

Annual governance report

Thanet District Council

Audit 2010/11



Contents

- Key messages.....3**
- Before I complete my audit.....4**
- Financial statements5**
 - Opinion on the financial statements5
 - Implementation of International Financial Reporting Standards (IFRS)5
 - Errors in the financial statements6
 - Quality of your financial statements9
 - Letter of representation10
- Appendix 1 – Draft audit report.....13**
- Appendix 2 – Amendments to the draft financial statements17**
- Appendix 3 – Draft Letter of Representation21**
- Appendix 4 – Glossary.....24**
- Appendix 5 – Action plan.....27**

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

The Council dealt well with the implementation of International Financial Reporting Standards (IFRS) in the financial statements in 2010/11, despite capacity being stretched throughout the year. The financial statements were prepared to a sound standard overall. I agreed some amendments during the course of the audit with officers, the most important of which were in respect of fixed assets. There was no material impact from these on the Council's reported financial position.

Subject to satisfactory completion of the remainder of my audit work, I plan to issue an unqualified opinion on the financial statements before the statutory deadline of 30 September 2011.

Value for money

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

The Council has good financial governance, an effective financial planning framework and sound arrangements for financial control. It has a good understanding of the financial pressures it faces over the medium term and plans in place to deal with these.

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 Governance and 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 on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
 - agree your response to the proposed action plan (Appendix 4).
-

Financial statements

Subject to satisfactory completion of the remainder of my audit work, I plan to issue 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:

- completion of my testing of transactions within the Net Cost of Services;
- completion of my testing of shared services expenditure;
- completion of my physical verification testing for fixed assets; and
- review of the final version of the financial statements to ensure all agreed amendments have been processed.

I anticipate that any remaining work will be completed by mid September. I will then issue my audit opinion by the 30 September 2011 statutory deadline, after the financial statements and the letter of representation have been approved by the Committee.

Subject to satisfactory completion of the outstanding work, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Implementation of International Financial Reporting Standards (IFRS)

This is the first year the Council has been required to prepare financial statements under 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 and reformatting of all the prime statements;
- restatement of the comparatives for both 1 April 2009 and 31 March 2010; and
- production of a number of new disclosure notes.

Despite capacity issues, the Council produced some really positive early work on the IFRS transition.

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 £2,177,000.

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 £21,000. 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 Governance and Audit Committee and ask the Committee for its view on the effect of any uncorrected errors on the accounts.

During my audit I identified several errors in the financial statements and recommended a number of presentational changes. Most of the errors related to fixed asset classification and associated reserve and funding movements. Other areas affected were financial instrument disclosures. Management agreed to adjust the financial statements for all the amendments I recommended. All non-trivial amendments (over £21,000) are in appendix 2 for information.

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: The 2010/11 financial statements were produced in accordance with IFRS. The new standards required restatement of both opening and closing balances from the previous year as well as additional disclosures. There was a risk that council's which were not well prepared for the new requirements would not succeed in preparing the necessary information in time.</p>	<p>I monitored the Council's progress with IFRS implementation throughout 2010/11. The Council were committed to producing early work on IFRS which led to early resolution of issues in a number of areas.</p> <p>I identified amendments in the financial statements relating to IFRS implementation. The main issues I highlighted related to asset classifications and related reserve movements. The Council amended the accounts for all the changes I recommended (see appendix 2).</p>
<p>Payroll shared services: Payroll processing was outsourced on 1 April 2010. The Council experienced some problems following the transfer, so there was a risk that key controls over payroll transactions would not be effective in 2010/11. This creates an increased risk of material misstatement of the payroll transactions in the financial statements.</p>	<p>I reviewed the payroll controls at the outsourced provider and the controls over the interface with the Council. This review highlighted weaknesses in the operation of the provider controls, which meant that additional procedures had to be implemented by Council employees. As a result of these weaknesses I have less reliance from controls assurance and therefore carried out further substantive testing of the payroll transactions. My substantive testing did not highlight any errors in payroll expenditure.</p>

Key audit risk	Finding
<p>East Kent Opportunities: I reviewed and am satisfied with the accounting treatment adopted in respect of EKO in 09/10. However, the accounting may be more complex 2010/11 under International Financial Reporting Standards, particularly in relation to future land disposals.</p>	<p>My review of the accounting entries relating to EKO in 2010/11 did not highlight any issues.</p>
<p>Related Party Transactions: Although officers have established appropriate arrangements for the collection of RPT data, obtaining all members' returns appears to remain a difficult exercise.</p>	<p>All returns were obtained by the date of audit.</p>

Financial statements

Significant weaknesses in internal control

I have not identified any significant weaknesses in the design or operation of an internal control that might result in a material error in your financial statements

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 not identified any weaknesses in the design or operation of internal controls that might result in a material error in your financial statements. However, I identified weaknesses in the key controls at your outsourced payroll provider which reduce the effectiveness of your control environment for payroll transactions. I reported these weaknesses to the Governance and Audit Committee in my June 2011 audit progress report.

