

# Annual governance report

**Uttlesford District Council**

**Audit 2005/06**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our reports to the Authority**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

### **Copies of this report**

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## Purpose of this report

- 1 We are required by the Audit Commission's statutory Code of Audit Practice for Local Government bodies (the Code) to issue a report to those charged with governance summarising the conclusions from our audit work. For the purposes of this report, the Authority's Audit Committee is considered to fulfil the role of those charged with governance and references to the Audit Committee should be read as such.
- 2 We are also required by professional auditing standards to report to the Audit Committee certain matters before we give our opinion on the financial statements. The section of this report covering the financial statements fulfils this requirement.
- 3 This is our annual governance report covering the audit of the Authority for the year ended 31 March 2006 and is presented by the District Auditor.
- 4 The principle purposes of the report are:
  - to reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and the Audit Committee;
  - to share information to assist both the auditor and those charged with governance to fulfil their respective responsibilities; and
  - to provide the Audit Committee with recommendations for improvement arising from the audit process.
- 5 The Audit Commission has circulated to all audited bodies a Statement of Responsibilities of Auditors and Audited Bodies that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement.

## Scope of the report

- 6 In undertaking our audit, we comply with the statutory requirements of the Audit Commission Act 1998 and the Code. Auditors' responsibilities are to review and report on, to the extent required by the relevant legislation and the requirements of the Code:
  - the Authority's financial statements; and
  - whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 7 Our risk assessment and planned response to the key audit risks was summarised in our audit and inspection plan. A summary of our responsibilities and audit approach is included in Appendix 1. The annual governance report summarises the significant findings, conclusions and recommendations arising from our audit work. The results of our inspection work, and our separate grant claims' certification programme, will be reported in the Relationship Manager Letter later in the year.

- 8** We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 2. Appendix 3 provides information about the fee charged for our audit and Appendix 4 sets out the requirements in respect of independence and objectivity.

## Key messages

### Financial statements

- 9 Our work on the financial statements is now substantially complete, although there are still some outstanding issues to be resolved. In particular, our work on fixed assets and Pension Contribution has yet to be concluded. Should any further matters arise in concluding the outstanding work that requires reporting, we will raise them with the Chair of this committee.
- 10 Subject to the satisfactory conclusion of the work outstanding, we anticipate being able to issue an unqualified opinion by 30 September 2006 (a draft report is attached at Appendix 5).

### Use of resources

- 11 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. We anticipate being able to issue a qualified conclusion on the use of resources by 30 September 2006 (a draft report is attached at Appendix 5).

## Financial statements

- 12 We are required to give an opinion on whether the Authority's financial statements present fairly the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended.

### Status of the audit

- 13 Our work on the financial statements is now substantially complete, although there are still some outstanding issues to be resolved. In particular, our work on fixed assets and Pension Contribution 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 the Chair of this committee (or alternative arrangements as appropriate).

### Matters to be reported to the Performance Select Committee

- 14 We have the following matters to draw to the Audit Committee's attention.

#### Expected modifications to the auditor's report

- 15 On the basis of our audit work, subject to the satisfactory conclusion of any work outstanding reported above, we currently propose to issue an unqualified audit report. A draft audit report is attached at Appendix 5.

#### Uncorrected misstatements

- 16 Our audit identified the following misstatements in the financial statements that management has decided not to adjust. Excluding those misstatements that are 'clearly trivial' (as defined in professional auditing standards), these are set out in Table 1 below.

**Table 1**      **Uncorrected misstatements**

Misstatements that management have decided not to adjust

Issues	Value of misstatement £	Impact on surplus/ (deficit) £
Software licenses included within tangible fixed assets when they should be in intangible fixed assets.	estimated at £382,000	no impact on surplus

**Recommendations**

*R1 Amend the draft financial statements for the uncorrected misstatements identified in Table 1.*

**Adjusted misstatements**

- 17 To assist you in fulfilling your governance responsibilities, we are required to consider reporting adjusted misstatements to you where these are material. We therefore draw your attention to the list of material and significant misstatements that management has adjusted in Table 2 below. A complete listing of all amendments has been provided to officers.

