

# Annual Audit Letter

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**Great Yarmouth Borough Council**

**Audit 2009/10**

**The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.**

**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.**

**As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.**



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# Key messages

**This report summarises my findings from the 2009/10 audit. Our audit comprised:**

- **the audit of your financial statements (pages 5 to 6); and**
- **our assessment of your arrangements to achieve value for money in your use of resources (pages 7 to 10).**

**I have included only significant recommendations in this report. The Council has accepted these recommendations.**

## **Audit opinion and financial statements**

**1** The Council is required to prepare and approve its financial statements by the 30 June. The Council met that deadline. The financial statements were complete and supported by satisfactory working papers. This enabled me to complete my audit by the 30 September deadline.

**2** My audit identified two material errors in the financial statements presented for audit. Management chose to adjust for these errors and several other non-trivial errors.

**3** We gave an unqualified opinion on the Council's financial statements.

## **Value for money**

**4** We issued a qualified conclusion stating the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources, except for the area of strategic asset management. Although the Council's arrangements to manage its asset base have improved they remain inadequate.

## **Current and future challenges**

**5** The last year has seen the country emerge from a deep economic recession. As central government begins the process of rebalancing national finances the Council, along with other public sector bodies, will see a significant reduction in central government financing. This will provide a significant challenge for the Council as it seeks to provide services to local residents while maintaining a sound financial position.

- 6 Significant funding gaps were identified in the three year budget, 2010/11 to 2012/13, prepared earlier in the year. The spending cuts announced in the government spending review will put extra pressure on the Council's financial strategy.
- 7 The delivery of savings from business redesign reviews and smarter procurement, increased income from fees and charges, and reviews of discretionary services will become even more critical over the next four year period.
- 8 The Council's response to this challenge is an area I will continue to monitor closely throughout 2010/11.
- 9 From 2010/11 the Council is required to prepare its financial statements under international financial reporting standards. This will have significant implications for the way in which the Council prepare its annual financial statements. The Council has undertaken some of the preparatory work required to meet this challenge, however a significant amount of work is still required for the Council to achieve its plan to restate the 2009/10 financial statements under IFRS by the end of December 2010. It is important the Council devotes sufficient resources to this important area, and that Members monitor the Council's progress in producing IFRS compliant financial statements.

# Financial statements and annual governance statement

**The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.**

**We gave an unqualified opinion on the Council's 2009/10 financial statements on 30 September 2010, within the statutory target date.**

## Overall conclusion from the audit

**10** There have been significant improvements made to procedures for preparing the financial statements over the last two years. However, there is scope to further improve accounting practice and financial reporting to reduce the number of amendments made to the financial statements.

**11** We identified two material errors in the financial statements presented for audit:

- deferred government grants - the Council had not made the related adjustments for fixed asset impairments; and
- a misclassification within the Statement of the Movement on the General Funds Balance.

**12** Management adjusted for these errors and several other non-trivial errors to ensure compliance with the Statement of Recommended Practice, internal consistency of the financial statements, and to correct presentational errors.

**13** The reported deficit changed from £17.1 million to £15.069 million and total assets employed reduced by £0.7 million because of the amendments. The amendments increased the use of general fund balances by £0.142 million, reducing the balance at 31 March 2010 from £1.601 million to £1.459 million.

**14** Our testing also identified weaknesses in the Council's accounting practice. This included Housing Revenue Account assets that have not been registered with the land registry and missing title deeds; and no detailed breakdown to support the housing rents and rent allowance accounts receivable balances.

15 We presented our Annual Governance Report on 28 September 2010 to the Audit and Risk Committee which included full details of the issues arising from our audit of the accounts.

## Significant weaknesses in internal control

16 Improvements continue to be made to the Council's internal control arrangements. For example, reconciliations for key financial systems are now carried out regularly, and new controls have been established for processing of journals.

17 However, we found some weaknesses in your internal control arrangements. These included weak controls around:

- planned and responsive property maintenance;
- differences of £185,000 (housing rents) and £9,000 (accounts receivable) in the year-end reconciliations to the general ledger;
- an error in the accounts payable system that allowed 21 invoices to be processed without proper authorisation;
- lack of evidence for the controls in place to ensure the correct loading of parameters into the housing rents system; and
- scope to strengthen controls around the independent checking of the completeness and accuracy of the asset register, and changes to standing data.

