



**London Borough of Enfield**

**Annual Audit Letter 2008/09**

**December 2009**

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# 1 Introduction and key messages

## Purpose of this Letter

- 1.1 This Annual Audit Letter ('Letter') summarises the key issues arising from the work that we have carried out at the London Borough of Enfield ('the Council') during our 2008/09 audit. The Letter is written in an accessible style, designed to communicate our key messages to the Council and external stakeholders, including members of the public. The Letter will be published on the Council's website.

## Responsibilities of the external auditors and the Council

- 1.2 This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).
- 1.3 We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.
- 1.4 Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our Code conclusions.
- 1.5 In addition to our responsibilities under the Code of Audit Practice, we also act as agents for the Audit Commission to review and provide a certificate on the accuracy of grant claims and returns to various government departments and other agencies.
- 1.6 It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

## What this Letter covers

- 1.7 This Letter covers the audit work we have carried out in 2008/09, including key messages and conclusions from our work in:
- auditing the 2008/09 year end accounts (Section 2)
  - assessing the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources (Section 3)
  - certifying claims and returns (Section 4).

- 1.8 We have not repeated recommendations agreed with the Council during the year in this Letter. A list of the reports issued can be found at Appendix A. Appendix B sets out our actual and budgeted fees for 2008/09.
- 1.9 The findings of our work in 2008/09 contribute towards the Audit Commission's Organisational Assessment of the Council and the Comprehensive Area Assessment for Enfield. The results of this work will be reported separately to the Council by the Audit Commission.

### Key areas for Council action

- 1.10 We highlight the following key areas, where the Council should take action in 2009/10:
- The Council should continue to build on its excellent preparations to date for the introduction of accounting under International Financial Reporting Standards (IFRS), with a particularly focus on accounting for the use of fixed assets.
  - The Council needs to undertake a thorough review of the valuation of fixed assets especially in respect of Council dwellings. There needs to be an improvement in the quality of valuation evidence submitted to the Finance Department to support the accounts.
  - The Council should ensure that its medium term financial planning continues to take account of the current economic climate and the likely reductions in public spending in the short to medium term.
  - The Council should address recommendations made in its Use of Resources 2009 report in order to retain and improve on the assessment scores, particularly addressing recommendations arising from those areas that were assessed at level two. Specifically, in order to improve its assessment of KLoE 3.1, Managing Natural Resources, the Council needs to demonstrate a good understanding and overview of carbon emissions and water consumption across the full range of Council operations and assets, and show that this position is being managed to deliver year-on-year reductions.
  - The Council, along with its key partners, should address the key recommendations arising from the Health Inequalities review. The main conclusion from the review was that public health services in Enfield are beginning to make good progress in tackling health inequalities. However, we have recommended that in order to progress this work further there should be formal governance structures for health working groups and a process established for measuring how effectively partners are making a difference in delivering joint activities linked to the partnership approach for commissioning health care services
- 1.11 The context for these key messages can be found in this Letter.

## 2 Audit of accounts

### Introduction

- 2.1 We issued an unqualified opinion on the Council's 2008/09 accounts on 24 September 2009, ahead of the statutory certification deadline. Our opinion confirmed that the financial statements 'present fairly' the financial position of the Council. However, due to an outstanding objection from a local government elector, we have not yet certified the 2008/09 audit complete (refer to section 3.17 of this letter).
- 2.2 Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to "those charged with governance" (for the purposes of accounts approval, the Audit Committee is designated as "those charged with governance"). We presented our Annual Report to those Charged with Governance to the Audit Committee on 24 September 2009 and summarise only the key messages in this Letter.

