

# **Report on the 2004/05 Financial Statements**

**Westminster City Council**

**Audit 2004/2005**

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## Introduction

- 1 Professional auditing standards require 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; and
  - other matters that we wish to draw to your attention.
- 2 We have agreed with the Council that the communications required under these auditing standards will be with the General Purposes Committee (the Committee). This report sets out for the General Purposes Committee’s consideration the matters arising from the audit of the financial statements for 2004/05.

## Status of the audit

- 3 Our work on the financial statements is nearing completion, although there are some outstanding queries to be resolved. In particular, we are waiting for a technical review of the Adjustment A calculation, required under new Capital Financing Regulations, to be concluded. Should further matters arise in concluding any outstanding work that requires reporting, we will raise them with the Chair of the Committee.
- 4 Subject to the satisfactory conclusion of the work outstanding, we anticipate being able to issue an unqualified opinion by the statutory deadline of 31 October 2005.

## Matters to be reported to those charged with governance

- 5 We have the following matters to draw to the Committee's attention.

### Expected modifications to the audit report

- 6 Based on the information presently in our possession we would not expect to qualify the audit report.

### Unadjusted misstatements

- 7 Management has adjusted the accounts in respect of all non-trifling misstatements which have arisen during the audit.

### Adjusted misstatements

- 8 We are required to report adjusted misstatements to you which are significant and are relevant to your governance responsibilities.

- **NNDR and Council Tax receipts in advance**

In the draft accounts submitted for audit, the Council recognised £95.1 million of NNDR and £11.9 million of Council Tax receipts in advance as current liabilities at 31 March 2005. Of these balances, approximately £27.5 million and £3 million of NNDR and Council Tax credits are aged over six years old.

The Council have obtained a legal opinion to confirm that once procedural arrangements to identify or notify ratepayers to whom sums are owed have been undertaken, sums remaining which are over six years in age may be written back to the General Fund.

Given the uncertain status of sums aged over six years, we recommended that management transfers all amounts over six years from the creditors balance into a separate provision. This will permit separate monitoring of receipts in advance which may be written back to the General Fund in future years.

Management have agreed and created a provision entitled 'Provision for repayment of Council Tax and NNDR' totalling £30.5 million. Creditors have been reduced by a corresponding amount.

- **Capital creditors**

In the draft accounts submitted for audit, the Council did not recognise £0.65 million of capital creditors, funded from unapplied capital receipts, at year end. Both capital creditors and unapplied capital receipts have now been adjusted by management.

- **Housing Association loans**

Our review of the long term debtor balance relating to Housing Associations found that the balance was understated by £0.5 million due to an incorrect journal being processed. This balance has now been correctly restated.

## **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.

- **Section 117 Mental Health Act Provision**

The Council have provided £3.4 million in respect of potential claims in respect of this legislation. In the 2003/04 SAS 610 report to the General Purposes Committee, we stated that the Council needed to implement measures to ensure potential claimants are made aware of the possibility of reimbursement. By so doing the Council would improve the certainty as to the true extent of this liability.

Our review of this provision in 2004/05 indicates that this process had not taken place. A paper to Cabinet in April 2005 approved procedures whereby known potential claimants identified would be contacted and advertisements would be placed. This was timetabled to take place in May 2005 but was further delayed by work pressures arising from the London bombings.

Our understanding is that work has now commenced to identify possible claimants. The Council should use the results to re-assess the provision for the next financial year.

- **Bank reconciliations**

In the 2003/04 SAS 610 report to the General Purposes Committee, we reported that the Council had been unable to reconcile its cash position as at 31 March 2004. We recommended that complete reconciliations are prepared and reviewed monthly.

Our review of the Council's bank reconciliation at 31 March 2005 indicates that the Council was able to reconcile its cash position at that point, and our audit work has concluded that this balance is presented fairly in the accounts. However, this situation required a concentrated effort on management's behalf at year end.

A sample of monthly reconciliations reviewed before and after year end had not been completely reconciled. They were found to include reconciling items such as out of date cheques and unreconciled timing differences between systems. Due to the difficulty in resolving unreconciled items the Council has yet to achieve a situation whereby cash is reconciled promptly and accurately at each month end.

## Next steps

- 9 We are drawing these matters to the Committee's attention so that you can consider them before the financial statements are approved and certified.