

Annual governance report

Swale Borough Council


Audit 2010/11



Contents

Key messages	3
Audit opinion and financial statements	3
Value for money	3
Before I complete my audit	4
Financial statements	5
Opinion on the financial statements	5
Errors in the financial statements	6
Corrected errors	6
Uncorrected errors or uncertainties	7
Value for money	14
Appendix 1 – Draft audit report	17
Appendix 2 – Amendments to the draft financial statements	20
Appendix 3 – Draft Letter of Representation	22
Appendix 4 – Glossary	25
Appendix 5 – Action Plan	28

Traffic light explanation

Red  Amber  Green 

Key messages

This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

Audit opinion and financial statements

Subject to receipt of a letter of representation and closing checks I intend to issue an unqualified audit opinion on the 2010/11 financial statements.

I am pleased to report that the Council has improved the quality of accounts preparation compared to last year, with better working papers and fewer amendments to the draft statements. Good progress has also been made in respect of prior year recommendations. It has also dealt successfully with the challenges posed by the first year implementation of International Financial Reporting Standards (IFRS).

I did identify some errors during the audit and I have highlighted the most important of these in the main body of the report.

Value for money

I intend to issue an unqualified conclusion stating that in 2010/11 the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Council's underlying financial position is sound. It continues to have an effective financial planning framework and appears well-placed to address the financial pressures it faces over the medium term.

The Council takes a strategic approach to prioritisation of resources and achievement of cost reductions through improved efficiency and productivity, and is on course to achieve its savings targets for 2011/12.

Before I complete my audit

I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

I ask you to confirm to me

I ask the Audit Committee to:

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
 - approve the letter of representation (Appendix 3) on behalf of the Council before I issue my opinion and value for money conclusion; and
 - agree your response to the proposed action plan (Appendix 5) and note the progress made by the Council in addressing previous recommendations.
-

Financial statements

Subject to the completion of outstanding work I plan to issue an audit report including an unqualified opinion on the financial statements.

Opinion on the financial statements

My work on the financial statements is now substantially complete. The areas where work remains outstanding are;

- obtaining a signed letter of representation; and
- checking a final version of the accounts which contains all agreed amendments.

I anticipate that any remaining work will be completed to allow the issue of my audit opinion in advance of 30 September 2011.

Subject to the outstanding work I propose to issue an unqualified audit opinion on the Council's 2010/11 financial statements. A draft auditor's report containing my proposed opinion is at Appendix 1.

This is the first year the Council has been required to prepare financial statements under International Financial Reporting Standards (IFRS). Preparing IFRS accounts has involved a significant amount of work for the Council's finance team, including:

- review of transactions to identify the appropriate accounting treatment under the new framework;
- restatement of the Council's balance sheets at 1 April 2009 and 1 April 2010; and
- work to produce a number of new or amended disclosure notes.

Throughout 2010/11 the Council has had an effective framework in place to complete this work. The Council's first year IFRS accounts have been prepared to a high standard, with only a small number of adjustments required and improved working paper trails to support the accounts.

Errors in the financial statements

My audit seeks to ensure that the accounts are materially correct and present fairly the financial transactions of the Council. The concept of materiality is defined at Appendix 4. For the 2010/11 accounts I have set materiality at £1,882,000.

Under International Standards on Auditing I also set a threshold below which I assess any errors to be 'trivial' and do not ask for the accounts to be amended. For 2010/11 this triviality threshold is set at £18,000. Under auditing standards where I identify errors above this triviality threshold I must request management to amend the accounts. Where management chooses not to do so, I will draw this to the attention of the Audit Committee and ask the Committee for its view on the effect of any uncorrected errors on the accounts.

No errors identified have resulted in an impact on the general fund balance.

Corrected errors

Details of the amendments to the accounts which involve amounts above my triviality level are given below. Further details are given at Appendix 2.

Exceptional item

From April 2011 public service pensions will be uprated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). This will reduce the Council's pension liabilities arising from past service. In the draft accounts a one-off reduction of £7,096,000 in past service costs was included on the "Non-Distributed Costs" line of the Comprehensive Income and Expenditure Statement. Whilst the accounting treatment followed was correct, given the one off nature of this item and its magnitude I have agreed with officers at all Kent authorities that this entry should be separately disclosed in the accounts as an 'Exceptional item.'

Movement in Reserves Statement

This is a new statement which has been introduced in 2010/11 and requires the Council to demonstrate the difference between accounting entries under IFRS and the entries required to the General Fund balance under statutory requirements. In the draft accounts, an additional column was incorrectly included in this statement to account for Capital Receipts in Advance of £146,000 and depreciation on embedded leases of £365,000 had not been reversed out due to a different technical interpretation. I agreed with officers the correct treatment of both of these areas, resulting in the removal of the additional column and adjustments being made to a number of other statements.

