

Annual Governance Report

Date

Last saved: 19/09/2007 09:25:00

# Annual Governance Report

**North Wiltshire District Council**

**Audit 2006/07**

- Audit Commission descriptor to be inserted by Publishing-

Document Control

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Filename Annual Governance Report v3

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- any third party.

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## Purpose of this document

- 1 In accordance with the Audit Commission's Code of Audit Practice (the Code), this report provides a summary of the work we have carried out during our 2006/07 audit of accounts, the conclusions we have reached and the recommendations we have made to discharge our statutory audit responsibilities to those charged with governance (in this case the Final Accounts and Audit Committee) at the time they are considering the financial statements.
- 2 In preparing our report, the Code requires us to comply with the requirements of International Standards on Auditing (United Kingdom & Ireland) – ISA (UK&I) - 260 'Communication of Audit Matters to Those Charged With Governance', by reporting to you matters relating to the audit of the financial statements. Other auditing standards require us to communicate with you in other specific circumstances including:
  - where we suspect or detect fraud;
  - where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
  - non-compliance with legislative or regulatory requirements and related authorities.
- 3 We are also required to communicate to you the Audit Commission's requirements in respect of independence and objectivity, and these are set out at Appendix 2.
- 4 This report has been prepared for presentation to the Final Accounts and Audit Committee on 25 September 2007. Members are invited to:
  - consider the matters raised in the report;
  - approve the representation letter on behalf of the Authority and those charged with governance before we issue our opinion; and
  - consider amending the financial statements for unadjusted misstatements, significant qualitative aspects of financial reporting and any recommendations for improvement in the action plan.
- 5 Our work during the year was performed in line with our 2006/7 annual audit and inspection plan. We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 3.

## Key messages

- 6 Our work on the financial statements is substantially complete, although there are still outstanding issues to be resolved. In particular, our work on the Council's investments and fixed assets has yet to be concluded. Should any further matters arise in concluding the outstanding work that need to be reported, we will raise them with Chair of the Final Accounts and Audit Committee. We propose issuing an unqualified audit opinion on 28 September 2007 (a draft report is attached at Appendix 4).
- 7 In our view, the Statement on Internal Control (SIC) has been prepared in accordance with proper practice specified by CIPFA and is not inconsistent with the findings from our audit.
- 8 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. We propose issuing a unqualified conclusion on the use of resources on 28 September 2007 (a draft report is attached at Appendix 4).

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## Audit status

- 9 At the date of issue of this report our detailed audit is substantially complete, although we need to complete our testing on fixed assets and investments.
- 10 The Authority has taken a positive and constructive approach to our audit and we would like to take this opportunity to express our appreciation for the Authority's assistance and co-operation.

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## Accounts and Statement on Internal Control

- 11 Our work on the financial statements is substantially complete although there are still outstanding issues to be resolved. In particular, our work on fixed assets and investments has yet to be concluded.
- 12 Auditors are required to obtain written confirmation of certain representations from management and those charged with governance before an audit report is issued, such as acknowledgement of responsibility for the fair presentation of the financial statements in accordance with the applicable financial reporting framework and responsibility for the design and implementation of internal control to prevent and detect error.
- 13 The auditor should also obtain written representations from management on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist.
- 14 The final draft of the letter of representation has been attached as Appendix 5.

### Unadjusted misstatements

- 15 We are required to report to you all unadjusted misstatements that we have identified during the course of our audit, other than those that are clearly trivial. There are no unadjusted misstatements for us to bring to the attention of members.

### Adjustments to the financial statements

- 16 We are also required to bring to your attention misstatements that have already been corrected by management where we consider them relevant to your wider governance responsibilities. These are recorded in Appendix 6. The amendments affected the income and expenditure account and balance sheet and resulted in the restating of the statement of movement on general fund and the statement of total recognised gains and losses.

### Accounting practices

- 17 We are also required to report to you our view on the qualitative aspects of the Authority's accounting practices and financial reporting and have set out below our observations on key issues affecting the Authority.

- The cash flow statement includes information on revenue activities and capital activities. The entries in the cash flow are actually prepared on an accruals basis. An adjustment was made on one line of the cash flow to reflect the movement on debtors and creditors, although the un-audited cash flow differed from the movement in cash by £1.5m. This practice does not comply with the normal convention for preparing a cash flow statement.
- The Council has established an equalisation fund to smooth the effect of the future reduction in PFI grant (included in RSG) to cover the future cost of the PFI. The amount needed to be placed in this equalisation fund was determined using a model which projected future relevant cash flows. The amount in the equalisation fund is £270,000 less than the amount recommended by the model.