Recommendation

R1 Work with your payroll provider to ensure that weaknesses in the key controls over payroll processing are fully rectified for the 2011/12 audit.

These weaknesses are only those I identified during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

The Council presented a set of accounts at 30 June 2011 which was complete except for the cashflow statement and notes for financial instruments, IFRS transition, Segmental Reporting and Capital Adjustment Account. These notes were completed the following week. Delays were due to the complexity of these areas and the stretched staff capacity during the closedown period.

I have made a recommendation below regarding the timeliness of accounts preparation. However, I am pleased to note an improved quality of working papers provided for audit this year. The statements were supported by comprehensive working papers, which provided a good audit trail for testing. The finance team co-operated well with audit staff to achieve the timely resolution of issues as they arose.

Recommendation

R2 Ensure appropriate arrangements are in place to produce a complete set of financial statements by 30 June, which has been subject to a full internal consistency check.

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. A copy of the draft letter of representation prepared by management is included in appendix 3 for your approval.

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 has good financial governance, an effective financial planning framework and adequate arrangements for financial control. It has a good understanding of the financial pressures it faces over the medium term and plans in place to deal with these.</p> <p>Thanet District Council has good systems and processes in place to manage its financial risks in a challenging economic climate. It has a good understanding of its financial position and effective medium term financial planning.</p> <p>Financial monitoring and forecasting is fit for purpose and accruals based. The Council achieved a £1.1 million budget underspend and useable reserves (excluding HRA balances) have increased from £13,544,000 to £15,972,000.</p> <p>Medium term financial planning is robust and sets out a strategy to balance the budget for each of the next four year with minimal resort to reserves. Delivery of these budgets will require continued tight financial management.</p>

Criterion	Findings
<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>The Council takes a strategic approach to prioritisation of resources and achievement of cost reductions through improved efficiency and productivity.</p> <p>The Council has reviewed its medium term financial plan and identified strategies to manage the financial position despite the current economic pressures. Medium term service priorities have been clarified and changes have been made to management structures.</p> <p>Management have undertaken a rigorous review of each service and identified a variety of actions for 2011/12 to reduce expenditure and increase income. These include internal restructures as well as participation in partnership working with Dover District Council and Canterbury City Council to deliver key services. A balanced revenue budget has been produced for 2011/12 with no increase in council tax.</p>

Appendix 1 – Draft audit report

Independent Auditor's Report to the members of Thanet District Council

Opinion on the Authority accounting statements

I have audited the accounting statements of Thanet District 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 Housing Revenue Account, the Movement on the Housing Revenue Account 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 Thanet District 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 Chief Executive and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Chief Executive 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 Thanet District 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, Thanet District 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 Thanet District 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,

1st Floor, Millbank Tower,

Millbank, London,

SW1P 4HQ

Date:

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.

As at 30 June 2011, the following were missing from the financial statements:

- Cashflow statement and notes;
- IFRS transition note;
- Segmental reporting note;
- Financial Instruments note; and
- Capital Adjustment Account note

The Council provided a complete set of financial statements for audit during the initial week of our on-site audit work.

I did identify a number of internal inconsistencies and disclosure issues which management agreed to amend, leading to several changes in the financial statements. For example, internal consistency between note 12, Capital Adjustment account and Revaluation Reserve, enhanced cashflow disclosures and improved pensions disclosures. I recommended some other agreed presentational changes to the financial statements, to amend or expand the disclosures in some areas.

I also identified the following non trivial misstatements in the financial statements and notes during my audit (over £21,000), which management also agreed to adjust in the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities:

Adjusted misstatement	Nature of adjustment	Value £ 000's
<p>Comprehensive Income and Expenditure Account: HRA impairment and the impact on pensions of change from RPI to CPI are exceptional items and should be separately disclosed on the face of the Comprehensive Income and Expenditure Account</p> <p>Investment Property Gains/Losses on Asset Disposal have been included in Gains/Losses on non current assets(Other Operating Expenditure) instead of Financing and Investment I&E</p>	<p>Remove disclosure from note 5: material items of income and expenditure. Disclose HRA impairment (£38.9m) and impact of change from RPI to CPI (£12.8m) as exceptional items on the face of the Comprehensive Income and Expenditure Account. This represents additional disclosure with no overall impact.</p> <p>Move £57k from other operating expenditure to financing and investment income and expenditure on the face of the Comprehensive Income and Expenditure Account. No overall impact.</p>	<p>£38,904</p> <p>£12,803</p> <p>£57</p>
<p>Balance Sheet: £3 million short term borrowing incorrectly disclosed as long term borrowing, In addition, interest payable on long term borrowing of £455,000 should be disclosed as short term borrowing.</p>	<p>£3,455,000 moved from long term borrowing to short term borrowing on the balance sheet. No overall impact on balance sheet.</p>	<p>£3,455</p>
<p>Note 4: Note re Major Sources of Estimation Uncertainty. Calculation error in applying overall asset revaluations for investment properties to those not revalued.</p>	<p>Amend disclosure in note 4 - asset revaluations for investment properties - from £873,000 to £287,000.</p>	<p>£586</p>
<p>Note 11: Taxation and Non-Specific Grant Income Area Based grants of £1,652,000 should be included as Non Ringed fenced rather than Capital Grants & Contributions</p>	<p>Amend note 11 and note 33 to reflect Area Based Grants as non ring fenced. No overall impact on note 11.</p>	<p>£1,652</p>
<p>Note 12: Property, Plant and Equipment A number of adjustments were agreed to correct disclosures within note 12. These primarily relate to classification corrections between additions and valuations and accounting for depreciation.</p>	<p>Adjustments within note 12 disclosure - no overall impact on Net Book Value.</p>	<p>Various adjustments to analysis - no overall impact.</p>

