

# Annual Governance Report

Uttlesford District Council

Audit 2007/08

Date 30 September 2008

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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 on 30 September 2008.
- 4 The financial statements submitted for audit contained errors and during the audit, management agreed to a number of adjustments to the accounts that we recommended. These adjustments are detailed in Appendix 3. The effects of these changes are set out in paragraph 4 of the covering paper to agenda item 3. Although there have been some improvements in your arrangements for the production of your financial statements, further improvements still need to be made.
- 5 Our audit identified the following uncertainties in the financial statements that management has decided not to adjust. If you do not decide to adjust, please tell us why in the representation letter.

## Value for Money

- 6 We identified a number of weaknesses in the Council's arrangements for securing value for money and therefore propose to issue a qualified conclusion stating that the council did not have adequate arrangements in place.

## Next steps

- 7 We ask the Performance Select Committee to:
  - consider the matters raised in the report before approving the financial statements;
  - agree to adjust the financial statements as set out in our recommendations;
  - 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

- 8 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.
- 9 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.
- 10 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

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

**Table 1 Key areas of judgement and audit risk**

| Issue or risk                                                                                                                                                                                        | Finding                                                                                                              |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|
| Material misstatements contained in the Annual Statement of Accounts.                                                                                                                                | Substantive review of 2007/08 accounts undertaken. All material misstatements have been amended.                     |
| Statement of Internal Control/Annual Governance Statement is not considered by Members.                                                                                                              | Annual Governance Report presented and considered by PSC on 24 June 2008.                                            |
| Budgetary control is a key control in any organisation to prevent or detect and correct a material misstatement in the accounts. Our review of the Council's budgetary control process undertaken as | Budgetary control weaknesses continued to be a concern throughout 2007/08. However, improvements are now being made. |

| Issue or risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Finding                                                                                                                                                                                                                   |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>part of the 2006/07 audit showed that the Council's budgetary control procedures were not effective. This was also shown to be the case by the events concerning the 2006/07 outturn position, the emergence of financial problems at the Council in respect of 2007/08 and 2008/09 and also the subsequent external financial review carried out by Bill Roots.</p>                                                                                                                                    |                                                                                                                                                                                                                           |
| <p>I qualified my opinion on the 2006/07 accounts due to the incorrect treatment of a waste vehicles lease as an operating lease rather than as a finance lease. The Council decided not to adjust the 2006/07 accounts to account for the lease as a finance lease (and accept the consequent qualified audit opinion) but instead decided that the adjustments would be made in the 2007/08 accounts (including the restatement of the 2006/07 accounts to reflect the change in accounting policy).</p> | <p>We have reviewed and agreed the Council's treatment of the waste vehicles lease in 2007/08. In addition, the 2006/07 brought forward figures have now been correctly restated.</p>                                     |
| <p>The capacity of the Council's Finance Team is fragile, and whilst some new staff have been recruited, many of them are new to the final accounts process for a district council and new to Uttlesford District Council. This increases the risk to the production of a full set of accounts for 2007/08 that are accurate, complete and comply with the appropriate accounting standards.</p>                                                                                                           | <p>Although, a number of changes were required to the 2007/08 accounts, we are working with the new finance team to ensure ongoing improvements.</p>                                                                      |
| <p>Qualified audit opinion on the 2006/07 accounts.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                    | <p>We are able to issue an unqualified opinion on the accounts for 2007/08.</p>                                                                                                                                           |
| <p>Our 2006/07 audit identified a lack of review and authorisation of journals, control account and bank account reconciliations. The weaknesses in these arrangements resulted in a high volume of correcting journals and material errors in the balance sheet. The arrangements for 2006/07 continued to be in place for much of 2007/08. This increases the risk that there will be material misstatements in the 2007/08 accounts.</p>                                                                | <p>These lack of controls remained throughout 2007/08. However, we have undertaken additional work in these areas to identify if there were any material misstatement in the accounts, of which none were identified.</p> |
| <p>Our 2006/07 audit identified that the Council does not maintain a complete list</p>                                                                                                                                                                                                                                                                                                                                                                                                                     | <p>The arrangements for 2006/07 continued</p>                                                                                                                                                                             |

