management response. Any further update on these items will be given verbally at the meeting.
- 7.4 The following points in the reports are worth highlighting:-

- (i) that the external auditor (Robson Rhodes) expects to issue an unqualified opinion on the accounts and Pension Fund accounts for 2003/4;
- (ii) that in respect to the Section 11 Notice, an update on the external auditor's review of the council's financial standing will be made in the Annual Audit Letter for 2003/04, which is likely to be received in December 2004;
- (iii) no questions or objections to the 2003/04 accounts have been received from the public;
- (iv) Management have considered the accounting adjustments set out in Appendix C to the SAS610 and recommend that they are not processed in 2003/04. Full disclosure regarding the insurance provision has been included in the Accounting Policies and the £84,000 creditor is considered immaterial.

8. LIST OF BACKGROUND PAPERS

8.1 None.

MO: (JEL)

BT: (CM)

Updated SAS 610 report on 2003/04 Financial Statements

Briefing from Robson Rhodes

Background

This paper represents a commentary on the updated SAS 610 report on the main financial statements. We issued a first draft of this report to the Council on 11 November 2004 with an update on 19 November 2004, following the resolution of key issues. The deadline for the signing of audited accounts is 30 November 2004. The 2002/03 accounts were not signed on 20 February 2004. The two main issues to draw to Members attention are summarised below.

Insurance provision (£3.5m)

Following further work by the Council and ourselves we have satisfied ourselves that the Council's exposure on its insurance provision is a maximum of £3.5m. Having agreed on this figure we have documented in our report both the risk exposure the Council faces should this liability crystallise (£1.7m is not reflected in the accounts) in full and draw attention to the note to the accounts where the Council clearly states the action being taken in 2004/05 to reduce its financial exposure in respect of insurance provisions.

Barnet PCT debtor (£2.3m)

Since we issued our first report we have completed further work with the Council as to the collectibility of this debtor. We are now satisfied that the debtor has been overstated by only £70,000 and have reflected that as a non-adjusting item in our report.

Note from Borough Treasurer

The briefing from Robson Rhodes refers to a note on the insurance provision that I have included in the 2003/04 accounts. This note is set out below:-

The insurance provision is for liabilities that have occurred but the timing of the payment is dependent upon the claim settlement process. This is to meet in the year insurance claim payments which fall within the excess and aggregate limits of external insurance cover. The provision should receive input to meet 100% of its ultimate liabilities and Barnet will phase this in over future years. The authority is currently undertaking an actuarial evaluation of this liability to accurately assess the financial requirement.

Apart from bad debts, the most significant provision in the accounts is for insurance, which amounted to £1.8m as at 31 March 2004. Internal insurance premiums are charged to services each year in respect to the cost of claims settled. In most years, these charges to services have more than covered claims that have been settled. Based on the payment history of recent years, the annual charges to services are sufficient to cover a typical

year's insurance settlements, so the accumulated provision is available to meet a shortfall in any one year.

It is accepted, however, that in order to fully comply with the Local Authority Accounting Code of Practice the provision should be increased to a level that matches the anticipated settlement value of all outstanding claims. To this end, an increase of £0.5m in the insurance provision was included in the 2004.05 budget (as reported to Cabinet and Council earlier this year), and the Financial Forward Plan includes further increases in the provision.

Other work has been undertaken to identify the appropriate value of the insurance provision, as follows:-

- actuaries have been engaged to advise on the future potential liability of outstanding claims;
- a review of all outstanding claims is being undertaken, to assess the probability of outstanding claims resulting in an eventual payment and to close down 'dead' cases where there has been no movement or correspondence on a claim for a considerable period. This work will bring us more into line with commercial insurance practices;

This activity has already had an impact, with outstanding Public Liability claims being reduced by one-third and the number of tree roots claims on file being reduced from 1,600 at the beginning of September 2004 to just 299 by the end of October.

There is also the programme of insurance risk management that has been ongoing with services for some time, which continues to help reduce claims being made against the council.

Clive Medlam
Borough Treasurer

London Borough of Barnet Pension Fund

Audit of Accounts 2003-04

Report under Statement of Auditing Standards (SAS) 610

November 2004

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1 Introduction

Background

- 1.1 The Council is responsible for the preparation of the financial statements for the Pension Fund that present fairly its financial position as at 31 March 2004 and its income and expenditure in the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Council's financial statements for the Pension Fund present fairly its financial position and income and expenditure.
- 1.2 This is the second year of our reporting under *Statement of Auditing Standards 610 – Reporting to those charged with governance* (“SAS 610”) which requires us as the Council's external auditors to report to those charged with governance certain matters before giving an opinion on the financial statements.
- 1.3 This report summarises the principal matters arising from our final accounts audit. The issues raised have been discussed with the Head of Finance and her staff and action agreed for accounts preparation in future years.