Financial Instruments

Within the financial instruments note receipts in advance of £225,000 and payments in advance of £237,000 were incorrectly included as financial instruments. Officers have now amended this note, with a net effect of £12,000. There is no wider impact on the financial statements.

Long-term Debtors

The bad debt provision for the Rent Deposit Scheme (£462,000) was incorrectly shown against the short term rather than long term debtor balance. Officers have now amended this note, along with related notes.

Other amendments

I have agreed various other minor amendments to a number of disclosure notes. None of these are significant enough to highlight in this report.

Uncorrected errors or uncertainties

Senior Officer Remuneration

From April 2011, the Code of Practice requires the Council to disclose all senior officer remuneration even where these are subject to confidentiality agreements. The Council has received legal advice that it should not disclose comparative information relating to 2009/10 where staff left under confidentiality agreements. I am satisfied that non disclosure of this information for 2009/10 does not materially impact on the opinion.

NNDR Variance

There is currently a gross variance between the grant claim form and the accounts of £28,000. Officers are investigating this difference. I am satisfied the impact on the financial statements will not be material.

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Key audit risk and our findings

Key audit risk	Finding
<p>Implementation of IFRS</p> <p>The 2010/11 financial statements will be produced in accordance with International Financial Reporting Standards (IFRS). The new standards will require restatement of both opening and closing balances from the previous year as well as additional disclosures.</p> <p>There is a risk that councils which are not well prepared for the new requirements will not succeed in preparing the necessary information in time. In particular we will need to assess the impact of potential changes with regards to leases.</p>	<p>I have monitored the Council's progress with IFRS implementation throughout 2010/11. The Council has had a strong framework to support the introduction of the new standards.</p> <p>I performed a detailed review of the restated 2009/10 accounts. These were produced to a tight timetable and supported by good working paper trails. I agreed a number of minor amendments before the figures were incorporated into the draft 2010/11 accounts.</p>

Key audit risk	Finding
<p>Related Party Transactions</p> <p>'Clarity' International Standards of Auditing have increased the audit work required on related parties and in particular the investigation of management controls.</p>	<p>I have reviewed management controls and tested the completeness and accuracy of disclosed related party transactions. Following discussions held with the Head of Finance and the Director of Corporate Services, additional documentation of the consideration of related party transactions took place in 2010/11.</p>

Financial statements

Significant weaknesses in internal control

A material weakness in internal control is a deficiency in design or operation which could adversely affect the Council's ability to record, process, summarise and report financial and other relevant data.

I have identified the following weaknesses in the design or operation of internal controls that might result in a material error in your financial statements going forward:

Bank Reconciliation

During my audit I reviewed the bank reconciliation completed by the Council as at 31 March 2011. I found that the year end bank reconciliation was up to date but reconciliations for the first few months of 2011/12 had not been completed. This carries with it a risk of errors or misstatements going undetected. Delays in completing reconciliations also make errors subsequently harder to correct.

Recommendation

R1 Ensure that monthly bank reconciliations are kept up to date and completed on a timely basis.

Disaster Recovery Tests

As part of my IT risk assessment I identified that the Council had not completed a full disaster recovery test during 2010/11. Officers are planning a full disaster recovery test in October 2011.

Recommendation

R2 Ensure disaster recovery tests are undertaken on a regular basis, ideally annually.

Section 106 Agreements

As part of my testing of Section 106 agreements I identified approximately £60,000 of money received by the Council which is now time expired and is therefore potentially due to be repaid to the developers. It is recommended that all section 106 agreements should be reviewed to ensure that where timing conditions exist, the Council is alerted to approaching expiry dates so that action can be taken where possible to utilise the receipts held.

Recommendation

R3 S106 agreements should be reviewed to ensure that where possible receipts held are used before their repayment dates

Financial statements

Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures and there are no matters I wish to bring to your attention.

Financial statements

Letter of representation

Before I issue my opinion, auditing standards require me to ask management and those charged with governance for written representations about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation.

Value for money

I am required to conclude whether the Council put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of these areas is set out below.