**Table 2 Adjusted misstatements in the financial statements**

Details of material and/or significant adjustments made to the financial statements

<b>Issue</b>	<b>Value of misstatement £</b>	<b>Impact on surplus/(deficit)</b>
It is standard practice for Housing Assets to be reduced to social market value using a discount factor as advised by the ODPM (now DCLG), in July 2005. The discount factor was amended from 57% to 46%. The Council incorrectly used the old rate of 57% leading to housing assets being valued £272 million. Applying the correct discount factor of 46% meant that the assets should have been valued at £220 million and were thus overstated by £52 million.	-52,584,000	no impact on surplus
A car park owned by the council was excluded from accounts and the fixed asset register.	260,000	no impact on surplus
Change in estimate for NNDR contribution to the pool between the accounts being prepared and the claim submitted. (There is no impact on the surplus or deficit as this is credited and debited to the collection fund and both sides have been	606,000	nil



Issue	Value of misstatement £	Impact on surplus/(deficit)
adjusted)		
Information provided by the external auditors of Essex County Council Pension Fund ,after all Essex Councils had prepared their draft Statement of Accounts, identified an omission of the March pension fund gain from the actuarial valuation of the fund. This moves the position from an actuarial gain for the year of £294,000 to an actuarial gain for the year of £1,479,000 and reduces the pension liability on the balance sheet and the negative pension reserve from £9,800,000 to £8,615,000 with corresponding amendments to relevant notes to the balance sheet. There are also consequential changes to the Statement of Total Movements in Reserves and note 6 to this statement.	1,185,000	no impact on surplus.

- 18 The process of the accounts preparation at the Council has improved compared to the previous year, notwithstanding the misstatements noted above. This is due to the preparatory work done by the Principal Accountant (Technical) including a detailed timetable for close down and the production of the accounts, as well as rigorous control of the closedown timetable. However preparation of the accounts for presentation to the Operations Committee on 29 June 2006 was achieved by the use of a number of temporary specialist accountants. We were unable to indicate exactly when we would have queries on certain specialist issues that these contractors would need to answer so could not take up the offer of them being on site. We therefore relied on the Principal Accountant (Technical) to liaise with them to obtain answers to our queries. This has resulted in our audit work taking longer than estimated.

### **Recommendations**

*R2 Improve year end and qualitative processes for producing the financial statements to ensure the accounts presented for approval are free from significant errors and supported by a robust set of working papers.*

*R3 Ensure that sufficient permanent staff are recruited by the Council and are available to prepare the accounts and respond to audit queries.*

*R4 Ensure that valuations are obtained by the staff preparing the accounts and the amounts checked.*

## **Qualitative aspects of accounting practices and financial reporting**

- 19 Our audit includes consideration of the qualitative aspects of the financial reporting process, including matters that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. We have no matters that we wish to report to you.

## **Material weaknesses in internal control identified during the audit**

- 20 Our audit identified the following weaknesses in systems of accounting and financial control which we should report to you:
- we noted that a number of reconciliations (NNDR, Council Tax, Cashiers cash in transit) had not been fully reconciled at year end to the ledger and differences remained.
  - The housing asset valuation per the original accounts differed from the District Valuer's report and this difference was not followed up when preparing the fixed asset disclosures in the accounts. Had this difference been identified and investigated, the misstatement of the valuation of the housing assets notes in Table 1 could have been identified when the accounts were prepared.
- 21 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.

### ***Recommendations***

*R5 Reconciliations should be prepared and reconciled to the ledger for all feeder systems and cash in transit prior to the approval of the accounts*

## **Matters specifically required by other auditing standards**

- 22 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.

- 23 We do not wish to report any matters to you.

### Any other matters of governance interest

- 24 Finally, we are required to report any other matters that we believe to be of governance interest. We report these matters in Table 3 below.

**Table 3 Other matters of governance interest**

There are a number of other matters that we would like to bring to the attention of those charged with governance

Area	Auditor responsibility	Impact
Statement of internal control (SIC)	The auditor reviews the SIC for compliance with the requirements of proper practice as specified by CIPFA and consistency with other information from the audit of the financial statements.	The SIC complies with the CIPFA requirements and is consistent with other information from our audit work.
Whole of Government Accounts' consolidation pack	The auditor is responsible for issuing a report on the consistency of the Authority's consolidation pack with the statutory financial statements.	The deadline for submission to the government is 6th October and we await receipt from the Authority

### Letter of representation

- 25 We obtain written representations from management as an acknowledgement of its responsibility for the fair presentation of the financial statements and as audit evidence on matters material to the financial statements. The text of the required letter of representation is included at Appendix 6.