### Audit of the accounts

- 2.3 The Council submitted its full draft accounts on 24 June 2009. The Council provided good quality accounts and sound working papers in most areas.
- 2.4 Closedown was well managed by the Council and there is clear corporate commitment to producing good quality accounts. Additionally, the Council has already engaged effectively in taking forward planning for accounting under International Financial Reporting Standards (IFRS) and has been selected as a case study site by the Audit Commission for its IFRS implementation study in Local Government.
- 2.5 The only significant error identified by our audit related to the valuation of Council dwellings. Our review identified that the methodology to assess the reduction in asset values due to the economic downturn failed to take account of the separate indices available for flats and houses and used an average instead. Given the proportion of flats as a percentage of total stock in Enfield this meant that the reduction in value was understated by £19.5m. The accounts were adjusted to reflect this position. This adjustment had no impact on General Fund or HRA balances. In general there is scope to provide better documentary evidence to support the Council's valuation judgements. We would expect to see a more detailed signed report, explaining the basis for judgement and signed off by the Council's valuer.

## Financial performance

- 2.6 The Council reported a deficit on the Income and Expenditure account of £310,155,000 (2007/08 £17,876,000 deficit). The main reason for the increase in this deficit is the recognition of impairments on the value of land, buildings and investment properties. Land values in particular have fallen in all sectors due to the economic downturn. There was no impact on General Fund balances as impairments are reversed out through the Capital Adjustment Account.
- 2.7 The Council has begun its preparations for the anticipated funding reductions from 2011 and has built this into its medium term financial planning assuming a possible 15% grant reduction spread over three years from 2011 to 2014. The latest Medium Term Financial Plan shows a funding gap of £21m in 2011/12 rising to £56m in 2014/15. Departments are going through the process of reviewing their budgets and have begun to identify significant efficiency proposals. The Council's LEANER programme will play a vital role in ensuring that funding gaps are managed without impacting on the quality and level of service provision in the borough. Given the financial pressures that the Council will experience going forwards, it will be important for it to maintain a strong focus on a limited number of key priorities.
- 2.8 The revenue monitoring report as at 30 September 2009, forecasts that at year end, the 2009/10 budget will be overspent by £652k. The Council is experiencing some financial pressures in 2009/10, notably through increased service volume from demand led children's services and homelessness expenditure. This is coupled with a loss of income from areas such as car parking, building control, planning fees and land charges, this decrease in income is mostly as a direct result of the impact of the recession on the Council. The Council is pursuing plans for mitigating the impact of the financial pressures in these areas and is closely monitoring the position each month.

## Financial systems

- 2.9 We undertook sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Our evaluation of the Council's key financial control systems did not identify any control issues that presented a material risk to the accuracy of the financial statements.
- 2.10 Our accounts audit work identified some areas where the Council should continue to work to improve its systems, primarily around valuation and accounting for fixed assets. Further details of these matters are set out in our Annual Report to those Charged with Governance, which contains a schedule of actions agreed with management to resolve the identified issues.
- 2.11 We reviewed the work of internal audit and concluded that the scope and conduct of internal audit work was appropriate to support our work in auditing the Council's 2008/09 accounts. We also undertook a full review of the Internal Audit service against the Internal Audit Code of Practice specified by CIPFA and reported on this separately to management and Audit Committee.
- 2.12 2008/09 saw significant structural and organisation change to the internal audit service. An interim Head of Internal Audit was recruited by the Council to lead on a restructure of the service with a key focus of embedding changes needed to make

Internal Audit fit for purpose for the future. The changes resulting from the restructure have led to improvements in Internal Audit and has provided a sounder base for a more business focused and modernised service to the Council. Notwithstanding the challenges the changes brought with them, we consider the Council complied with the requirements of the CIPFA Code in 2008/09, and made a number of significant improvements. A number of recommendations were made within the report to drive further improvements and implementation of these is currently in progress.

- 2.13 We performed a high level review of the general IT control environment as part of the overall review of the internal control system and concluded that there were no material weaknesses within the IT arrangements that could adversely impact our audit of the accounts. We reported our findings and agreed actions with management to resolve the minor control issues identified.