## Financial statements and Annual Governance Statement

| Issue or risk                                                                                                                                                                                                                                                     | Finding                                                                                                                                                                                                                   |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| of its assets, with records being held across several departments. The arrangements for notifying the finance team when assets are acquired or disposed of are unclear. Fixed assets balances are recorded on a spreadsheet that is updated manually at year end. | to be in place for much of 2007/08. This increases the risk that the fixed assets in the balance sheet will be materially misstated. However, detailed testing undertaken ensured balances were not materially misstated. |

### Draft representation letter

12 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.

13 We need specific representations from you to confirm that your decision to include the BAA claim for £1m costs as a contingent liability is well founded and appropriate.

14 Appendix 1 contains the draft of the letter of representation we seek from you.

**Accounting policies and financial reporting**

15 We consider the qualitative aspects of your financial reporting. Table 2 contains the issues we want to raise with you.

**Table 2 Accounting practice and financial reporting**

| Issue or risk                                                          | Finding                                                                                                                                                                                                                                                                                                             |
|------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Accuracy of accounts submitted for audit                               | The accounts submitted for audit contained a significant number of typing, casting and other inconsistency errors, some of which remained at the end of the audit.                                                                                                                                                  |
| Prior period adjustment regarding the finance lease for waste vehicles | The accounts submitted for audit did not include the necessary adjustments. These have now all been corrected.                                                                                                                                                                                                      |
| Other key statements in the accounts                                   | The cashflow, statement of recognised gains and losses and the statement of movement in general fund balances contained a number of errors including incorrect balances brought forward, casting errors and inconsistencies between the main accounts, notes and these statements. These have all now been amended. |
| Working papers                                                         | Not all working papers initially provided clearly supported the figures in the accounts. We will work with finance staff to improve this process.                                                                                                                                                                   |
| Disclosures and accounting policies                                    | There were a few instances of non compliance with the disclosure requirements of the Statement of Recommended Practice (SORP) and accounting policies. Officers have made amendments to the accounts in respect of all issues identified.                                                                           |

## Financial statements and Annual Governance Statement

| Issue or risk                                                                                                              | Finding                                                                                                                                                                                                                                                                                  |
|----------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Officers remunerations                                                                                                     | The bandings were incorrect due to compensation for the loss of office not having been included. Accounts amended.                                                                                                                                                                       |
| We identified a number of journals processed through ledger which were not subject to independent review or authorisation. | This leaves a potential control weakness which could result in authorised movements between account codes or errors occurring during input. Although, all journals tested were found to be in line with expectations, the control weakness could expose the Council to additional risks. |
| Whole of Government Accounts (WGA)                                                                                         | The WGA consolidation pack has yet to be revised to reflect changes to the accounts. We have not yet undertaken our review of this statement.                                                                                                                                            |

### Recommendation

- R1** Improve qualitative processes to include robust officer review to ensure the accounts presented for audit are free from inconsistencies and casting errors.
- R2** Review all disclosures and notes to the accounts to ensure compliance with recommended practice and clarity to the reader.
- R3** Strengthen controls over the authorisation of journals and consider senior officer review of journals over a specified amount.

### Errors in the financial statements

- 16** We identified errors in the financial statements (other than those of a trivial nature) and reported these to management.
- 17** Management has agreed to adjust the financial statements for the errors identified in Appendix 3. However, because of your wider governance responsibilities we are reporting these errors to you.
- 18** Management has not adjusted the financial statements for:
- VAT account income of £144k; and
  - NNDR income of £231k.
- 19** The reason for not correcting these items is that the Council is uncertain as to its liability. These sums have historically been carried forward as part of the year end reconciliations and officers want to fully understand the impact on the accounts before making any amendments.



- 20 We would therefore ask you to consider whether to adjust these errors. If you decide not to do so, please tell us why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

**The audit report**

- 21 We plan to issue an unmodified report including an unqualified opinion on the financial statements. Appendix 2 contains a copy of our draft report.