### Next steps

- 26 We are drawing these matters to the Audit Committee's attention so that:
- you can consider them before the financial statements certified;
  - the representation letter can be signed on behalf of the Authority and those charged with governance before we issue our opinion on the financial statements; and

- the Committee has the opportunity to amend the financial statements for the unadjusted misstatements/significant qualitative aspects of financial reporting issues identified above. Should you choose not to amend the financial statements, in accordance with the ISA (UK and Ireland) 260, we request that you extend the representation letter to explain why you are not adjusting the financial statements. We ask that the letter specifically details the misstatements and/or qualitative aspects of reporting to which it relates, either in the body of the letter or in a document appended to it.

## Use of resources

### Value for money conclusion

- 27 The Code requires us to issue reach a conclusion on whether we are satisfied that the Authority has proper arrangements in place for securing economy, efficiency and effectiveness in its use of your resources (the value for money conclusion). In meeting this responsibility, we will review evidence that is relevant to the Authority's corporate performance management and financial management arrangements. Our work in reaching the value for money conclusion is integrated with our work on the use of resources assessment. The use of resources assessment is a qualitative assessment of the effectiveness of the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources. The five areas we make assessments on are; financial statements, financial management, financial standing, internal control and value for money.
- 28 It is important to note that the value for money conclusion relates to the embedded arrangements that the Council had in place for securing economy, efficiency and effectiveness in its use of resources for the financial year ended 31 March 2006. Therefore assurances and evidence supporting the conclusion relate to this period - processes in place after 31 March 2006 will not count as evidence. The criteria specified in the Code are listed within Appendix 1. On the basis of our audit work, we currently propose to issue a report including an except for value for money conclusion on the following grounds:
- the Council had not put in place adequate arrangements to and improve its consultation process with stakeholders
  - the Council does not have in place a medium-term financial strategy, and
  - the Council had not put in place adequate arrangements to manage and improve value for money.
- 29 The key findings from our work on the use of resources criteria are summarised below.

### Strategic objectives

- 30 The Council has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.

### Consultation

- 31 During 2005/06 the Council has inadequate arrangements in place to manage and improve its consultation process with stakeholders. This was highlighted to the Council in the Use of Resources report issued to the Council in April 2006.

## **Performance management**

- 32 The body has put in place arrangements for monitoring and scrutiny of performance to identify potential variances against strategic objectives and targets for action where necessary and reporting to members.

## **Data quality**

- 33 The Council has put in place adequate arrangements to monitor the quality of its published performance information, and for reporting the results to members. However, there is no Data Quality strategy or skills assessment for staff involved in preparing performance data.

## **Internal control**

- 34 The Council has put in place arrangements to maintain a sound system of internal control.

## **Risk management**

- 35 The Council has put in place adequate arrangements to manage its significant business risks. We note that whilst the arrangements addressed the appropriate issues the risk register submitted was not up to date. However, this is mitigated by the existence of the service plan pre-assessment document which clearly shows that risk assessment is an ongoing process.

## **Improving value for money**

- 36 The Council has not put in place adequate arrangements to manage and improve value for money.
- 37 There is no clear procurement strategy that will ensure value for money. In addition there were no meetings of the corporate procurement working group to move this forward in 2005/06
- 38 Improvement plans for poorly performing services has been introduced and a new performance Select Committee introduced but this is very new, first meeting in February 2006

## **Financial strategy**

- 39 The Council does not have in place a medium-term financial strategy.

## **Budget setting**

- 40 The Council has put in adequate arrangements for the setting its budgets.

## **Budget monitoring**

- 41 The Council has put in adequate arrangements for the monitoring its budgets.

### **Asset management**

- 42 The Council has put in place adequate arrangements for the management of its asset base

### **Probity**

- 43 The Council has put in place arrangements to promote and ensure probity and propriety in the conduct of its business.

## Use of auditors' statutory powers

- 44 Auditors are required to consider the exercise of certain statutory powers during the course of the audit, as summarised in Table 5 below.