### **Annual Governance Statement**

- 2.14 We examined the Council's arrangements and process for compiling the Annual Governance Statement (AGS). In addition, we read the AGS and consider whether the statement is in accordance with our knowledge of the Council. As the AGS must be reviewed and, as necessary, updated as at the date of signing our audit opinion, we reviewed the final version of the AGS as part of our audit completion procedures.
- 2.15 We concluded that the AGS was consistent with our knowledge of the Council. It will be important for the Council to ensure timely and robust action is taken to implement the required control improvements identified in the AGS.

### **Icelandic Banks - the Council's Response**

- 2.16 The Council held a £5m investment with the Icelandic bank, Heritable Bank Plc, which went into administration in October 2008. Accounting standards require councils to make their best estimate of any impairment of financial assets. The Council calculated the impairment on its investment in accordance with relevant guidance and, following receipt of updated forecast recoverability information in September 2009, recognised a net impairment of £1.252m in 2008/09.
- 2.17 In light of the Icelandic bank crisis, auditors were requested by the Audit Commission to review the Treasury Management Arrangements in place at councils. Our review of the Council's Treasury Management arrangements demonstrated that the Council has sound arrangements in place and has taken decisive action to deal with the nationally and locally identified areas for improvement.

### **Members' expenses and allowances**

- 2.18 Due to the high profile coverage of Parliamentary expenses during 2008/09, we looked at members' and senior officers' allowance and expenses in greater detail than in previous years. Our review of the arrangements in place, found appropriate procedures and controls are currently in operation at the Council.

## Looking ahead

- 2.19 We would like to draw to the attention of those charged with governance further significant changes that will happen to the statement of accounts in future years, the most significant of which is the full implementation of IFRS into the 2010/11 accounts. Although this may seem a long way off, it is important that authorities start planning now, as there will be significant changes to the accounts. Our experience in other sectors shows that audited bodies that are well planned for the transition to IFRS have fewer amendments to their accounts and are less likely to be charged additional audit fees, than those who are not well prepared.
- 2.20 We recognise that the Council has already devoted significant resources to addressing the implications of IFRS and is well placed to go forward although, as our 2008/09 accounts audit suggests, there are some significant challenges around fixed asset accounting and valuation.

## 3 Use of resources

### Introduction

- 3.1 We issued our annual VFM conclusion on 24 September 2009, at the same time as our accounts opinion, ahead of the required deadline. We concluded that the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.
- 3.2 Prior to giving our VFM conclusion, we summarised the basis of this conclusion in our Annual Report to those Charged with Governance, which we presented to the Audit Committee on 24 September 2009. We provided further detail and set out the results of our assessment of the Council against the use of resources framework in our Use of Resources 2009 report, which was presented to Audit Committee on 24 November 2009. In this Letter we summarise the key messages from this work alongside relevant current findings, and look forward to forthcoming challenges for the Council.

### 2008/09 VFM conclusion and use of resources assessment

- 3.3 Our VFM conclusion was informed by our use of resources work which, in councils, is based on the Audit Commission's new use of resources (UoR) assessment. The new framework emphasises **outcomes** over **processes**, and brings new areas into the assessment such as environmental management. It presents a more robust challenge than the old framework, based on different scoring criteria. It should be noted, therefore, that changes from prior year scores do not necessarily reflect an objective change in performance.
- 3.4 In order for us to provide a unqualified conclusion, the Council needed to achieve an 'adequate' assessment (score of at least 2) for each component of the UoR assessment. Failure to achieve an 'adequate' assessment in any one area results in an "except for" conclusion.
- 3.5 Our UoR assessment concluded that the Council had at least adequate arrangements in all areas and we would like to emphasise that the Council performed well to achieve a number of level 3 scores, demonstrating 'good arrangements' in place, as the prevailing score nationally is 2. In a London context, the Council's detailed scores place it in the top third of London boroughs.

- 3.6 The 2008/09 scores by Key Line of Enquiry (KLoE) area are shown in the table below.