Reporting under SAS610

- 1.4 We agreed with the Council that the communications required under SAS610 would be discharged through a report to a Special Cabinet Resources Committee on 25 November 2004.

Status of audit

- 1.5 We were presented with a draft of the Pension Fund accounts on 13 August 2004. The Pension Fund accounts were approved by the General Functions Committee on 26 August 2004.
- 1.6 We have received no questions or objections from the public in relation to the Pension Fund accounts.
- 1.7 We have performed our final accounts audit in accordance with the Audit Commission's Code of Audit Practice and applicable auditing standards. Our approach follows that set out in our audit plan discussed with the Council.

Matters outstanding

- 1.8 We have still to complete audit finalisation procedures which will include:

- a review of the final version of the statement of accounts
- receipt of an appropriate Letter of Representation
- assurance from the auditor of the London Pension Fund Authority about the material accuracy of the figures disclosed in the accounts under FSR17 in respect of pension costs, assets and liabilities
- updating our Post Balance Sheet Events reviews to the date of signing the accounts.

Auditor independence

- 1.9 We confirm that we are not aware of any threats to our independence or objectivity. We have not undertaken any extra fee work which is outside our responsibilities under the Code of Audit Practice during the 2003-04 year.

Use of this report

- 1.10 This report has been prepared solely for the use of London Borough of Barnet to discharge our responsibilities under SAS610 and should not be used for any other purpose or copied to third parties without our consent.

Acknowledgements

- 1.11 We should like to record our appreciation for the co-operation and assistance provided to us by staff in the Borough Treasurers section including those in Pensions, Treasury Management and Internal Audit during the course of our audit.

2 Executive Summary

Introduction

- 2.1 We summarise in this section our observations on the Council's overall financial standing, and those matters which we are required to report under SAS610.

Overall financial results

- 2.2 The Pension Fund has reported a surplus of £3.615m (2003: £1.824m) in its 2003-04 accounts. The increase in surplus is mainly due to an increase in contributions receivable in line with the rates recommended in the actuarial valuations in March 2001. The increase was required due to the Fund being only 84% funded in March 2001.
- 2.3 The actuaries have undertaken another triennial review at 31 March 2004. Based on an early draft report, it is estimated that employer contributions may have to increase significantly for the fund to make significant inroads on the current overall Pension Fund deficit. As at 31 March 2004, the deficit between assets and liabilities as measured under FRS17 stands at £192.210m (2003: £192.130m). We will update our comment in this area and the impact on the Council's overall financial position as part of our 2003-04 Annual Audit Letter.

Key issues under SAS610

- 2.4 Under SAS610, we are required to communicate to those charged with governance matters which have come to our attention as a result of our audit work, covering:
- (a) Any expected modification to the audit opinion on the financial statements
 - (b) Unadjusted misstatements
 - (c) Material weaknesses in the accounting systems and internal control systems
 - (d) Views about the qualitative aspects of the Council's accounting practices and financial reporting
 - (e) Matters specifically required by other auditing standards to be communicated such as fraud and error, and any other material matters relating to the audit.
- 2.5 We summarise our key audit findings in relation to the above areas in Exhibit 1 below:

Exhibit One: Key audit findings

Ref	Area	Key messages
A	Audit opinion on the financial statements	<p>Subject to our usual audit finalisation steps outlined below, we expect to issue an unqualified audit opinion on the Council's accounts:</p> <ul style="list-style-type: none"> • a review of the final version of the statement of accounts • obtaining a letter of representation from the Borough

		<p>Treasurer</p> <ul style="list-style-type: none"> obtaining assurance from the auditor of the London Pension Fund Authority about the material accuracy of the figures disclosed in the accounts under FSR17 in respect of pension costs, assets and liabilities updating our post balance sheet events review to the date of signing the accounts.
B	Audit adjustments and any unadjusted misstatements	<p>We have agreed with management a number of adjustments to the accounts primarily to improve the fair presentation of the financial statements as well as the clarity and presentation of disclosure notes. These are summarised in Appendix B.</p> <p>There are no unadjusted misstatements, as confirmed in Appendix C.</p>
C	Material weaknesses in the accounting systems and internal control systems	<p>We consider that there are no significant issues in this category to bring to your attention.</p>
D	Qualitative aspects of the Council's accounting practices and financial reporting	<p>We consider that the Council has adopted appropriate accounting policies in the areas covered by our testing.</p>
E	Any other matters	<p>We consider that there are no issues in this category to bring to your attention.</p>

2.6 We have discussed these and other matters arising with the staff in Borough Treasurers and have reflected their responses to the matters raised in the Action Plan attached at Appendix A.

