

Committee: Finance and Administration Committee
Date: 27th November 2008
Title: **Annual Governance Report 2007/08**
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Agenda Item

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Item for
Decision

1. Summary

- Council, at its meeting on 21 October 2008, received the Annual Governance Report from the Audit Commission for the 2007/08 Audit.
- Council agreed to refer the District Auditor's recommendations to this Committee for response and monitoring of progress.
- Within the report were 4 recommendations requiring action by the Council, and a formal response to the Audit Commission.
- The Audit Commission's Action Plan with recommended responses from the Council is set out in Appendix A.
- Responses to each of the recommendations are set out in the body of the report.
- Appendix B summarises the Value for Money conclusion on criteria not assessed as adequate.
- Members should note that the Audit Commission's Annual Governance Report relates to the financial year 2007/08.

2. Recommendations

- It is recommended that members agree the responses to the Audit Commission set out in Appendix A.
- Members receive a further report at the 29th January 2009 meeting of this Committee on progress in resolving the outstanding final accounts issues, set out in paragraph 5 below.
- An update on the progress on improving the Council's Value for Money assessment for Use of Resources is also reported to the 29th January 2009 meeting of this Committee.

3. Background Papers

- Annual Governance Report 2007/08 dated 30th September 2008
- Statement of Accounts 2007/08

4. Impact

Communication/Consultation	The Annual Governance Report has been added to the Finance section on the Council's website.
Community Safety	There are no specific Community Safety implications in this report.
Equalities	There are no specific Equalities implications in this report.
Finance	There are potentially 3 areas where the Council may have to set aside resources to write off balances brought forward from earlier financial years. (See paragraph 6 below).
Human Rights	There are no specific Human Rights implications in this report.
Legal implications	The Council is required to respond formally to the Audit Commission.
Sustainability	There are no specific Sustainability implications in this report.
Ward-specific impacts	There are no Ward-specific implications in this report.
Workforce/Workplace	There are no specific Workforce/Workplace implications in this report.

5. Situation-Accounting Practice and Financial Reporting

- The District Auditor has included the following recommendations on Accounting Practice and Financial Reporting in the Annual Governance Report:

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.

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- All the above recommendations are accepted by officers. When the Final Accounts Timetable for 2008/09 is drawn up in March 2009, the above recommendations will be incorporated into the programme.

6. Errors in the financial statements.

- Within the District Auditor's report, two items have been identified which the Council as not adjusted the financial statements, which are:
 - VAT account income of £144k, and
 - NNDR income of £231k
- Performance Select Committee, at its meeting on 30th September approved the Statement of Accounts for 2007/08. At the same meeting, the Committee agreed to refer the above issues to this Committee for monitoring, to ensure the matters were resolved prior to the Accounts being closed for 2008/09.
- 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.
- Staff resources have now been allocated to the task of researching back to previous financial years and have commenced work on the VAT account. This VAT matter goes back as far as the financial year 2002/03. If further work confirms this, the balance of £144k will need to be written out of the accounts in this financial year.
- The NNDR income analysis is required to be undertaken back to the 2005/06 financial year.
- Because of the issue that has been raised by the District Auditor relating to NNDR, officers checked similar data relating to Council Tax. It would appear that an issue relating to brought forward balances (from at least as far back as 2002/03) also exists. The amount in question for Council Tax income is £338k.

7. Arrangements to secure Economy, Efficiency and Effectiveness

- The Audit Commission are required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources.
- The assessment is carried out against 12 specified criteria. Set out at Appendix B is the Audit Commission's summary of those Value for Money areas where the Council were not assessed as adequate against the criteria.
- Officer comments in relation to the 6 criteria in Appendix B are set out below:

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- Members should note that the Audit Commission's Annual Governance Report relates to the financial year 2007/08.
- The Council set a balanced budget for the financial year 2008/09, and also Finance and Administration Committee approved a Medium Term Financial Strategy (MTFS) for 2008/09 on 27th March 2008.
- The Council has introduced a new detailed Budget Monitoring system from May 2008, which also ensures members receive monthly reports, in addition to formal reports being submitted to all committees, Heads of Division receive reports and provide explanations of large variances in committee reports. Meetings between the Strategic Management Board and the political administration receive reports on "Hot spots" which are high profile budgets, and the Improvement Board receive regular updates on budgets against spend.
- A bid to Improvement East for additional resources is currently being prepared in order to develop a detailed asset management plan, together with a formal asset register. Work is currently underway to implement an asset module onto the Council's Financial Management System to assist in the final accounts process.
- A detailed report was submitted to Performance Select Committee on 24th June 2008 to approve the Annual Governance Statement for 2007/08.
- Performance Select Committee agreed a timetable and framework for the 2008/09 Annual Governance Statement at its meeting on 13th November 2008.
- The District Auditor has undertaken additional work on control accounts and bank account reconciliations to identify if there were any material misstatement in the accounts as part of the 2007/08 final accounts process. None were identified.
- The new National Indicator 179 (to replace Gershon) relating to the total net value of ongoing cash-releasing savings was first required to be reported with effect from 1st October 2008. The Council produced relevant information as per the timetable for the first return at the end of October 2008.

8. Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
The Council does not resolve the 2 outstanding issues relating to the 2007/08 Accounts.	2	The district Auditor may possibly qualify the Council's Accounts for 2008/09.	Staff resources have already been allocated to resolve the outstanding queries. Progress will be reported to the next meeting of this Committee.
Recommendations 1 to 3 identified in paragraph 5 and Appendix A are not implemented.	2	If not implemented this may affect the Use of Resources score for 2008/09.	The Final Accounts Timetable will include planning for the issues raised by the District Auditor.
The Council does not address the Value for Money areas of Use of Resources where the Council has not scored "adequate".	3	The Council will continue to receive a poor mark on Use of Resources from the Audit Commission. This may result in some intervention by the Government.	Strategic Management Board has already started work on an Action Plan to ensure the Council improves its Value for Money scores under Use of Resources.

1 = Little or no risk or impact

2 = Some risk or impact – action may be necessary.

3 = Significant risk or impact – action required

4 = Near certainty of risk occurring, catastrophic effect or failure of project.