**Material weaknesses in internal control**

- 22 We have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.
- 23 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**

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

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# Value for money

- 25 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 twelve criteria specified by the Commission. Our conclusion is informed by our work on Use of Resources, a scored judgement reported to the Audit Commission.
- 26 We identified weaknesses in arrangements for securing value for money as detailed below.

**Table 3 Value for money conclusion: criteria where assessed as not adequate**

| Criterion                                                                                                                                                            | Finding                                                                                                                                                                                                                                                                                                                                                                                                                |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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. | <ul style="list-style-type: none"> <li>material errors identified in the budget setting for both 2006/07 and 2007/08 and the Medium Term Financial Strategy (MTFS). The scale and impact is such that the Council had to achieve challenging savings in 2007/08, with further savings from 2008/09; and</li> <li>weaknesses overall in the robustness of processes to ensure delivery of a balanced budget.</li> </ul> |
| The body has put in place arrangements for managing performance against budgets.                                                                                     | <ul style="list-style-type: none"> <li>although improvements are now being made to manage and monitor performance against budget, these were not in place throughout 2007/08; and</li> <li>aggressive measures needed to be instigated to bring the Council back within budget.</li> </ul>                                                                                                                             |
| The body has put in place arrangements for the management of its asset base.                                                                                         | <ul style="list-style-type: none"> <li>there is no current corporate capital strategy linked to priorities, the MTFS and a detailed asset management plan;</li> <li>the Council maintains is asset register on a spreadsheet that is only updated at year end and does not contain sufficient detail; and</li> <li>there is no member group specifically responsible for asset management.</li> </ul>                  |

| Criterion                                                                                           | Finding                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|-----------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| The body as put in place arrangements to maintain a sound system of internal control.               | <ul style="list-style-type: none"> <li>• sources of assurance to support the Annual Governance Statement are not reviewed by members;</li> <li>• procedure notes are not in place for all key financial systems;</li> <li>• governance arrangements still need to be fully considered for key partnerships; and</li> <li>• weaknesses in the control environment were identified around the reconciliation of control accounts and suitable review.</li> </ul>                                  |
| The body has put in place arrangements to ensure that its spending matches its available resources. | <ul style="list-style-type: none"> <li>• balanced budget not set for 2007/08; and</li> <li>• arrangements were not actively managed throughout 2007/08.</li> </ul>                                                                                                                                                                                                                                                                                                                              |
| The body has put in place arrangements to manage and improve value for money.                       | <ul style="list-style-type: none"> <li>• the systems for monitoring and reviewing value for money were not robust throughout 2007/08;</li> <li>• savings have been made in the later part of 2007/08, however these were primarily a response to the need to restore the Council's financial position more than to actively manage and improve value for money; and</li> <li>• the Council has not submitted a Gershon Efficiency statement as it did not have reliable information.</li> </ul> |

### Recommendation

**R4** Ensure that weaknesses in arrangements to secure economy, efficiency and effectiveness in its use of resources are addressed.

**27** We therefore propose to issue a qualified conclusion stating the Council did not have adequate arrangements for securing economy, efficiency and effectiveness. Appendix 2 contains the wording of our draft report.

# Formal audit powers

28 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..

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

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# Independence

- 30** 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.
- 31** We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 32** 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

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

## Audit fees

- 34** We reported our fee proposals as part of the Audit Plan for 2007/08 and supplementary fees letter. The table below reports the outturn fee against that plan.