Adjusted misstatement	Nature of adjustment	Value £ 000's
<p>Note 10 and 13: Investment Property £1,015,000 revaluation was incorrectly disclosed as additions. £291,000 movement in fair value incorrectly disclosed in note 10.</p>	<p>£1,105,000 moved from additions to valuations. Also the movement in fair value of £291,000 corrected in note 10 and correctly disclosed in the Comprehensive Income and Expenditure. This is then reversed out through the Capital Adjustment Account with no impact on the general fund.</p>	<p>£1,105 £291</p>
<p>Note 20: Current Assets Held for Sale A number of assets were transferred to assets held for sale and sold within the year. Assets should only be reclassified as held for sale if they are still unsold at the year end. Assets of £2,434,000 were transferred in year and of those £2,346,000 sold in year. The analysis in note 20 has been adjusted to reflect this plus the impairment adjustment of -57,000. The net effect on note 20 is therefore - £31,000. In addition, £101,000 included as "other movements" are additions and should be disclosed in note 12 accordingly.</p>	<p>Corrected to ensure assets that were transferred in year and sold in year would be treated as disposals in year and disclosed in Note 12. Other movements transferred to additions. The net impact of amendments to note 20 is a reduction of assets held for sale of £132,000 and increase in PPE other land and buildings of £132,000. No overall impact on balance sheet.</p>	<p>£132</p>
<p>Note 22: Provisions In light of further information relating to potential concessionary fares settlement, the provision for concessionary fares was updated.</p>	<p>Reduction in provision to reflect more up to date information. This is reflected in the net cost of services for cultural, environmental, regulatory and planning net cost of services. The overall impact is an increase in net assets, reduction in deficit and increase in earmarked reserves of £374,000.</p>	<p>£374</p>
<p>Note 24: Unusable Reserves A number of adjustments were made to the revaluation reserve and capital adjustment account to reflect other corrections for items such as depreciation and investment properties.</p>	<p>Various adjustments resulted in an increase to the revaluation reserve and reduction to the capital adjustment account of £5,124,000. There is no overall impact to unusable reserves.</p>	<p>£5,124</p>
<p>Note 25: Cashflow note Note 25 - cash flow statement: operating activities is incorrectly accounted for the disposals of fixed assets</p>	<p>Amended disclosure to £1,456,000. Disclosure only.</p>	<p>£5,254</p>

Adjusted misstatement	Nature of adjustment	Value £ 000's
<p>Note 44: Nature and Extent of risk arising from Financial Instruments.</p> <p>Trade debtors in this note incorrectly includes HB/CTB debtors within the balance. Updated disclosures made to estimated exposure to default also made.</p>	<p>Updated note 15 disclosures, reducing past due amount of trade debtors by £3,094,000 and reducing estimated maximum exposure to default by £1,415,000. No impact on core statements.</p>	<p>£3,094</p> <p>£1,415</p>

Appendix 3 – Draft Letter of Representation

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

Thanet District 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 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 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.

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.

All unfunded pension liabilities, including discretionary added years awarded to staff in the Local Government Pension Scheme are reflected in the accounts.

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.

Related party transactions

I confirm that I have disclosed the identity of Thanet District 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 Thanet District Council

.....
Sue McGonigal CPFA, Chief Executive & Section 151 Officer

Date

I confirm that this letter has been discussed and agreed by the Governance and Audit Committee on 29 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

Recommendations

Recommendation 1

Work with your payroll provider to ensure that weaknesses in the key controls over payroll processing are fully rectified for the 2011/12 audit.

Responsibility	Sarah Martin
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Priority	High
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Date	1 March 2012
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Comments	Payroll reports are to be reconciled on a monthly basis and regular meetings held with KCC to discuss any issues arising.
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Recommendation 2

Ensure appropriate arrangements are in place to produce a complete set of financial statements by 30th June, which has been subject to a full internal consistency check.

Responsibility	Sarah Martin
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Priority	High
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Date	30 June 2012
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Comments	Protocols and an action plan are being worked on to ensure that all deadlines are met.
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0844 798 7070

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- any third party.