## Treasury management

18 The Council had £2 million invested with Heritable Bank plc, a UK subsidiary of an Icelandic bank, when they collapsed in October 2008. The financial statements showed the Council expected to recover £1.6 million (80 per cent of initial investment) based on the latest information available at the time it published its accounts in September 2010.

19 A capitalisation direction was granted to the Council allowing the expected loss of £0.4 million to be treated as capital expenditure in 2009/10.

20 Recent sector guidance indicates that 85 per cent of the initial investment is likely to be recovered by September 2012.

### Recommendation

**R1** I have made some recommendations within my Annual Governance Report to further develop the arrangements in place at the Council. The Audit and Risk Committee should monitor and ensure implementation of these recommendations to further improve the accuracy of the financial statements, and robustness of the internal control environment.

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# Value for money

**We considered whether the Council is managing and using its money, time and people to deliver value for money.**

**We assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.**

## **2009/10 use of resources assessments**

**21** At the end of May 2010, the Commission wrote to all local authority chief executives to inform them that following the government's announcement, work on Comprehensive Area Assessment (CAA) would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

**22** However, we were still required by the Code of Audit Practice to issue a value for money conclusion. We have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform our 2009/10 conclusion.

**23** I report the significant findings from the work we have carried out to support the vfm conclusion.

## **VFM conclusion**

**24** I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

25 This is a summary of my findings.

Table 1:

Criteria	Adequate arrangements?
<b>Managing finances</b>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
<b>Governing the business</b>	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
<b>Managing resources</b>	
Natural Resources	Yes
Strategic asset management <sup>i</sup>	No
Workforce <sup>ii</sup>	Yes

26 We issued a qualified conclusion stating the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources, except for the area of strategic asset management.

27 In 2008/09 the use of resources assessment identified that strategic asset management arrangements were inadequate, which resulted in the Council's value for money conclusion being qualified. Though strategic asset management was not a specified criterion this year, we were required to undertake work to consider how the Council had addressed the weaknesses identified from the previous review.

28 We found improvements in the Council's strategic asset management, for example a capital strategy was adopted, steps have been undertaken to improve asset base data and establish performance management arrangements. However, the asset management plan remains out of date, work to improve asset base data remained in progress at the end of 2009/10, and resource constraints meant that data was not being consistently collated for asset performance management arrangements.

<sup>i</sup> Re-assessed in 2009/10 due to qualification in 2008/09

<sup>ii</sup> Assessment brought forward from 2008/09

**29** Appendix 2 contains a summary of my findings. We reported my detailed findings to the Council in my Annual Governance report, together with my recommendations for improvement. It is important the Council monitors the progress made in implementing my recommendations (See recommendation 2 above).

## **Approach to local value for money work from 2010/11**

**30** Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

**31** My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

**32** I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

## **National Fraud Initiative (NFI)**

**33** In 2008/09, the Council took part in the Audit Commission's National Fraud Initiative. The NFI, which is undertaken every two years, compares information held by and between around 1,300 organisations including councils, the police, hospitals and nearly 100 private companies. The latest exercise helped to identify potentially fraudulent claims, errors and overpayments of £215 million across the country.

**34** The Council engaged effectively with NFI and has completed investigation work on high risk matches. The table below provides a summary of the savings for the Council from the latest NFI exercise:

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Table 2: **NFI savings**

<b>Data match</b>	<b>Savings</b>
Housing benefits	£81,206
Housing (Council tax single person discounts)	£48,393
	£129,599

*Source: NFI 2008/09*

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## **Other Audit Commission work linked to my value for money responsibilities**

**35** The Audit Commission's Housing Inspectorate carried out two reviews during the year which I will take into account when considering my 2010/11 value for money conclusion.

- Landlord services inspection - focusing on responsive repairs, voids repairs, gas servicing, housing income management, resident involvement and the cross-cutting themes of access and customer care, diversity and value for money, along with prospects for improvement.
- Strategic housing services inspection - a county wide assessment of the strategic housing role tailored to reflect the overarching strategic work carried out, partnership working in delivering the strategic role, the rural nature of the area and the progress made against the housing improvement targets.

# Current and future challenges

## Economic downturn and pressure on the public sector

**36** The impact of the economic downturn and international banking crisis on public finances over the last two years has been significant, most notably for the Council on treasury management. While investments continue to be made on a short term basis with high quality counterparties, following the approach set out in Council's revised treasury management strategy and policy, returns remain low.

**37** The Council had external borrowings of £33.9 million as at 31 March 2010, this is expected to increase to £39.25 million during 2010/11. This is within the Council's prudential indicator limits for borrowing.