**Table 4 Use of statutory powers**

<b>Issue</b>	<b>Auditor responsibility</b>	<b>Impact</b>
Section 8 reports	Section 8 of the Act requires that auditors should consider whether, in the public interest, they should report on any matter that comes to their attention in the course of the audit so that it may be considered by the body concerned or brought to the attention of the public.	There have been no section 8 reports in respect of the financial year 2005/2006.
Section 11 recommendations	To consider whether a written recommendation should be made to the audited body requiring it to be considered and responded to publicly.	There have been no s11 recommendations.
Best value	To consider whether to recommend that the Audit Commission should carry out a best value inspection of the Authority under section 10 of the Local Government Act 1999 and/or that the Secretary of State should give a direction under section 15 of that Act.	Our work in respect of the Authority's 2005/2006 Best Value Performance Plan (BVPP) was reported in the 2005 annual audit and inspection letter. No recommendations were made to the Audit Commission or the Secretary of State.



## Closing remarks

- 45 This report has been discussed and agreed with the Executive Manager (Finance and Asset Strategy). A copy of the memorandum will be presented at the Performance Select Committee on 21 September 2006.
- 46 The report makes a number of recommendations. An action plan is included at Appendix 7, which includes responses from management and indicative target dates for the implementation of recommendations.
- 47 The Authority has taken a positive and constructive approach to our audit and I would like to take this opportunity to express my appreciation for the Authority's assistance and co-operation.

**Paul King**  
**District Auditor**

September 2006

# Appendix 1 – Audit responsibilities and approach

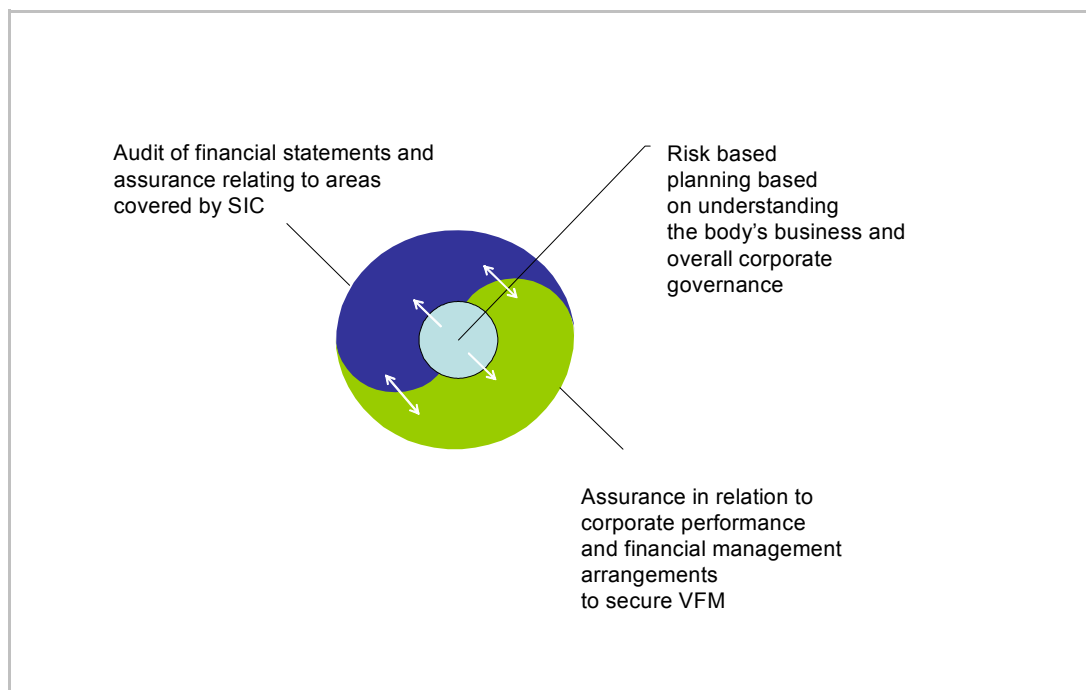
## Audit objectives

- 1 Our objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on the significant risks that are relevant to our audit responsibilities.