**Table 1: UoR scores 2008/09**

Theme / KLoE		Score
<b>Theme 1 - Managing finances</b>		<b>3</b>
1.1	Financial planning	3
1.2	Understanding costs	3
1.3	Financial reporting	3
<b>Theme 2 - Governing the business</b>		<b>3</b>
2.1	Commissioning and procurement	3
2.2	Use of data	3
2.3	Good governance	3
2.4	Internal control	2
<b>Theme 3 - Managing resources</b>		<b>2</b>
3.1	Managing natural resources	2*
3.2	Asset management	3
3.3	Workforce management	N/A*

**Scoring scale:**

1 - Below minimum requirements - inadequate performance  
 2 - Only at minimum requirements – adequate performance  
 3 - Consistently above minimum requirements – performing well  
 4 - Well above minimum requirements – performing strongly

\* Within the Managing Resources theme, in 2008/09, environmental management has the greater weighting and workforce management is not assessed

- 3.7 We assessed the Council as performing well (level 3) in the areas of managing finances and governing the business. The managing finances assessment reflects particular strengths in the areas of integrated financial and service planning, financial reporting and stakeholder consultation.
- 3.8 There were no high priority recommendations arising from our UoR assessment. Medium priority recommendations were for the Council to ensure that it:
- has fully embedded its recently adopted risk management strategy and that effective risk management frameworks are implemented and embedded across all significant partnerships within and outside the Local Strategic Partnership
  - realises the benefits from the revised arrangements in Internal Audit in order to enhance the effectiveness of internal control across the Council
  - has a clear understanding of the extent carbon emissions has across the full range of Council services, and a year-on-year reduction in emissions quantifiable by volume and cost saving and can effectively measure water consumption across all Council assets.
- 3.9 We will review progress on the implementation of the agreed recommendations during the 2009/10 audit.

## Health Inequalities

- 3.10 As part of 2008/09 audit plan we completed a review into Health Inequalities. This review assessed the extent to which public sector organisations in Enfield understand their local health inequalities; direct resources appropriately to address the gap; have arrangements in place to challenge and review their actions; and know how well they are doing. The review focussed on the role of the Council and Enfield PCT and the effectiveness of partnership working in this area.
- 3.11 The main conclusion from the review is that public health services in Enfield are beginning to make good progress in tackling health inequalities. Over the last two years the partnership landscape has evolved, leading to strengthened arrangements and increased focus. The partners have put many of the key building blocks in place to improve the health of Enfield's population and have seen early success in some areas, although significant challenges remain.
- 3.12 We have issued a joint performance report to public services in Enfield that details our findings and also identifies risk areas; makes high level recommendations; and shares notable practice to help improvement planning. Key recommendations for the Council to address with its partners include:
- formalising governance structures for health working groups including establishing a process for measuring how effectively partners are making a difference in delivering joint activities linked to the partnership approach for commissioning health care services
  - improving the approach to managing delivery across the Health and Well-Being Board and its related sub-groups through the establishment of a clear work programme that directly supports joint objectives and outlines accountability structures
  - ensuring that partners are effectively coordinating analytical capacity in order to understand health inequalities and assess targeted solutions to reduce them.

## National Fraud Initiative

- 3.13 The Audit Commission are in the process of completing an assessment of how audited bodies have addressed NFI. The first stage of this has been our completion of an initial risk assessment on the Council's progress with output from the 2008/09 exercise. We assessed progress via a review of the Council's reports on the NFI website. The result of our review was an 'amber' assessment of the arrangements that the Council currently has in place for following up NFI. The Council is now making good progress on this, primarily as a result of a concerted effort in September and October. This reduced concerns that initial progress had been slow which could have impacted on the effectiveness of the exercise.
- 3.14 We will continue to monitor the progress the Council makes with this work and report any concerns to the Director of Finance and Corporate Resources, the Head of Internal Audit and Risk Management and Audit Committee as appropriate.

- 3.15 As the next stage of this process the Audit Commission NFI team will monitor progress through management information and evaluation of auditor risk assessments to select bodies for site visits and will also review a sample of bodies' strategic approaches to using information from the NFI. The outcomes from this work will also inform our conclusions on the Council's arrangements for preventing and detecting fraud and corruption and KLOE 2.4 of the Use of Resources assessment.