**Table 4      Audit fees**

|                                                      | <b>Plan 2007/08</b> | <b>Estimated 2007/08</b> |
|------------------------------------------------------|---------------------|--------------------------|
| Financial statements and Annual Governance Statement | 73,730              | To be confirmed          |
| Value for Money                                      | 51,010              | 45,000                   |
| <b>Total Audit Fees</b>                              | <b>124,740</b>      | <b>To be confirmed</b>   |

- 35** Additional fees were agreed during the year as set out in our supplementary fees letter. As the audit is not yet complete we are not able to provide a final estimated position on our fees for 2007/08. However, we have already spent longer on the accounts than planned due to:
- the increased risk of the audit due to the issues identified as part last year's audit and the overall control environment. This requires greater input from more senior staff and the need for an independent review of the proposed opinion before it can be issued;

## Independence

- the number of errors and inconsistencies identified in the accounts;
- some delays in getting working papers to support the figures in the accounts

**36** However, within our plan for value for money work we deferred agreed projects on performance management and ethical governance. Although, some of this time was used to undertake further work on financial management (as part of our Use or Resources work), we may be able to offset the remainder against additional time spent on the accounts.

**37** We will of course seek to minimise the additional time spent on the audit, for example through alternative approaches to other elements of the programme such as our use of resources work. The outturn on inspection fees will be reported in the annual audit and inspection letter.

### Our arrangements to ensure independence and objectivity

**38** We have comprehensive procedures to ensure independence and objectivity. These are outlined in Table 5.

**Table 5 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"> <li>• do not hold a financial interest in any of our audit clients;</li> <li>• 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</li> <li>• may not enter into business relationships with UK audit clients or their affiliates.</li> </ul> <p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none"> <li>• the general requirement to carry out work independently and objectively;</li> <li>• safeguarding against potential conflicts of interest;</li> <li>• acceptance of additional (non-audit) work;</li> <li>• rotation of key staff;</li> <li>• other links with audited bodies;</li> <li>• secondments;</li> <li>• membership of audited bodies;</li> <li>• employment by audited bodies;</li> <li>• political activity; and</li> </ul> |

| Area            | Arrangements                                                                                                                                                                                                           |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                 | <ul style="list-style-type: none"> <li>• gifts and hospitality.</li> </ul>                                                                                                                                             |
| Code of Conduct | 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. |
| Confidentiality | All staff are required to sign an annual undertaking of confidentiality as a condition of employment.                                                                                                                  |

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# Appendix 1 – Management representation letter

To: Paul King  
District Auditor  
Audit Commission  
2nd Floor Sheffield House  
Lytton Way  
Off Gates Way  
Stevenage SG1 3HG

## Uttlesford 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 directors and other officers of Uttlesford 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. All representations cover the Council's accounts included within the financial statements.

### 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 Authority Accounting in the United Kingdom: A Statement of Recommended Practice which present fairly the financial position and financial performance of the Council and for making accurate representations to you.

### Uncorrected misstatements

I confirm that I believe the effects of the uncorrected financial statements misstatements are not material to the financial statements, either individually or in aggregate. These relate to:

- VAT account income of £144k
- NNDR income of £231k

These misstatements have been discussed with those charged with governance within the Council and the reason for not correcting these items is that the Council is uncertain as to the Council's liability. These sums which have historically been carried forward as part of the year end reconciliations and officers want to fully understand the impact on the accounts before making any amendments.

### 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 Council meetings, have been made available to you.

### Going concern

I am satisfied that it is appropriate to adopt the going concern basis in the preparation of the financial statements and that the financial statements include, such disclosures, if any, relating to going concern.

### Irregularities

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

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

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

## Appendix 1 – Management representation letter

### 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;
- 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; and
- all unfunded benefits which come within FRS 17 liabilities are included with the FRS 17 figures.

### Related party transactions

I confirm the completeness of the information disclosed 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

### Post balance sheet events

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

### Specific representations

I confirm that the decision to include the BAA claim for £1m costs as a contingent liability is well founded and appropriate.

Signed on behalf of Uttlesford District Council

I confirm that the this letter has been discussed and agreed by the Performance Select Committee on 30 September 2008

Signed:

Name: Adrian Webb

Position: Director of Central Services

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# Appendix 2 – Proposed auditor's report

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## Independent auditor's report to the Members of Uttlesford District Council

### Opinion on the financial statements

I have audited the Authority accounting statements and related notes of Uttlesford District Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority accounting statements comprise the Authority Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority Balance Sheet, the Authority Statement of Total Recognised Gains and Losses, the Authority 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 Uttlesford 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 Financial Services and auditor

The Director of Central Service's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority 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 Authority accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007:

- the financial position of the Authority 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 Authority's corporate governance procedures or its risk and control procedures.