We have made recommendations in relation to these issues which are included in appendix one.

## Systems of internal control

- 18 As part of our audit, we consider the systems of accounting and financial control and set out below two issues identified.
- The Council is required to comply with the prudential code issued by CIPFA governing borrowing and treasury management. The Council took out a £4m loan in 2006/7 and then re-invested this in a three year fixed term investment. The Prudential Code indicates councils can borrow in advance of need but only in the medium term. In our view, borrowing should be based on a sound and genuine assessment in advance of the borrowing need for the next financial year and for the following two years. The Council needs to ensure its treasury management conforms to the prudential code.
  - The Council is not completing reconciliations of feeder systems to the main accounting system and reconciliations of the bank accounts during the year. These are done at the year end. Good practice is to do such reconciliations more frequently than this. This also resulted in additional audit work at the year end when the working papers provided included various adjusting amounts.
- 19 We have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed. We have made recommendations in relation to these issues which are included in appendix one.
- 20 We have also reviewed whether the SIC has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit. There are no matters arising.



## Use of resources

### Work performed

- 21 The Code requires us to reach a conclusion on whether we are satisfied that the Council has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources – the value for money conclusion. In meeting this responsibility, we review evidence that is relevant to the Council's corporate performance management and financial management arrangements across a range of criteria specified by the Audit Commission. Our work to support our conclusion comprised the following elements:
- use of resources assessment;
  - data quality work; and
  - the best value performance plan.
- 22 Details of our conclusion for each of the criteria specified by the Audit Commission are set out in Appendix 7.

### Use of resources assessment

- 23 The work for 2006/7 was undertaken in two stages. A report was issued in March 2007 based on our assessment carried out in December 2006. This has been followed up in accordance with the Audit Commission's requirements by further work to assess the position at 31 March 2007. We are currently finalising our second report arising from our use of resources assessment. When finalised, we will discuss this with the relevant officers.

### Data quality work

- 24 We are currently finalising our data quality review and will report our findings to the relevant officers.

### Best value performance plan

- 25 Our work in respect of the Authority's 2006/07 Best Value Performance Plan (BVPP) was reported to the Council in November 2006. No recommendations were made to the Audit Commission or the Secretary of State.

## Audit fee update

- 26 We reported our fee proposals as part of the Audit Plan for 2006/07. The table below reports the outturn fee against that plan:

	<b>Plan 2006/07</b>	<b>Actual 2006/07</b>
Financial statements and Statement on Internal Control	63,177	63,177
Use of Resources	34,048	34,048
Total Audit Fees	97,225	97,225
Grants certification work	27,880	on-going
Other work	nil	nil

- 27 The analysis above shows that our audit fee has been contained within the totals you have already agreed.
- 28 The outturn on inspection fees will be reported in the annual audit and inspection letter.

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## Appendix 1 – Action plan

Page	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation Date
8	The cash flow statement be prepared on a cash basis.	1				
8	Review the PFI equalisation fund.	3				
8	Reconciliation of the bank accounts and feeder systems should be done during the year.	3				

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## Appendix 2 – The Audit Commission’s requirements in respect of independence and objectivity

- 1 We are required to communicate the following matters to those charged with governance:
  - the principal threats, if any, to objectivity and independence identified by the auditor, including consideration of all relationships between the Authority, directors and the auditor;
  - any safeguards adopted and the reasons why they are considered to be effective;
  - any independent partner review;
  - the overall assessment of threats and safeguards; and
  - information about the general policies and processes for maintaining objectivity and independence.
- 2 We are not aware of any relationships that may affect the independence and objectivity of the audit team and which are required to be disclosed under auditing and ethical standards.

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## Appendix 3 – Audit reports issued

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit plan	March 2006	March 2006	Chief Executive
Opinion audit plan	July 2007	July 2007	Section 151 Officer
Interim audit memorandum	May 2007	combined with Final Accounts memo and use of resources report	N/A
Annual governance report	September 2007	September 2007	Final Accounts & Audit Committee
Opinion on financial statements	September 2007	September 2007	Final Accounts & Audit Committee
Use of resources conclusion	September 2007	September 2007	Final Accounts & Audit Committee
Final accounts memorandum	October 2007	September 2007	Section 151 Officer
BVPP report	September 2006	September 2007	Deputy Chief Executive
Data quality report	September 2006	September 2007	Performance Management officer
Customer Focus Follow up	January 2007	May 2007	Deputy Chief Executive
Use of Resources report	March 2007	March 2007	Chief Executive
Annual audit letter	March 2008	--	Council

## Appendix 4 – Proposed auditor’s report to North Wiltshire District Council

### Opinion on the financial statements

I have audited the financial statements of North Wiltshire District Council for the year ended 31 March 2007 under the Audit Commission Act 1998, which comprise the Explanatory Foreword, Income and Expenditure Account, Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Collection Fund and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to North Wiltshire 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 Chief Finance Officer and auditors**

The Chief Finance Officer’s responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.