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### Figure 1 Code of Audit Practice

Code of practice responsibilities



## Approach to the audit of the financial statements

- 2 In our approach to auditing the financial statements, we adopt a concept of materiality. Material errors are those which might be misleading to a reader of the financial statements. We seek, in planning and conducting our audit of the accounts, to provide reasonable assurance that your financial statements are free of material misstatement. In planning our work we considered the arrangements of the Authority which had most impact on our opinion. These included:
  - the standard of the overall control environment and internal controls;
  - reliance on internal audit;
  - the likelihood of material misstatement occurring from of material information systems; or a material error failing to be detected by internal controls;
  - any changes in financial reporting requirements; and
  - the effectiveness of procedures for producing the financial statements and supporting material.
- 3 The results of the above feed into our risk assessment which determines the level and type of testing undertaken on each element of the financial statements. The keys risks that we identified include:
  - lack of permanent finance staff
  - the 2004/05 financial statements included errors which we assessed to be material; and
  - the working papers provided to support the 2004/05 accounts were incomplete.

## Approach to audit of arrangements to secure value for money

- 4 The scope of these arrangements is defined in paragraph 20 of the Code as comprising:
  - corporate performance management; and
  - financial management arrangements.
- 5 Our conclusion is informed and limited by reference to relevant criteria covering specific aspects of audited bodies' arrangements, specified by the Code. These criteria are set out in table 3 below.

**Table 5 Value for Money conclusion criteria**

<b>Criteria</b>
1. The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.
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.
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.
4. The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.
5. The body has put in place arrangements to maintain a sound system of internal control.
6. The body has put in place arrangements to manage its significant business risks.
7. The body has put in place arrangements to manage and improve value for money.
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.
9. The body has put in place arrangements to ensure that its spending matches its available resources.
10. The body has put in place arrangements for managing performance against budgets.
11. The body has put in place arrangements for the management of its asset base.
12. The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.

- 6 In planning audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, considered and assessed relevant significant business risk. Significance is defined by the Code as 'a matter of professional judgment and includes both quantitative and qualitative aspects of the risk'.
- 7 The potential sources of assurance when reaching the value for money conclusion include:
  - the Authority's whole system of internal control as reported in its statement on internal control;
  - results from statutory inspections or the work of other regulators, for example, corporate assessments, service assessments (whether by the Commission or other regulators), etc.;
  - work specified by the Audit Commission, for example, the use of resources assessments, and data quality work;
  - links to the financial statements' audit, including review of internal audit, the SIC and budgetary control arrangements; and
  - other work necessary to discharge our responsibilities.

## Appendix 2 – Audit reports issued

**Table 6**

<b>Planned output</b>	<b>Planned date of issue</b>	<b>Actual date of issue</b>	<b>Addressee</b>
Audit and inspection plan	March 2005	March 2005	Management
Interim audit memorandum	September 2006	September 2006	Management
Annual governance report	September 2006	September 2006	Audit Committee
Opinion on financial statements	September 2006	September 2006	The Authority
Value for money conclusion	September 2006	September 2006	The Authority
Final accounts memorandum	October 2006	October 2006 (*)	Management
Use of resources assessments	April 2006	April 2006	Management
BVPP report	December 2005	December 2005	The Authority
User Focus Phase 2	October 2006	October 2006 (*)	Management

## Appendix 3 – Fee information

**Table 7**

<b>Fee estimate</b>	<b>Plan 2005/06</b>	<b>Actual 2005/06</b>
Audit	£ 41,000	£ 41,000
Accounts*	£ 44,500	£ 44,500
Use of resources*	£ 27,100	£ 27,100
Inspection	£ 10,000	£ 10,000
Total audit fees**	£122,600	£122,600
Voluntary improvement work*	£ 0	£ 0

\* Report reasons for any significant variances

\*\* The outturn on inspection and grant certification fees will be reported in the Relationship Manager Letter

## Appendix 4 – The Audit Commission’s requirements in respect of independence and objectivity

- 1 We are required by the standard to communicate following matters to the Audit Committee:
  - 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 team, and which are required to be disclosed under auditing and ethical standards.