I intend to issue an unqualified conclusion stating that in 2010/11 the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Value for money criteria and our findings

Criterion	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The Council's underlying financial position is sound. At 31 March 2011 general fund balances and general revenue reserves totalled £5,805,000, with a further £4,585,000 of usable reserves earmarked to support corporate priorities such as Learning and Skills, Climate Change and Carbon Management. The Council has been able to make a contribution of £575,000 to the general balance in 2010/11 despite significant financial pressures.</p> <p>The Council has a sound financial management framework. For the last few years the joint Executive/senior officer Budget Task Force has set savings target to address medium term projected revenue deficits (e.g. including from the economic downturn). During 2010/11 it has demonstrated a clear corporate focus on financial planning and early action to deal with financial pressures.</p> <p>A prioritisation matrix was used during the 2010/11 budget setting process to rank services</p>

Criterion	Findings
	<p>against priorities identified in the Corporate Plan and this this was further enhanced during 2011/12. The impact of the matrix and the fully integrated fees and charges policy has been to ensure resources follow priorities.</p> <p>The Council has reviewed and updated its medium term financial strategy for the period 2011/12 to 2013/14 in light of the current economic climate. Financial assumptions are pragmatic, and no growth has been assumed for the three year period of the plan.</p> <p>The key challenges facing the Council are in developing a four year financial strategy, and in achieving the additional savings target of £1.5m for 2012/13 whilst minimising their impact on frontline services.</p>
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>In recent years the Council has had a strong record of achieving efficiency savings. During 2010/11 the Council has again demonstrated a good understanding of its cost base and a culture of cost challenge. The budget process for 2011/12 identified cost reductions of £1.5m to reflect the loss of specific grant funding in those service areas. The Council achieved its savings target for 2010/11, and is on target to achieve its overall savings target of £2.6m for 2011/12 of which £1.4m relates to efficiency savings. There is a clear focus on prioritising resources within a sustainable medium term planning framework</p> <p>The Council continues to investigate opportunities for service efficiencies, for example through shared services arrangements with other members of the Mid Kent Improvement Partnership. A number of joint projects have been agreed and those that have been in place throughout 2010/11 have made efficiency savings whilst maintaining service delivery standards. However progress has been slow in some areas, for example finalising the legal</p>

Criterion	Findings
	<p>partnership with Maidstone and Tunbridge Wells.</p> <p>Procedures for tracking and monitoring performance have continued to improve, and the Council is making more consistent use of Covalent across all service areas to ensure early identification of any slippage in meeting performance targets</p> <p>Procurement of services was an area where the Council recognised that it needed to strengthen its in-house capability. Excellent progress has been made during 2010/11, and the Council has completed a VFM Procurement Support Project, resulting in improved Contract Standing Orders, training and support to staff in procurement, standardised documents & guidance via the intranet, a new procurement strategy and identification of areas for cost savings.</p> <p>One challenge facing the Council going forward is negotiating cost savings in its major long term service contracts. The Council is also working to achieve its key priority of regeneration in Sittingbourne Town Centre, the next stage of which involves the preparation of a development agreement. This development will inevitably place significant financial pressures on the Council's future budgets.</p>

Appendix 1 – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SWALE BOROUGH COUNCIL

Opinion on the Authority accounting statements

I have audited the accounting statements of Swale Borough Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Swale Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Head of Finance and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts the Head of Finance is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Swale Borough Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion, the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**Authority's responsibilities**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Swale Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the accounts of Swale Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Andy Mack

Officer of the Audit Commission

Audit Commission, Millbank Tower, Millbank, London SW1P 4HQ

xx September 2011

Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Adjustment made		Comprehensive income and expenditure statement		Balance Sheet		Movement in Reserves Statement	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Reclassification of the change to pension accounting from RPI to CPI	Exceptional item Non-distributed costs	7,096*	7096*				
Reclassification of Capital Receipts in Advance	Taxation and non-specific grant income Capital grants and contributions applied	146					146
Disposal of non-current assets	Other operating expenditure Financing and Investment I&E	58	58				

Adjustment made		Comprehensive income and expenditure statement		Balance Sheet		Movement in Reserves Statement	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Adjusted misstatement	Nature of adjustment						
	Capital grants and contributions applied					31	
	Other operating expenditure		31				
	Cash*	42			42		
	Long Term Debtor*						
	CAA*			42			
	Capital Grants Unapplied*						42
Exclusion of embedded lease depreciation from GF	CAA (depreciation)			365			
	CAA (minimum revenue provision)				365		
Rent deposit scheme bad debt provision	Short-term Debtors			462			
	Long-term Debtors				462		

* No journal required - face of CIES only as an other adjustment

Appendix 3 – Draft Letter of Representation

To: Andy Mack
Appointed Auditor
Audit Commission
1st Floor Millbank Tower
Millbank
London
SW1P 4HQ

Swale Borough Council - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors and officers of Swale Borough Council the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

Supporting records

All relevant information and access to persons within the entity has been made available to you for the purpose of your audit, and all the transactions undertaken by the Council have been properly reflected and recorded in the financial statements.

