

Annual Governance Report

Thanet District Council

Audit 2007/08

October 2008



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Status of our reports

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.
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Summary

Purpose

- 1 This report summarises the findings from our 2007/08 audit, which is substantially complete. It identifies the key issues that you should consider before we issue our opinion, conclusion and certificate.
- 2 This report includes only matters of governance interest that have come to our attention in performing our audit. Our audit is not designed to identify all matters that might be relevant to you.

Financial statements

- 3 We expect to issue an unqualified opinion on the financial statements by 30 September 2008. The financial statements submitted for audit were complete and contained no material accounting errors. As a result, there is no requirement for revised financial statements to be re-approved by members.
- 4 The Head of Financial Services and her team have worked hard to improve the quality of accounts presentation and the supporting working papers. Whilst there remains scope for improvement in the working papers, we are encouraged by the progress made.

Value for money

- 5 Our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources is nearing completion. We expect to be able to issue an unqualified conclusion.

Next steps

- 6 This report has been prepared for presentation to the Governance and Audit Committee on 24 September 2008. Members are invited to:
 - approve the representation letter on behalf of the Council before we issue our opinion, conclusion and certificate; and
 - agree the proposed action plan.

Financial statements and Annual Governance Statement

- 7 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 the financial statements and Annual Governance Statement. It is therefore important that you consider our findings before you adopt the financial statements and the Annual Governance Statement.
- 8 In planning our audit we identified specific risks and areas of judgement that we have focused on during our audit. We report to you the findings of our work in those areas.
- 9 In addition, auditing standards require us to report to you:
- the draft representation letter which we are asking management and you to sign;
 - our views about the Council’s accounting practices and financial reporting;
 - errors in the financial statements;
 - any expected modification to our report;
 - weaknesses in internal control; and
 - certain other matters.

Key areas of judgement and audit risk

- 10 In planning our audit we identified key areas of judgement and audit risk that we have considered as part of our audit. Our findings arising from our work are set out in Table 1.

Table 1 Key areas of judgement and audit risk

| Issue or risk | Finding |
|---|---|
| Failure to provide accounts free from material/significant error that comply with accounting standards. | We did not identify any material errors or areas of non-compliance with accounting standards in the 2007/08 financial statements provided for audit. |
| Risk that Medium Term Financial Plan (MTFP) is not updated and robust. | The Council has reviewed and strengthened the MTFP. This is vital because in common with many other authorities, the Council is currently facing a range of service and financial pressures, with a potential budget gap of £2million over the next 2 years. We will assess the Council's progress in resolving these financial pressures over the coming months and report back on any risks or opportunities for improvement we identify. |

Financial statements and Annual Governance Statement

| Issue or risk | Finding |
|---|---|
| Risk management arrangements to be developed with partners and other bodies. | The Council has taken significant steps to strengthen its risk management arrangements. Our initial assessment is that this has had a positive impact but we will report back more fully in due course. |
| The Governance and Audit Committee needs to further develop in order to pose an effective challenge to executive action. | As a Governance and Audit Committee you have made progress but are still developing your role. We will work with you as you seek to strengthen your impact. |
| Ensure that all councillors are able to use performance information to review and challenge value for money throughout services, including the delivery of the efficiency programme at senior officer/member level. | We will review progress as part of our forthcoming Use of Resources review. We will bring any significant matters arising to your attention. |

Draft representation letter

11 Before we issue our opinion, auditing standards require us to obtain from you and management, written representations that:

- you acknowledge your collective responsibility for preparing financial statements in accordance with the applicable financial reporting framework;
- you have approved the financial statements;
- you acknowledge your responsibility for the design and implementation of internal controls to prevent and detect fraud and error;
- you have told me the results of your assessment of the risk that the financial statements might be materially misstated because of fraud;
- you have told me any actual or suspected fraud by management, employees with significant roles in internal control or others (where the fraud could have a material impact on the financial statements);
- you have told me of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
- you have told me about all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements;

- you have assessed the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council where relevant to the fair value measurements or disclosures;
 - you are satisfied that all related parties requiring disclosure in the financial statements have been disclosed and that the disclosure is adequate;
 - you are satisfied that the individual or collective impact of errors we have identified, but that you have not corrected, is not material; and
 - cover areas where other sufficient appropriate evidence cannot reasonably be expected to exist, for example the completeness of the disclosure of contingent liabilities.
- 12 We also need the specific representation from you with regards to the following three issues.
- 13 As disclosed in the contingent liabilities note to the accounts, Thanet DC entered into an agreement with the South East England Development Agency (SEEDA) to purchase the old Marks and Spencer site for regeneration purposes. Management assurances are required confirming SEEDA requirements have now been met and the Council will not be liable to repay the grant given of £4.9 million.
- 14 Officers had significant difficulty in obtaining all related party disclosure forms in a timely manner. At the start of our audit, three returns remained outstanding. Two of these have subsequently been received. The one remaining form outstanding related to a Councillor who is unable to complete due to ill health. Management are therefore required to provide assurance that they are unaware of any relationships that the Councillor may have that would lead to the need to disclose a related party transaction.
- 15 We also need a specific representation from you that there are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements.
- 16 Appendix 2 contains the draft of the letter of representation we seek from you.