## **Appendix 5 – Independent auditor’s report to the Members of Uttlesford District Council**

### **Opinion on the financial statements**

I have audited the financial statements of Uttlesford District Council for the year ended 31 March 2006 under the Audit Commission Act 1998, which comprise the Consolidated Revenue Account, the Housing Revenue Account, the Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to 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 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 2005 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 presents 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 2005.

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’ published on 2 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.

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

**Basis of audit opinion**

I conducted our 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 2005, the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended.

.....Date.....

Paul King  
District Auditor

Audit Commission, Sheffield House, Lytton Way, Stevenage, Hertfordshire,  
SG13HG

## **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 I am satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, 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 2006, except in respect of meeting the following criteria:

- the Council had not put in place adequate arrangements to and improve its consultation process with stakeholders
- the Council does not have in place a medium-term financial strategy, ; and
- the Council had not put in place adequate arrangements to manage and improve value for money.

**Best Value Performance Plan**

I issued my statutory report on the audit of the authority’s best value performance plan for the financial year 2005/06 in 20 December 2005. 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.

.....Date.....

Paul King  
District Auditor

Audit Commission, Sheffield House, Lytton Way, Stevenage, Hertfordshire,  
SG13HG

## Appendix 6 – Letter of representation

Phil O'Dell  
Executive Manager, Finance and Asset Strategy  
Council Offices  
London Road  
Saffron Walden  
Essex  
CB11 4ER

Dear Phil

2005/06 Financial Statements audit - request for a Letter of Representation

International Standards on Auditing set out guidance on the use by auditors of management representations (ISA (UK&I) 580) and on possible non-compliance with laws and regulations (ISA (UK&I) 250). We have interpreted this guidance as it affects Councils and we expect the following points to apply:

- auditors do not seek representations on matters which duplicate those in the standard responsibility statement on the Statement of Accounts;
- auditors may wish to obtain written representation where they are relying on management's representations in respect of judgemental matters (for example the level of likely incidence of a claim), which may not be readily corroborated by other evidence;
- auditors are likely to request written representations on the completeness of information provided;
- auditors may wish to obtain written representation on issues other than those directly related to the Statement of Accounts;
- the letter is dated on or near to the date on which the auditor signs the opinion and certificate;
- the letter is signed by the person or persons with specific responsibility for the financial statements who, in order to be able to sign, will need to consult with the legal officer or monitoring officer as appropriate; the letter may include the wording 'having made appropriate enquiries of other officials of the authority'; and
- the letter is formally acknowledged by the Committee who are 'charged with governance'
- I would expect the letter of representation to include the following:
- that there are no significant contingent liabilities other than those disclosed in the notes to the accounts;

- that there is no significant pending litigation, proceedings or claims other than those disclosed in the notes to the accounts;
- that there are no instances of non-compliance with laws or regulations which would require adjustment to or disclosure in the accounts;
- that no significant post balance sheet events have occurred which would require adjustment to or disclosure in the accounts;
- that there are no other material transactions with related parties other than those which have been properly recorded and disclosed;
- that there are no known significant instances of irregularities, including fraud, other than those already disclosed to the auditors;
- that the Council has carried out a formal review of its accounting policies as per FRS 18 and made appropriate changes;
- that a review of the appropriateness of the figures provided by Essex County Council in relation to FRS17 has been undertaken;
- that a formal review of the effectiveness of the System of Internal Control has been carried out which has enabled the Council to make the necessary disclosures in line with guidance issued by CIPFA;
- that proper consideration of the need to prepare Group Accounts has been undertaken; and
- that a formal review of the appropriateness of the Bad Debt provision has been undertaken.

The above matters are examples only. There may be other matters which you would wish to include in the management letter of representation.

I should be grateful if you could, after discussion with other appropriate officers, provide a management letter of representation for Uttlesford District Council at the appropriate time.

Yours sincerely

Laurie Wilcock  
Audit Manager

## Appendix 7 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R1 Amend the draft financial statements for the uncorrected misstatements identified in Table 1.	1				
10	R2 Improve year end and qualitative processes for producing the financial statements to ensure the accounts presented for approval are free from significant errors and supported by a robust set of working papers.	3				
10	R3 Ensure that sufficient permanent staff are recruited by the council and are available to prepare the accounts and respond to audit queries.	3				
10	R4 Ensure that valuations are obtained by the staff preparing the accounts and the amounts checked.	2				