**38** The government's spending review aims to achieve efficiency and value for money and challenge local authorities to fundamentally change the way that services are provided so more power lies in the hands of individuals and frontline professionals. Recent policy announcements include:

- changes in financing rules which will allow local authorities to borrow against future increases in business rates;
- reforms to the planning system, with a New Homes Bonus introduced to incentivise housing supply;
- proposals for elected mayors being subject to local referenda; and
- public Service Agreements being replaced by a Transparency Framework

**39** Significant cuts in government grant of 7.1 percent per year up to 2014/15 and rising demand pressure on local services will add to the funding shortfall identified in the current Medium Term Financial Strategy (MTFS).

**40** The current MTFS, approved by Council in October 2009, took a prudent approach by assuming:

- removal of Area Based Grant funding;
- 1 per cent pay increases;
- no increase in Council Tax levels; and
- no increase in Formula Grant.

**41** The MTFS will need to be updated as the funding position becomes clearer, to reflect the significant additional reductions in funding levels the Council faces. The resulting expenditure cuts are unlikely to be fully met by business redesign reviews, improvements in procurement, and increased fees and charges. Therefore, a more fundamental review of service delivery may be required.

**42** I will review, as part of my value for money work, how the Council will secure financial resilience and prioritises resources during this challenging period.

## International Financial Reporting Standards

**43** As reported in our last audit letter, local government will introduce International Financial Reporting Standards (IFRS) in the 2010/11 financial statements. The Council will need to prepare IFRS-compliant financial statements under the new Code of Practice on Local Authority Accounting for 2010/11 by 30 June 2011.

**44** Successful implementation of IFRS will testify to the ability of local government to manage a major change in its financial arrangements. Failure, on the other hand, could result in late or qualified opinions on accounts and will reflect badly on the reputation of individual authorities and, potentially, the sector as a whole.

**45** The Council has made some progress towards implementing IFRS. However, the Council still needs to complete work on reviewing lease arrangements, restate its 2009/10 financial statements, and produce a set of skeleton IFRS accounts for 2010/11.

**46** The Council should update and report its programme of work to produce IFRS compliant financial statements by 30 June 2011 to members. Members should then monitor the Council's progress against this plan.

### Recommendation

**R2** The Council should update its project plan for producing IFRS compliant financial statements. The Council should:

- ensure all the tasks necessary to produce IFRS compliant financial statements are identified and scheduled, allowing sufficient time for Members involvement (for example the approval of Accounting Policies); and
- the Council's progress against its project plan should be monitored by the Audit and Risk Committee regularly.

## Future developments

**47** The Council have entered shared service arrangements with Norfolk County Council for Information Technology and legal services to make financial savings. Future options for partnership working are also being considered for revenue services.

**48** Business redesign reviews continue to be applied across services, and the Council are reviewing the asset portfolio to identify further options for savings from asset disposals or more efficient use of assets.

49 These future challenges will be undertaken at a time the Authority is embarking on significant accommodation changes which will require careful management to minimise disruption to Council services.

## Closing remarks

**50** I have discussed and agreed this letter with the Executive Director (Resources) and the Head of Financial Services. I will present this letter at the Audit and Risk Committee on 6 December 2010 and will provide copies to all members.

**51** Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

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Table 3:

Report	Date issued
Audit Fee Letter	April 2009
Audit opinion plan	July 2010
Annual governance report	September 2010
Auditor's report including the value for money conclusion	September 2010
Annual audit letter	November 2010
<b>Other Audit Commission reports</b>	
Strategic housing services inspection	October 2010
Landlord services inspection	November 2010

**52** The Council has taken a positive and helpful approach to our audit. I wish to thank the Great Yarmouth Borough Council staff for their support and cooperation during the audit.

Mark Hodgson  
District Auditor  
November 2010

## Appendix 1 Audit Fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£102,487	£102,487	£0
Value for money	£38,207	£38,207	£0
Whole Government Accounts	£2,306	£2,306	£0
Total audit fees	£143,000	£143,000	£0
<b>Non-Audit Code work</b>			
Certification of grant claims and returns <sup>iii</sup>	£89,330	£90,000	£0

We are currently finalising our work on certifying grant claims and returns. We have been required to certify six claims for the Council.

I have estimated my final fee based on work completed at 1 November 2010. I will confirm my final fee for this element of my work in my Grants Report, which I will issue in January 2011.

<sup>iii</sup> Audit work in progress.