### Challenge issues

- 3.16 Under the Audit Commission Act 1998 - section 15(2), at the request of a local government elector, the auditor shall give the elector, or any representative of his, an opportunity to question the auditor about the accounts. The role of the auditor is set out in the Audit Commission Act 1998. As external auditors, we have received one notice of objection during 2008/09, this matter has not yet been concluded on.
- 3.17 In accordance with requirements of the Audit Commission Act 1988 and the Code of Audit Practice issued by the Audit Commission, we are unable to certify that we have completed our audit of the 2008/09 accounts until we have concluded on the outstanding objection. Once concluded, we will report on the outcome of our work to the Audit Committee.
- 3.18 Work concluded in this area during the year includes responding to an initial enquiry into the Council's decision to pursue judicial review into the transfer of services from Chase Farm Hospital. It was concluded that, from an audit perspective in the context of statutory powers, the decision made by the Council to pursue a judicial review was reasonable.

### Looking ahead

- 3.19 We agreed our indicative 2009/10 audit fee with the Council in March 2009. The letter set out our initial assessment of the local risk based on use of resources work we plan to carry out to support our VFM conclusion. This comprised:
- an assessment of progress of the LEANER review with a focus on the procurement review
  - a review of data management systems and processes and policies
  - a review of the effectiveness of risk management arrangements
  - a review of partnership working arrangements.
- 3.20 We have discussed the content of the work programme included in our indicative audit fee letter with officers, reconsidered our initial risk assessment based on the outcome of the 2008/09 Use of Resources assessment and also responded to requests for specific reviews by Audit Committee. This has resulted in changes to our planned local risk based use of resources work which we will build into the 2009/10 plan, along with specific follow up of our 2008/09 recommendations. Agreed changes to the Use of Resources work programme to date include:

- the removal of the review of partnership working arrangements. Partnerships will be considered in detail as part of Comprehensive Area Assessment and the Audit Commission is due to complete a detailed health review as part of their assessment.
- a review of senior officer remuneration to provide assurance on the adequacy of the Council's arrangements and input into the assessment of KLoE 3.3, Workforce Arrangements.
- a review of leaseholder charges to provide assurance to the Council on its systems for the calculation of service charges.

## 4 Certification of claims and returns

### Introduction

- 4.1 In addition to our responsibilities under the Code of Audit Practice, we also act as agents for the Audit Commission to review and provide a certificate on the accuracy of grant claims and returns to various government departments and other agencies.
- 4.2 The Audit Commission prescribes our work in this area. Each year, it agrees with the relevant grant paying body the work and level of testing which should be completed for each grant claim and return, and set this out in a grant Certification Instructions (CI).
- 4.3 Certification work provides important and valuable assurances to taxpayers over public funds, nationally:
- each year, auditors certify £43 billion of public funds
  - since 2004, auditors have found errors of over £0.5 billion in the claims and returns prepared by local authorities
  - the level of the errors found by auditors and corrected by authorities since the new arrangements were introduced, in 2004, is almost five times the cost of auditors' certification work
  - 10 per cent of claims and returns have been adjusted for errors and 37 per cent have been qualified over the past five years
  - significant amounts of overpaid subsidy are recovered from authorities by grant-paying bodies when action is taken to follow up auditors' qualifications – one grant-paying body has recovered over £63 million in the past three years.
- 4.4 In its national report, "*Review of arrangements for certifying claims and returns*" (September 2009), the Audit Commission identified that further improvements in performance in preparing and auditing claims and returns are achievable:
- local authorities need to attach greater importance to the preparation of claims and returns to reduce the volume and value of errors made
  - grant-paying bodies should improve their understanding of the certification process
  - auditors need to do more to raise the profile of certification work at the local level and encourage authorities to improve their use of resources.