Segmental Reporting

I have reviewed the operating segments reported internally to the Authority and I am satisfied that it is appropriate to aggregate these as, in accordance with IFRS 8: Operating Segments, they are similar in each of the following respects:

- a. the nature of the products and services;
- b. the nature of the production processes;
- c. the type or class of customer for their products and services;
- d. the methods used to distribute their products or provide their services; and
- e. the nature of the regulatory environment.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of Swale Borough Council related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of Swale Borough Council

.....

Nick Vickers
Head of Finance

Date

I confirm that this letter has been discussed and agreed by the Audit Committee on 19 September 2011.

Signed

.....

(Chair)

Date

Appendix 4 – Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my 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.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

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 resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

Appendix 5 – Action Plan

Current year recommendations

Recommendations

Recommendation 1

Ensure that monthly bank reconciliations are kept up to date and completed on a timely basis.

Responsibility Chief Accountant

Priority High

Date For the 2011/12 year, although it will take some time to complete the outstanding reconciliations

Comments Agreed

Recommendation 2

Ensure disaster recovery tests are undertaken on a regular basis, ideally annually.

Responsibility IT Department

Priority High

Date For the 2011/12 year onwards

Comments Agreed

Recommendation 3

S106 agreements should be reviewed to ensure that where possible receipts held are used before their repayment dates

Responsibility Head of Development Services

Priority High

Date For the 2011/12 accounts

Comments Agreed

Update on prior year recommendations

Recommendation 1

Ensure that improvements made in the HR process, including the award of termination payments and staff recruitment, are maintained. I also recommend that Internal Audit undertake a follow up review in 2010/11 to assess progress made.

Responsibility	Head of Organisational Development Head of Internal Audit Partnership
-----------------------	--

Priority	High
-----------------	------

AC Comments	No issues identified in 2010/11 and a satisfactory follow-up report by IA as per the report on 13 April 2011.
--------------------	---

Recommendation 2

Review arrangements for the review of the effectiveness of the governance framework to ensure all potential significant governance issues are captured and considered for disclosure.

Responsibility	Head of Internal Audit Partnership Head of Finance
-----------------------	---

Priority	High
-----------------	------

AC Comments	No issues identified in 2010/11.
--------------------	----------------------------------

Recommendation 3

Continue to find ways of reducing the length of the accounts, focussing on the Explanatory Foreword, Annual Governance Statement and Statement of Accounting Policies.

Responsibility	Chief Accountant
-----------------------	------------------

Priority	Medium
-----------------	--------

AC Comments	The accounts in 2009/10 were 105 pages long, whilst the unaudited 2010/11 accounts were 100 pages long when excluding the IFRS transition note. Given that the 2010/11 accounts include the new requirements of IFRS – which are generally leading to longer sets of statements - this represents a good real terms improvement.
--------------------	--

Recommendation 4

Document consideration of potential disclosure implications of related party transactions declared by members and officers.

Responsibility Chief Accountant

Priority Medium

AC Comments Improvements were made in 2010/11.

Update on prior year improvement areas

Control issue arising	Comments
Undertake a full reconciliation in 2010/11 between the Council's terrier system and fixed asset register, ensuring all property assets are recorded in the register.	This was completed by the Council in 2010/11 and identified a number of assets to be amended on the register.
Distribute annual listings of non-property fixed assets on the asset register above a set de minimis to individual services for them to verify their existence, condition and usage.	This was completed by the Council in 2010/11 and identified a number of assets to be removed from the register.
Ensure weekly creditor payment runs are sample checked by a more senior finance officer outside of Exchequer	This is now completed by a member of finance.
Remind Exchequer staff to only accept properly authorised credit note request forms.	No issues have been recorded in relation to the authorisation of credit notes.
Assign senior finance officers the task of reviewing working papers relating to significant areas of the accounts, especially where the individual responsible is new to this area, or there have been changes in accounting treatment.	The working papers have been of a higher standard in 2010/11 and we will work with officers to improve them further going forward.
Agree a more pragmatic approach with Members with regard to the level and nature of misstatements that are to be adjusted for.	This has not been an issue in 2010/11.
Ensure all potential significant governance issues are captured and considered for disclosure in the Annual Governance Statement.	The Annual Governance Statement was well prepared in 2010/11.
Increase the resources assigned to complete the WGA return, ensuring that submission deadlines are achieved.	The draft WGA statements have been completed on a timely basis in 2010/11.
Improve scrutiny of the assumptions made and the figures reported by the actuary for accounting purposes.	The Council have considered the actuarial assumptions and deemed them appropriate for 2010/11.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

© Audit Commission 2011.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



www.audit-commission.gov.uk

September 2011