

Southwark Council

SAS 610 report

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Reference:	SAS6101
Date:	October 2004

Introduction

Statement of Auditing Standard (SAS) 610 requires auditors to report certain matters arising from the audit of the financial statements to 'those charged with governance':

- expected modifications to the audit report;
- unadjusted non-trifling misstatements;
- material weaknesses in accounting and internal control systems;
- qualitative aspects of accounting practice and financial reporting;
- matters required by other auditing standards to be reported to those charged with governance;
- any other relevant matters relating to the audit.

We agreed with the Council that the communications required by SAS610 in advance of issuing our report on the annual financial statements would be with full Council on 20 October 2004. This report sets out for the Council's consideration the matters arising from the audit of the financial statements for 2003/04 that require reporting under SAS610.

Status of the audit

Our work on the financial statements is now substantially complete. We anticipate being able to issue an unqualified opinion by 30th November 2004.

Matters to be reported to those charged with governance

We have the following matters to draw to the Council's attention:

- **Material weaknesses in accounting and internal control systems**

Our audit identified the following weaknesses in systems of accounting and financial control which we should report to you:

- The Council is required to keep a register of all fixed assets. This register should record the value of the assets belonging to the Council and should therefore provide the underlying data for the fixed assets in the balance sheet. However, the internal controls on this asset register were found to be inadequate as there are a number of different asset registers in operation in the Council, and the information on these registers has not been harmonised. We are therefore unable to ascertain the total value of Council assets that are not recorded on the central asset register and thus not included in the balance sheet.

The Council is undertaking an exercise to harmonise the different asset registers. The first stage of this is a matching exercise between the asset register held by Property and the central register held by Financial Management Services (FMS). Initial results indicate no material reconciliation differences. However, assets with a value of £1.3m have been identified on the asset register that have been sold and will therefore be written off in 2004/05. In addition, assets have been identified that are on the register at a nominal value but have been brought back into use in 2004/05. These assets will be revalued during 2004/05 annual revaluation exercise.

As a result of the above harmonisation weakness, the 2003/04 accounts include a 'restatement' of £3.363m to fixed assets in Note 1 to the balance sheet. This represents assets which were disposed of during 2003/04 but which were not recorded on the central asset register operated by FMS.

In addition, due to late notification to FMS by the Property department, fixed assets with a book value of £0.3m that were disposed of in 2003/04 have not been removed from the balance sheet. The Council intends to remove these assets in 2004/05.

The procedure adopted by the Council for the valuation of council dwellings has not followed Government guidance. This means that the value in the draft accounts of £4.7bn was overstated. The Council commissioned a review of the council dwelling valuation by Ernst & Young and FPD Savills which arrived at a revised valuation of £2.8bn. The accounts have been amended for this amount.

▪ **Qualitative aspects of accounting practice and financial reporting**

Once again the Council has ensured that its accounts are fully compliant with the Statement of Recommended Practice (SORP). Officers have produced a set of accounts that fully incorporate the new requirements of the 2003 SORP and we would like to acknowledge their effort in producing a best practice set of accounts.

▪ **Other matters**

We wish to report the following matters to you:

- In January 2004 Internal Audit reported on a weakness in the control over the processing of journals in the main accounting system. Not all journals were being authorised by appropriate officers. During August 2004 this issue was followed up during our audit and at that time no action had yet been taken to remedy the weakness. The Council intends to have an appropriate procedure in place by January 2005.
- The Property department annually values approximately 20% of non-HRA Council assets (in 2003/04 this consisted of approximately 130 assets). The results from this valuation exercise are input onto the fixed asset register by the capital team in FMS. However, during the audit, testing of the correct transfer of information from the valuer's report onto the asset register found an error rate of 20%. Whilst these errors do not materially affect the value of assets in the balance sheet, there is a small change in capital charges that has been amended for.
- In 2002/03 we reported on four dormant trust funds. An action plan was put in place to close these dormant funds during 2003/04. However, three funds have yet to be closed. The Council is liaising with the appropriate trustees so that action can be taken in 2004/05. In addition, from this year's work we have identified a further two dormant funds that should be considered for closure in 2004/05.
- During the latter half of 2003/04 the Council upgraded its integrated housing computer system (HIS) to a more advanced version (IWORLD). Subsequently, it was found that the electronic interface between IWORLD and the main accounting system (SAP) was not operating correctly in respect of housing rents. A manual adjustment was therefore required at year-end to ensure the information in SAP matched IWORLD. The variance at 31/03/04 was £623k against a transaction total of £160m, which was not material. Management recognised the problem and suspended the electronic interface in July 2004, to allow detailed investigation to be undertaken. The Council is currently taking corrective action and anticipates the interface being fully functional in the first quarter of 2005.
- The Council includes the Pensions fund cash balance within its main bank account. It is best practice to have a separate bank account for pension transactions as this will ensure all pension transactions are easily identifiable and the Council has now

opened a dedicated account. It is currently looking to establish appropriate processes to make the account operational.

- The balance sheet debtor includes an amount for NNDR debtors. The Council has been unable to reconcile the NNDR debtor as per the main accounting system to the debtor as per the NNDR system (BRATES). Whilst not materially incorrect, this highlights a weakness in the reconciliation process for NNDR which management have acknowledged and are intending to address by January 2005.

Next steps

There are no material misstatements that have not been adjusted for in the financial statements. We would like to take this opportunity to thank the finance team for their hard work during the audit and for responding to audit queries in a timely manner.

Status of our reports to the Council

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

Draft auditor's report

Draft Independent Auditor's Report to Southwark Council

I have audited the statement of accounts on pages 2 to 51 which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages 10 to 12 and the Pension Fund accounts on pages 52 to 55, which have been prepared in accordance with the accounting policies applicable to pension funds set out on pages 53 to 54.

This report is made solely to Southwark Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

Respective Responsibilities of the Chief Financial Officer and Auditor/Auditors

As described on page 2 the Chief Financial Officer is responsible for the preparation of the statement of accounts in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2003. My responsibilities, as independent auditor, are established by statute, the Code of Audit Practice issued by the Audit Commission and my profession's ethical guidance.

I report to you my opinion as to whether the statement of accounts present fairly:

- the financial position of the Council and its income and expenditure for the year,
- the financial transactions of its Pension Fund during the year and the amount and disposition of the Fund's assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

I review whether the statement on internal control on pages 3 to 6 reflects compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA 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 statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures. My review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

I read the other information published with the statement of accounts and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the council'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 statement of accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion, I evaluated the overall adequacy of the presentation of the information in the financial statements.

Opinion

In my opinion the statement of accounts present fairly the financial position of Southwark Council as at 31 March 2004 and its income and expenditure for the year then ended.

Opinion on the pension fund accounts

In my opinion the financial statements present fairly the financial transactions of Southwark Council Pension Fund during the year ended 31 March 2004, and the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

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.