Accounting policies and financial reporting

- 17 We considered the qualitative aspects of your financial reporting and have not identified any significant issues to raise with you.

Errors in the financial statements

- 18 We identified errors in the financial statements (other than those of a trivial nature) and reported these to management. Management has agreed to adjust the financial statements for the errors identified. Table 2 outlines the key amendments. As these represent significant changes to the approved financial statements, we are reporting these errors to you.

Table 2 Key areas of judgement and audit risk

| Issue | Value | Impact on surplus/(deficit) |
|--|-------|---|
| Local Authority Business Growth Incentives Scheme (LAGBI) grant year 3 currently allocated to 2008/09. Although it was actually received in 2008/09, it should be accounted for in the year in which the conditions were met, 2007/08. | £774k | Recognise income in 2007/08, rather than 2008/09 therefore reducing deficit by £774k. |
| Correction of treatment for Implementing Electronic Government (IEG) grant this year to a deferred charge. This was originally included in the accounts as a prior year restatement and therefore the amendment will move this income recognition from prior years to 2007/08. | £903k | Reduce deficit in year by £903k. No impact on closing General Fund balance. |

- 19 In addition, the Council identified minor discrepancies in the valuation of fixed assets of some beacon properties. The Council estimated £462k misstatement and we are satisfied with the basis of these calculations. The Council has decided not to amend the financial statements as the error is deemed immaterial in the context of fixed assets as a whole. Members should confirm they are happy with this treatment in the letter of representation.

The audit report

- 20 We plan to issue an unmodified report including an unqualified opinion on the financial statements. Appendix 3 contains a copy of our draft report.

Material weaknesses in internal control

- 21 We identified a number of weaknesses in the controls relating to the Housing Repairs system, including for the processing and certification of payment. We were required to undertake additional audit testing of specific payments to ensure that this did not result in a material error in the accounts. We understand that internal audit will shortly be completing a review of the system and its controls, as part of their 2008/09 audit plan and management should ensure that the results of this review are used to help drive improvements within the Housing Repairs system.

| |
|---|
| Recommendation |
| R1 Review and strengthen controls within the housing repairs system. |

- 22 We have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made. We have reported only those matters which have come to our attention because of the audit procedures we have performed.

Other matters

- 23 There are no other matters that auditing standards require me to report to you.

Value for money

- 24 We are required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. We assess your arrangements against 12 criteria specified by the Commission. Our conclusion is informed by our work on Use of Resources, a scored judgement reported to the Audit Commission.
- 25 We have assessed the arrangements of the Council as adequate in all areas and we therefore propose to issue an unqualified conclusion.

Formal audit powers

26 We have:

- a power to issue a public interest report. We do so where we believe this is necessary to draw a matter to your attention, or to that of the public;
- a power to apply to court for a declaration that an item in the Council's accounts is contrary to law;
- a power to issue an advisory notice. An advisory notice requires the Council to meet and consider the notice before:
 - making a decision that might give rise to unlawful expenditure; or
 - taking an unlawful course of action that would give rise to a loss; or
 - making unlawful entry in the accounts; and
- a power to seek judicial review of a decision of the Council.

27 We have not and do not propose to exercise these powers.

Independence

- 28 The Code of Audit Practice and the APB's Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.
- 29 We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 30 We communicate to you:
- any relationships between us and the Council, its members and senior management that might affect our objectivity and independence and any safeguards put in place;
 - total fees charged to you for audit and non-audit services; and
 - our arrangements to ensure independence and objectivity.

Relationships with the Council

- 31 We have identified no relationships that might affect objectivity and independence.

Audit fees

- 32 We reported our fee proposals as part of the Audit Plan for 2007/08. The table below reports the outturn fee against that plan.

Table 3 Audit fees

| | Plan 2007/08 £ | Actual 2007/08 £ |
|--|--------------------------|----------------------------|
| Financial statements and Annual Governance Statement | 118,825 | 118,825 |
| Use of Resources | 21,772 | 21,772 |
| National Fraud Initiative | 625 | 625 |
| Total audit fees | 141,222 | 141,222 |
| Other work | 0 | 6,490 |

- 33 The analysis above shows that we contained our audit fee within the totals you have already agreed.

34 Under the Audit Commission’s advice and assistance power it may provide non-audit services to the Council. In 2007/08 we completed a review of service planning and prioritisation as part of this, at a cost of £6,490.