## Key messages

- 4.5 Each year, following certification of the programme of claims and returns we produce a summary report for the Council and agree an action plan in respect of any identified improvement areas. Our 2008/09 certification work has not yet been completed; we will issue a full report once it has been concluded.
- 4.6 Of the work completed to date, five claims have been certified without amendment:
- Pooling of Housing Capital Receipts
  - Disabled Facilities Grant
  - Teachers' Pension Return
  - Single Programme - Childcare Affordability Programme Phases 1 & 2.
- 4.7 A further two claims were certified with amendment:
- HRA Subsidy Base Data Return
  - School Centred Initial Teacher Training grant.
- 4.8 Our certification work has resulted in four grant claims being subject to qualification. In all instances, we have agreed the factual basis of the qualification with the Council and provided letters documenting the reasons, we have also reported on this to the Grant Paying Department and Audit Commission. The Council is addressing the issues raised from our work and we will continue to support the Council in this process.
- 4.9 We would also note that the Housing Benefit audit was a much smoother process than in previous years and that the issues raised are minor when compared to concerns raised by the previous auditors. The table below summarises the qualification points on the returns:

Return	Qualification Issue
National Non Domestic Rates Return	<ul style="list-style-type: none"> <li>• The Council was unable to split out hereditaments wholly or mainly used for charitable purposes and Community Amateur Sports Clubs on the return.</li> <li>• Our testing identified that write-offs on accounts had been made over and above the amounts approved by the Cabinet Member of Finance and Corporate Resources.</li> </ul>

Return	Qualification Issue
Housing Benefits Subsidy Claim	<ul style="list-style-type: none"> <li>Due to system weaknesses a number of tenancy types are wrongly allocated. This necessitates a manual reconciliation process that is more prone to errors. our sample testing revealed such errors and these have been reported to DWP Further systems weaknesses also mean that some existing entitlements to housing benefit are erroneously classified as backdated payments. This has also been reported to DWP.</li> </ul>
Single Programme - Youth Offer Grant	<ul style="list-style-type: none"> <li>The London Development Agency approved capital spend of £70,000. However, the claim form included £94,053 of capital expenditure which exceeds the approved limit by £24,053. This has been vired from revenue without evidence of prior approval.</li> </ul>
Sure Start, Early Years and Childcare Grant	<ul style="list-style-type: none"> <li>The Council could not provide a supporting invoice for an item of expenditure purchased with the grant within the timescales required due to it being archived off-site.</li> </ul>

## 5 Closing remarks

### Introduction

- 5.1 This Letter was agreed with the Director of Finance and Corporate Resources on 17 December 2009 and will be presented to Audit Committee on 7 January 2010.
- 5.2 We would like to take this opportunity to express our appreciation for the assistance and cooperation provided during the course of the audit. Our aim is to deliver a high standard of audit, which makes a positive and practical contribution that supports the Council's own agenda. We recognise the value of your co-operation and support.

**Grant Thornton UK LLP**  
December 2009

## Appendix A 2008/09 reports issued

<b>Report</b>	<b>Date issued</b>
Audit Plan	May 2008
Audit Strategy Document	June 2009
Information Technology controls	July 2009
Annual Report to those Charged with Governance	September 2009
Health Inequalities Review	October 2009
Use of Resources 2009	October 2009
Review of Internal Audit	November 2009
Annual Audit Letter	December 2009
Grants Report	February 2010

## Appendix B Audit fees 2008/09

<b>Audit area</b>	<b>Budget 2008/09</b>	<b>Actual 2008/09</b>
Financial statements, including WGA	276,000	276,000
VFM conclusion/Use of resources/Data Quality	120,500	120,500
<b>Total Code of Practice fee</b>	<b>396,500</b>	<b>396,500</b>
Certification of claims and returns (2008/09)	*125,000	tbc
<b>Total fees</b>	<b>521,500</b>	<b>tbc</b>

\* Represents the initial estimate of the cost of certification work, which is billed on a cost incurred basis.



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