# Appendix 2 Value for Money

## Theme summaries

### Managing finances

The Council's planning is integrated. Strategic service and financial planning are linked and have redirected resources towards priorities. This is informed by public consultation and the Council is looking to widen the scope of this going forward. Budget planning is an organisational wide process which considers the key drivers to changes in income and expenditure. The overall budgets are set with consideration of agreed ranges for reserves and consider the use and creation of earmarked funds. There is good evidence of managing the financial position through the economic downturn so far, but the future funding gaps identified will heavily rely on the four strand approach to address them, in particular the business redesign reviews now being undertaken.

The Council continues to have a sound and improving understanding of its costs and the extent to which its services provide Value for Money (VfM). Satisfactory data and reports underpin decision making. Some good use of benchmarking and consultants helps both improve services and target them for improvement. Costs and performance show acceptable overall VfM from the Council's spending. While services had an inconsistent record of delivering efficiency targets in 2008/09, this is set to improve for 2009/10 with necessary efficiencies and cuts delivered to help balance the budget.

Processes to oversee and forecast the financial position have continued to strengthen during 2009/10. This has included earlier review of the Medium Term Financial Strategy to drive the budget setting, preparing detailed budgets for the next three years and changes to member scrutiny and reporting. Though performance information is used to explain budget variances, it remains unintegrated with financial information. Overall spend was within budget during 2007/08, 2008/09 and 2009/10 and reserve balances are within the agreed policy ranges. However, the financial capacity to deliver on the Council's priorities is stretched. The processes around accounts preparation continue to improve.

We identified the following key areas of improvement:

- produce a strategy to consider what mitigation can be put in place if the main four strand approach does not deliver enough savings to address identified funding gaps. Ensure this is formally considered and reported to members so they understand the risks involved and decisions that may need to be taken;
- integrate collecting and reporting of financial and non-financial performance data. For example provide clear linkages between performance indicators such as satisfaction levels, service assessment scores to spending levels to show performance standards have not been compromised in achieving efficiencies; and
- ensure all services can display good value compared with 'like' others and that productivity and spend gradually reduce or compare more favourably over time.

## Governing the business

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The Council has a clear vision and set of expected outcomes and what benefit this will bring local communities. VfM features highly in commissioning arrangements. User involvement in commissioning and redesign of services is good in part, satisfactory overall and improving. Access to services and customer experience drives improvement plans and some service review processes. Consistent, well-informed, customer driven service planning remains work in progress. A strategic approach to procurement across the Council while continuing to evolve is not embedded.

The Council checks performance against its priorities well. Spend follows priorities. It produces satisfactory information, data and reports to support its decision-making. Good analysis of performance helps shape strategic planning, track and compare performance, drive improvement and gauge VfM the delivered. However, application of its data quality policies and practices remains inconsistent and lacks rigorous checking. Tracking of corporate performance lacks a performance management IT system. Improvements since 2009 have delivered satisfactory data security and compliance arrangements.

The principles and values of good governance are in place, key governance documents are regularly reviewed. This is underpinned by the Council's ethical framework, which has the various codes of conduct in place and mechanisms to oversee compliance, however there is scope to ascertain confidence and awareness within the Council of these mechanisms. The Standards Committee is integrated into the Council's governance arrangements, but there remains scope to promote its work and improve transparency, for example making minutes available on the Council's website. Arrangements to govern partnerships are in place with registers continuing to be maintained and reviewed.

Risk management arrangements are in place, supported by strategy, comprehensive guidance and a clear understanding of responsibility. Scope remains to embed these arrangements into the wider business, for example following up actions undertaken and their impact on risk and considering opportunities as well as threats when risks are identified. The risk of fraud is being adequately managed, key policies are in place and these are widely communicated. There have been improvements in the systems of internal control. Reflected by increased assurance from Internal audit's review of key financial systems. However, there remains scope to strengthen the control environment, in particular for claims and returns.

We identified the following areas of improvement:

- Embed customer driven service planning and redesign into all Council service planning.
- Rigorously check, track and more routinely report to the audit and risk committee:
  - the impact and outcomes from imposing the Council's data quality and security polices and practices;
  - what the priority needs for improvement are; and
  - progress on improvement planning to address agreed areas for improvement.
- improve public access to and promote the work of the Standards Committee as part of the Council's ethical agenda;
- gauge, for example by survey, Council awareness of and confidence in mechanisms which underpin their ethical framework;
- embed risk management into business processes, including strategic and financial planning. For example by following up of actions to consider impact on risk and considering opportunities as well as threats when risks are identified; and
- implement a robust corporate approach to completing and filing claims and returns.