Next steps

2.7 We will continue to work with the staff in Borough Treasurers to ensure that outstanding finalisation issues are completed in time for the accounts to be formally signed in accordance with the statutory deadline of 30 November 2004.

RSM Robson Rhodes LLP
November 2004

Appendix A – Action Plan

Finding	Action required for 2003-04 Accounts	Other system improvement required	Management response
Tax recoverable on property unit trust income relating to the 2003/04 accounts, has not been accounted for in the Pension Fund accounts.	Adjustment raised in Appendix B below.	Undertake account pre-finalisation checks eg analytical review to ensure all items are materially accounted for.	Noted and agreed to action.
Lump sum payments in respect of retirements and death where the event that triggered the commitment to pay happened in 2003/04, but the payment was made in 2004/05 were not included within the 2003/04 accounts.	Adjustment raised in Appendix B below.	As a check on the completeness of accruals the Pensions department should be asked to provide details of retirements in March, where paid after the year-end, as well as details of death benefits where the death certificate has been received, but the lump sum payment has not been made until after the year-end.	Noted and agreed to action.
Prior year accruals for lump sum payments that have been processed in the 2002/03 accounts have been incorrectly reversed into 'the unrealised gains on investments'. This error is partly attributable to the latter item being calculated as a balancing figure in the Pension Fund accounts.	Adjustment raised in Appendix B below.	We recommend that the Council carry out in future a full calculation for 'unrealised gains on investments' in accordance with the formula set out in the Pension Fund SORP for local government.	Amendment noted and agreed.

Finding	Action required for 2003-04 Accounts	Other system improvement required	Management response
<p>The results of the March 2004 triennial pension fund valuation, where they are likely to significantly impact on the future performance of the Pension Fund (or LBB), should be disclosed as a post balance sheet event.</p> <p>An early draft report from actuaries indicates that contributions may have to increase significantly over the next decade to make significant inroads into the Pension Fund deficit which may have a significant impact on the revenue accounts of LBB.</p>	<p>We recommend that the Council discloses in the PBSE note for Pension Fund, the results of the valuation.</p> <p>If the figures not available or appropriate to disclose, the Council should include a note that reflects further significant increase in employer contributions.</p>	<p>None.</p>	<p>Noted and agreed.</p>

Appendix B Accounts adjustments agreed

Finding	Summary of adjustment agreed
Adjustments affecting results reported in the Net Assets Statement (NAS) and Fund Account (FA)	
The accrual for recoverable tax on income from property unit trusts in 2003/04 was incorrectly omitted from the 2003/04 Pension Fund accounts.	Dr Tax Debtor 305,000 Cr Tax account – Fund account 305,000
Lump sum payments in respect of retirements and death where the event that triggered the commitment to pay happened in 2003/04, but the payment was made in 2004/05. This adjustment is to process this transaction on an accruals basis.	Dr Lump sum retirement benefits 99,000 Dr Lump sum death benefits 10,000 Cr Sundry creditors 109,000
Prior year accruals for lump sum payments that have been processed in the 2002/03 accounts had been reversed into the unrealised gains on investments. This adjustment corrects this reversal of prior year lump sum benefit accruals.	Dr Unrealised gains on investments 167,000 Cr Lump sum retirement benefits 133,000 Cr Lump sum death benefits 34,000
Misclassification adjustments	
There are none in this category.	
Disclosure adjustments	Various disclosure adjustments agreed to improve clarity and presentation of the accounts, which do not affect the reported financial position.

Appendix C – Summary of accounts adjustments not processed by management

Finding	Impact
There are none in this category.	

London Borough of Barnet

Cabinet Resources Committee Meeting 25 November 2004

Agenda Item 8: External Auditor's report on the 2003/4 Accounts Audit

The external auditor has updated his report as attached to take account of further work done as part of the audit of the accounts.

Also attached is a note with briefings from Robson Rhodes and the Borough Treasurer.

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