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 financial statements present fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006.

I review whether the statement on internal control reflects compliance with CIPFA’s guidance ‘The statement on internal control in local government: meeting the requirements of the Accounts and Audit Regulations 2003’ issued in April 2004. I report if it does not comply with proper practices specified by CIPFA 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 statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

## **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 financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority’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 financial statements 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 financial statements.

## **Opinion**

In my opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority as at 31 March 2007 and its income and expenditure for the year then ended.

District Auditor: Brian Bethell

Address: Audit Commission  
Westward House  
Lime Kiln Close  
Stoke Gifford  
Bristol  
BS34 8SR

Date: 28 September 2007

## **Conclusion on 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 regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority’s assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

### **Auditor’s Responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the authority 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 which prevent me from concluding that the authority has made such proper arrangements. 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.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the authority’s best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

### **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, North Wiltshire District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2007.



## Best Value Performance Plan

I issued my statutory report on the audit of the authority’s best value performance plan for the financial year 2006/07 on 31 November 2006. I did not identify any matters to be reported to the authority 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.

District Auditor: Brian Bethell

Address: Audit Commission  
Westward House  
Lime Kiln Close  
Stoke Gifford  
Bristol  
BS34 8SR

Date: 28 September 2007

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## Appendix 5 – Management representation letter

Mr Brian Bethell  
The Audit Commission  
Westward House  
Lime Kiln close  
Stoke Gifford  
Bristol

Dear Mr Bethell

### **North Wiltshire District Council**

#### **Audit for the year ended 31 March 2007**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of North Wiltshire 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 2007.

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements which present fairly 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.

#### **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 Members meetings, have been made available to you.

#### **Related party transactions**

I confirm the completeness of the information provided regarding the identification of related parties.

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

#### **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;
- no financial guarantees have been given to third parties.
- The Council is satisfied it has taken suitable action to cover any financial commitments in respect of any liability arising for pensions of staff who transferred to the leisure trust.

### **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 body 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**

The following have been properly recorded and when appropriate adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments
- Agreements & options to buy back assets previously sold
- Assets pledged as collateral

### **Irregularities involving the Council**

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;
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

### **Post balance sheet events**

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

**Compensating arrangements**

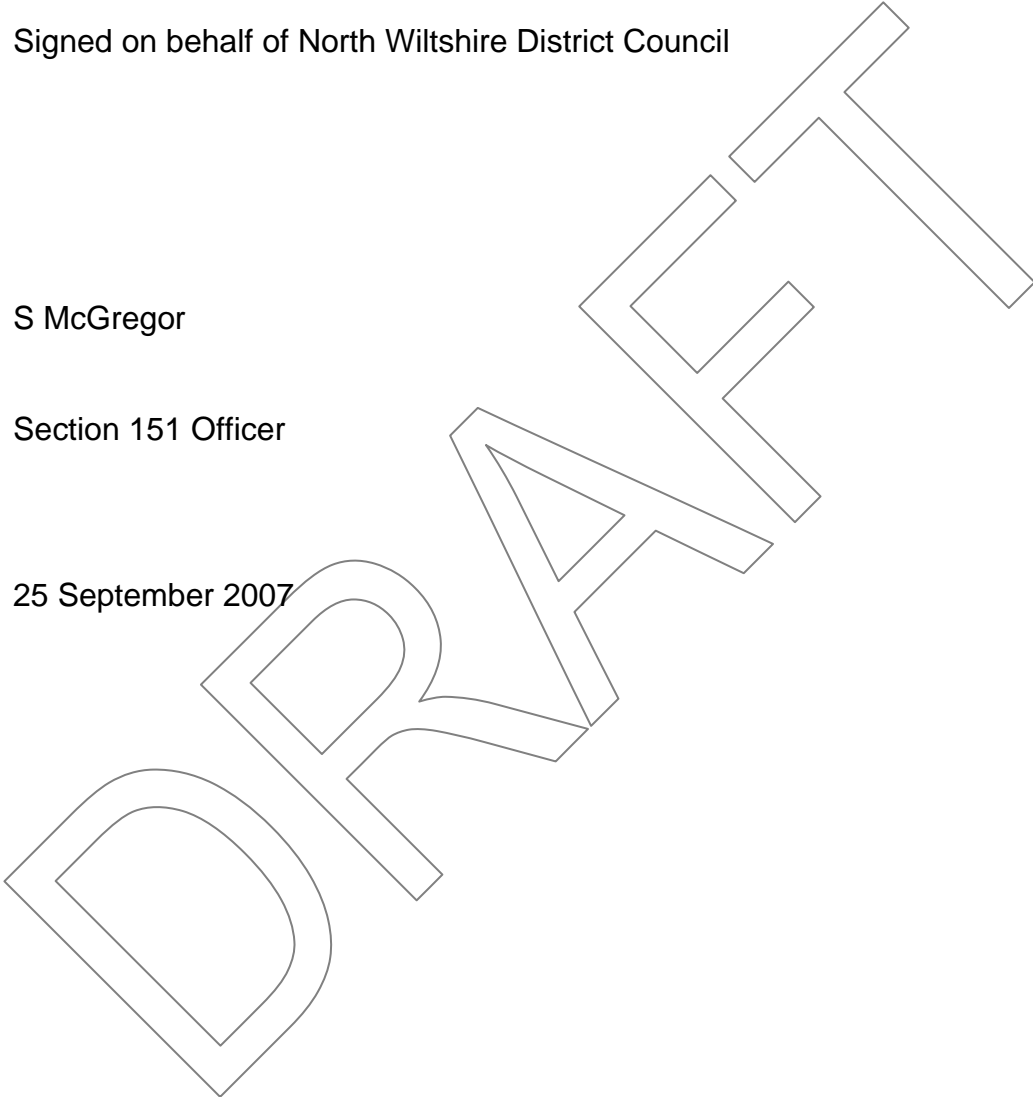
There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in the Statement of Accounts we have no other lines of credit arrangements.