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## Managing resources

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The Council is making satisfactory progress to reduce the resources it consumes and has a sound plan in place to manage more reductions. It has developed a thorough and well-constructed carbon reduction strategy with support from the Carbon Trust. It oversees and is aware of its carbon footprint and there are delivery plans in place to reduce its carbon emissions by 30 per cent by 2015, the key reduction areas are quantified to show savings and payback times. The Council is engaging with its staff and gaining their commitment of its approach to reduce its impact on the environment but recognises it has more to do.

Processes to check, manage and reduce its impact of the environment are sound and improving. Since starting the Carbon Management Programme in May 2009 the Council has made good early progress. It supports the Norfolk Climate Change Strategy, improved its monitoring of carbon management reductions and projects, improved target setting and engaged senior management in carbon management.

We identified the following area of improvement:

- complete and implement the Carbon Management Plan and associated delivery plans and routinely report progress and outcomes delivered to the scrutiny committee.
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## Appendix 3 Action Plan

### Recommendations

#### Recommendation 1

I have made some recommendations within my Annual Governance Report to further develop the arrangements in place at the Council. The Audit and Risk Committee should monitor and ensure implementation of these recommendations to further improve the accuracy of the financial statements, and robustness of the internal control environment.

<b>Responsibility</b>	Audit & Risk Committee
<b>Priority</b>	Medium
<b>Date</b>	January and June meetings 2011
<b>Comments</b>	The recommendations will be considered as part of the ongoing monitoring of audit recommendation undertaken by the Audit & Risk Committee.

#### Recommendation 2

The Council should update its project plan for producing IFRS compliant financial statements. The Council should:

- ensure all the tasks necessary to produce IFRS compliant financial statements are identified and scheduled, allowing sufficient time for Members involvement (for example the approval of Accounting Policies); and
- the Council's progress against its project plan should be monitored by the Audit and Risk Committee regularly.

<b>Responsibility</b>	Service Unit Manager – Finance Technical
<b>Priority</b>	High
<b>Date</b>	January 2011
<b>Comments</b>	An updated plan and progress report will be considered by the Audit & Risk Committee in January 2011.

## Appendix 4 Glossary

### **Accounts receivable**

Sums owed to the Council for goods and services provided on credit.

### **Annual governance statement**

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

### **Audit opinion**

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

### **Deferred government grants**

When a government grant or other contribution is received in respect of the acquisition of a fixed asset it is recorded in a deferred government grants account. The grant is subsequently charged to the revenue account over the life of the asset to match the depreciation charge.

### **Discretionary services**

Functions that the Council does not have a statutory obligation to provide.

### **Financial statements**

The annual accounts and accompanying notes.

## **General ledger**

A central repository of the accounting information for the Council in which the summaries of all financial transactions during an accounting period are recorded. This provides the entire data for preparing the Council's financial statements.

## **Housing Revenue Account**

The statutory account to which are charged the revenue costs of providing, maintaining and managing Council dwellings. These are financed by rents charged to tenants and subsidies received from the government.

## **International Financial Reporting Standards**

Guidelines and rules set by the International Accounting Standards Board that companies and organisations follow when compiling financial statements.

## **Impairment**

A special, nonrecurring charge taken to write down an asset with an overstated book value.

## **Qualified**

The auditor has some reservations or concerns.

## **Property maintenance (planned and responsive)**

Planned (programmed) and responsive (emergency, fault correction) activity to maintain council houses in good order.

## **Prudential indicators**

The Prudential Code gives freedom for authorities to borrow, provided they can demonstrate through the prudential indicators that borrowing is both prudent and affordable.

## **Rent allowance**

Housing benefit paid to eligible tenants of private landlords, to help pay their rent.

## **Statement of Recommended Practice**

Are recommendations on accounting practices for specialised industries or sectors (such as Local Government)? They supplement accounting standards and other legal and regulatory requirements because of the special factors prevailing or transactions undertaken in a particular industry or sector.

### **Statement of the Movement on the General Fund Balance**

This statement is a reconciliation showing how the balance of resources generated and consumed in the year links in with the statutory requirements for raising council tax.

### **Treasury Management**

Treasury management includes management of an organisation's holdings in and trading in various investments and loans and the associated financial risk management.

### **Unqualified**

The auditor does not have any reservations.

### **Value for money conclusion**

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

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