Our arrangements to ensure independence and objectivity

35 We have comprehensive procedures to ensure independence and objectivity. These are outlined in Table 8.

Table 4 Arrangements to ensure independence and objectivity

| Area | Arrangements |
|-----------------------|--|
| Independence policies | <p>Our policies and procedures ensure that professional staff or an immediate family member:</p> <ul style="list-style-type: none"> • do not hold a financial interest in any of our audit clients; • may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; and • may not enter into business relationships with UK audit clients or their affiliates. <p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none"> • the general requirement to carry out work independently and objectively; • safeguarding against potential conflicts of interest; • acceptance of additional (non-audit) work; • rotation of key staff; • other links with audited bodies; • secondments; • membership of audited bodies; • employment by audited bodies; • political activity; and • gifts and hospitality. |
| Code of Conduct | <p>The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff have to comply with ethical guidance issued by their relevant professional bodies.</p> |
| Confidentiality | <p>All staff are required to sign an annual undertaking of confidentiality as a condition of employment.</p> |

Appendix 1 – Draft letter of representation

Andy Mack
District Auditor
Audit Commission
16 South Park
Sevenoaks
Kent TN13 1AN

Dear Andy,

Thanet District Council - Audit for the year ended 31 March 2008

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other senior officers of Thanet District Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2008.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Council Accounting in the United Kingdom: A Statement of Recommended Practice which presents fairly the financial position and financial performance of the Council and for making accurate representations to you.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Uncorrected misstatements

I confirm that I believe that the effect of the uncorrected financial statements misstatement, relating to the discrepancy in valuation of fixed assets of some beacon properties, is not material to the financial statements. This misstatement has been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows.

- The valuation is an estimate and the difference on the valuation figure equates to 0.3 per cent of the total asset valuation.

Supporting records

All the accounting records have 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 accounting records. All other records and related information, including minutes of all committee meetings, have been made available to you.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

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; and
- 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.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

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. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Assets

Where applicable, the following have been properly recorded and when appropriate adequately disclosed in the financial statements:

- losses arising from sale and purchase commitments;
- agreements and options to buy back assets previously sold; and
- assets pledged as collateral.

Fair values

I confirm the reasonableness of the significant assumptions within the financial statements, including:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require adjustment to the fair value measurement.

Compensating arrangements

- There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and,
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information provided regarding the identification of related parties. In particular we can confirm that there are no omitted relationships as a result of the one missing return.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

Post balance sheet events

Since the date of approval of the financial statements by members of the Council, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

FRS17 unfunded liabilities

There are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements

Grant repayment

The Council have now met the grant requirements specified by SEEDA, in respect of the old Marks and Spencer site and as such will not be liable for any repayment of grant.

Signed on behalf of Thanet District Council

I confirm that this letter has been discussed and agreed by members of the Governance and Audit Committee on 24 September 2008.

.....

Name Sue McGonigal

Position Head of Financial Services

Date

Appendix 2 – Draft auditor's report

Independent auditor's report to the Members of Thanet District Council

Opinion on the financial statements

I have audited the Council's accounting statements and related notes of Thanet District Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Council accounting statements comprise the Council Income and Expenditure Account, the Council Statement of the Movement on the General Fund Balance, the Council Balance Sheet, the Council Statement of Total Recognised Gains and Losses, the Council Cash Flow Statement, the Housing Revenue Account, 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 Thanet District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Head of Finance and auditor

The Head of Finance's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Council Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Council accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Council Accounting in the United Kingdom 2007, the financial position of the Council and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

I read other information published with the Council accounting statements, and consider whether it is consistent with the audited Council accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Council accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Council accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Council in the preparation of the Council accounting statements and related notes, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Council accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Council accounting statements and related notes.

Opinion

In my opinion the Council financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Council Accounting in the United Kingdom 2007, the financial position of the Council as at 31 March 2008 and its income and expenditure for the year then ended.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Council's Responsibilities

The Council 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 regularly to review the adequacy and effectiveness of these arrangements.

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Council 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 in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention

Appendix 2 – Draft auditor's report

which prevent me from concluding that the Council has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, Thanet District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2008.

Best Value Performance Plan

The previous appointed auditor issued our statutory report on the audit of the Council's best value performance plan for the financial year 2007/08 on November 2007. She did not identify any matters to be reported to the Council and did not make any recommendations on procedures in relation to the plan.

Certificate

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

Andy Mack
District Auditor

Audit Commission, 16 South Park, Sevenoaks, Kent TN13 1AN

[Date]

Appendix 3 – Action plan

| Page no. | Recommendation | Priority 1 = Low 2 = Med 3 = High | Responsibility | Agreed | Comments | Date |
|----------|--|--|----------------|--------|--|------------|
| 7 | R1 Review and strengthen controls within the housing repairs system. | 3 | s151 officer | Yes | The Housing Repairs system will form part of the 2008/09 internal audit plan. Internal audit will be reviewing the Housing Repairs system and its controls and the results of this review will be used to help drive forward improvements within the system. | March 2009 |

The Audit Commission

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, covering the £180 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.

Copies of this report

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