Signed on behalf of North Wiltshire District Council

S McGregor

Section 151 Officer

25 September 2007



## Appendix 6 – Summary of adjusted misstatements

- 1 The following misstatements were identified during the course of our audit and the financial statements have been adjusted by management. We bring them to your attention to assist you in fulfilling your governance responsibilities.

Adjusted misstatements	Nature of Adjustment	Income and Expenditure Account		Balance Sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
When the accounts were prepared the Housing Benefit claim was not finalised, the accounts were prepared on the basis of information on the main accounting system. Subsequently the un-audited claim indicates a larger amount due to the Council. The Accounts have been amended to reflect the more up to date estimate.	Increase debtors and increase general fund balance		695	695	
The accounting SORP requires expenditure on deferred charges to be recognised in the net cost of services in the income and expenditure account. This was not originally disclosed.	Increase net cost of services, with a corresponding adjustment in the Statement of Movement on the General Fund.	4,083	4,083		

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		Income and Expenditure Account		Balance Sheet	
Government grants have not been amortised to the general fund. This error affects previous years and was raised by audit last year.	Additional expenditure charged to the general fund and then reversed out.	165	165		
	Reduce the government grants deferred account and writing off the expenditure to the capital financing account.			1,076	1,076
A debtor in respect of rent rebates has been incorrectly included as a debit within creditors. Debtors and creditors are understated.	Increase debtors and creditors.			170	170

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## Appendix 7 – Value for money conclusion

- 2 The Audit Commission has published, in accordance with the Code of Audit Practice, 12 criteria on which auditors are required to reach a conclusion on the adequacy of an audited body's arrangements for economy, efficiency and effectiveness in its use of resources.
- 3 The Code criteria are linked to the use of resources assessment (UoR) key lines of enquiry (KLoEs). A score of Level 2 or higher under the KLoEs will result in an assessment that the Authority has adequate arrangements in place for the purposes of the Code criteria. The Code criteria and the linked KLoEs are show in the table below.

Code Criteria	Description	Associated UoR KLoE	UoR Score	VFM Conclusion
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	N/A	N/A	Adequate
2	The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	N/A	N/A	Adequate
3	The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	N/A	N/A	Adequate
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	LG DQ KLoEs	N/A	Adequate
5	The body has put in place arrangements to maintain a sound system of internal control.	4.2		Adequate

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6	The body has put in place arrangements to manage its significant business risks.	4.1		Adequate
7	The body has put in place arrangements to manage and improve value for money.	5.2		Adequate
8	The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	2.1		Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	3.1		Adequate
10	The body has put in place arrangements for managing performance against budgets.	2.2		Adequate
11	The body has put in place arrangements for the management of its asset base.	2.3		Adequate
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	4.3		Adequate