## Appendix 2 – Proposed auditor's report

I read other information published with the Authority accounting statements, and consider whether it is consistent with the audited Authority 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 Authority 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 Authority accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority accounting statements and related notes, 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 Authority 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 Authority accounting statements and related notes.

### Opinion

In my opinion:

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

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### 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 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 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.

### Adverse Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the relevant criteria specified by the Audit Commission for principal local authorities specified by the Audit Commission, I am not satisfied that, in all significant respects, Uttlesford District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008, in that it did not put in place:

- adequate arrangements to maintain a sound system of internal control;
- adequate arrangements to manage and improve value for money;
- a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities;
- adequate arrangements to ensure that its spending matches its available resources;
- adequate arrangements for managing performance against budgets; and
- adequate arrangements for the management of its asset base.

### Best Value Performance Plan

I have issued our statutory report on the audit of the authority's best value performance plan for the financial year 2007/08 on 17 December 2007. 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.

**Paul King**

**District Auditor**

Audit Commission, Sheffield House, Lytton Way, Stevenage. SG1 3HG

30 September 2008

# Appendix 3 – 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 £000's                      | Cr £000's | Dr £000's     | Cr £000's |
| Cut off testing on purchases and sales allocated to the incorrect year                  | Reduce purchases and Increase sales                                                        | 53                             |           |               |           |
| Trading account figures excluded from I&E                                               | Increase net costs of services and reflect balances for trading accounts 'below the line'; | 361                            | 361       |               |           |
| Various misstatements in the accounts                                                   | Net effect of trivial misstatements                                                        | 6                              |           | 53            |           |
| Full pooling liability to be shown in the accounts, not just cash payments to NNDR pool | Increase cash figure payable. Increase creditors.                                          | 298                            |           |               | 298       |
| Gain on sale of asset included in I&E and removed from STRGL                            | Increase capital receipts                                                                  |                                | 1,004     |               |           |
| Apportionment of depreciation for the                                                   | Decrease value of                                                                          |                                |           |               | 89        |

**Appendix 3 – Summary of adjusted misstatements**

|                                                           |                                                        | Income and expenditure account |       | Balance sheet |     |
|-----------------------------------------------------------|--------------------------------------------------------|--------------------------------|-------|---------------|-----|
| treatment of the finance lease                            | operational assets                                     |                                |       |               |     |
| Accrued interest on borrowing to comply with FRS and SoRP | Increase investments.<br>Reduce debtors                |                                |       | 62            | 62  |
| Week 53 dwelling rent income                              | Reduce dwelling rent income. Increase rents in advance |                                |       |               | 177 |
| Creditor accruals incorrectly posted                      | Reduce creditor accruals                               |                                |       | 156           |     |
|                                                           |                                                        |                                |       |               |     |
|                                                           |                                                        | 719                            | 1,365 | 271           | 626 |

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# Appendix 4 – Action Plan

| Page no. | Recommendation                                                                                                                                                 | Priority<br>1 = Low<br>2 = Med<br>3 = High | Responsibility | Agreed | Comments | Date |
|----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|----------------|--------|----------|------|
| 8        | R1 Improve qualitative processes to include robust officer review to ensure the accounts presented for audit are free from inconsistencies and casting errors. | 3                                          |                |        |          |      |
| 8        | R2 Review all disclosures and notes to the accounts to ensure compliance with recommended practice and clarify to the reader.                                  | 2                                          |                |        |          |      |
| 8        | R3 Strengthen controls over the authorisation of journals and consider senior office review of journals over a specified amount.                               | 2                                          |                |        |          |      |
| 11       | R4 Ensure that weaknesses in arrangements to secure economy, efficiency and effectiveness in its use of resources are put in place.                            | 3                                          |                |        |          |      |