

Annual Governance Report

Date

Last saved: 26/10/2007 13:15:00

Annual Governance Report

Uttlesford District Council

Audit 2006/07

- Audit Commission descriptor to be inserted by Publishing-

Document Control

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Filename Interim annual governance report 0607 - UDC

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Purpose of this document

- 1 In accordance with the Audit Commission's Code of Audit Practice (the Code), this report provides a summary of the work we have carried out during our 2006/07 audit of accounts, the conclusions we have reached and the recommendations we have made to discharge our statutory audit responsibilities to those charged with governance (in this case the Performance Select Committee) at the time they are considering the financial statements.
- 2 The accounts audit is still in progress and therefore this report provides a summary of the position as at 26 October 2007, which is the agreed date by which reports for the Committee meeting on 6 November 2007 need to be prepared. We will provide an update to the Committee at the meeting of any significant developments since 26 October 2007.
- 3 In preparing our report, the Code requires us to comply with the requirements of International Standards on Auditing (United Kingdom & Ireland) – ISA (UK&I) - 260 'Communication of Audit Matters to Those Charged With Governance', by reporting to you matters relating to the audit of the financial statements. Other auditing standards require us to communicate with you in other specific circumstances including:
 - where we suspect or detect fraud;
 - where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
 - non-compliance with legislative or regulatory requirements and related authorities.
- 4 We are also required to communicate to you the Audit Commission's requirements in respect of independence and objectivity, and these are set out at Appendix 1.
- 5 This report has been prepared for presentation to the Performance Select Committee on 6 November. Members are invited to consider the matters raised in the report.
- 6 Our work during the year was performed in line with the plan that we presented to the Performance Select Committee on 19 April 2006. We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 2.

Key messages

- 7 As at 26 October 2007 our work on the financial statements is incomplete with many outstanding issues still to be resolved. In particular, our work on the Cashflow statement, Statement of Recognised Gains and Losses, fixed assets and debtors has yet to be concluded. It is for the Committee to determine how the final annual governance report is received, either to an additional meeting of the Committee or alternatively by the Chair of the Committee. As there will have been material changes to the Statement of Accounts approved by the full Council on 31 July 2007 the accounts will need to be re-approved following the completion of our audit. A summary of the outstanding audit issues is at Appendix 5 and a summary of errors identified to date and agreed with officers is at Appendix 3
- 8 Our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources is now substantially complete. The outcome of this work will be reported in the final annual governance report when the accounts are re-approved.

Audit status

- 9 As at 26 October 2007 our detailed audit work is incomplete with many queries still outstanding with officers. In particular, the Council has yet to provide us with a fully completed Cashflow statement and a Statement of Recognised Gains and Losses which reconciles to the other elements of the financial statements. In addition, our work on debtors is incomplete and we are awaiting responses from officers on several queries in respect of fixed assets.
- 10 We recognise that this would have been a difficult year for producing the accounts due to the significant changes made to the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2006: A Statement of Recommended Practice (the SORP). These changes have presented challenges for all councils.
- 11 In addition to these general challenges, the audit at this council has been adversely affected by events over the last few months and changes within the finance team, which the Committee will be well aware of. However, we would note that considerable effort has been made by the finance team to answer audit queries in the absence of the officers who originally prepared the Statement of Accounts and we would like to take this opportunity to express our appreciation for the assistance and co-operation that we have received. The process has been further delayed by a lack of evidence retained to support journals resulting in officers trying to trace the appropriate evidence from the relevant department.

Recommendations

R1 Journal forms should be filed with supporting evidence to ensure an adequate audit trail is maintained.

Management representations

- 12 Auditors are required to obtain written confirmation of certain representations from management and those charged with governance before an audit report is issued, such as acknowledgement of responsibility for the fair presentation of the financial statements in accordance with the applicable financial reporting framework and responsibility for the design and implementation of internal control to prevent and detect error.
- 13 The auditor should also obtain written representations from management on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist.
- 14 A letter of representation will be required from management prior to the accounts being re-approved and this letter will be presented to members at the same as the audited accounts and final annual governance report.

Unadjusted misstatements

- 15 We are required to report to you all unadjusted misstatements that we have identified during the course of our audit, other than those that are clearly trivial. At present, no amendments have been made to the draft accounts as the audit is not yet complete. However, a summary of all errors identified and agreed with officers to date, except those that are clearly trivial, is contained at Appendix 3.

Adjustments to the financial statements

- 16 We are also required to bring to your attention misstatements that have already been corrected by management where we consider them relevant to your wider governance responsibilities. As mentioned at paragraph 15, no amendments have been made to the accounts at this stage in the audit as work is not yet substantially completed.

Accounting practices

- 17 We are also required to report to you our view on the qualitative aspects of the Council's accounting practices and financial reporting and have set out below our observations on key issues affecting the Council.
- 18 The HRA depreciation charge disclosed in the draft statement of accounts had not been calculated in accordance with the Council's accounting policies. We are currently discussion the impact of this with officers and will provide an update on this matter in the final annual governance report.

Systems of internal control

- 19 As part of our audit, we consider the systems of accounting and financial control and report to you any material weaknesses identified.
- 20 We identified a lack of review and authorisation of journals, control account and bank account reconciliations. We also identified three bank accounts that had not been reconciled and the disbursement bank account had not been fully reconciled. Weaknesses in these arrangements have contributed to a high volume of correcting journals and have resulted in material errors in the balance sheet.

Recommendations
<i>R2 Journals should be subject to independent review and approval by a senior officer.</i>
<i>R3 Control and bank accounts reconciliations should be fully reconciled and independently reviewed by a senior officer.</i>
<i>R4 All bank accounts should be reconciled on a regular basis.</i>

- 21 We have also identified that the Council does not maintain a complete list of its assets, with records being held across several departments. The arrangements for notifying the finance team when assets are acquired or disposed of were unclear. Fixed assets balances are recorded on a spreadsheet that is updated manually at year end. The fixed assets balances are entered into the general ledger by journals and the lack of authorisation arrangements for journals increases the risk of material misstatement in this area.

Recommendations
<i>R5 A complete and accurate record of the Council's assets should be prepared and maintained. A clear process for other departments to notify finance of asset purchases or disposals should be put in place.</i>

- 22 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.

- 23 We have also reviewed whether the Statement on Internal Control (SIC) has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit. We identified that the SIC requires revision to ensure disclosures are consistent with the weaknesses in the control environment that have come to light over the last few months. We will review the revised SIC and report on this in the final annual governance report.

Use of resources

Work performed

- 24 The Code requires us to reach a conclusion on whether we are satisfied that the Council has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources – the value for money conclusion. In meeting this responsibility, we review evidence that is relevant to the Council's corporate performance management and financial management arrangements across a range of criteria specified by the Audit Commission. Our work to support our conclusion comprised the following elements:
- use of resources assessment;
 - data quality work; and
 - the best value performance plan.
- 25 As at 26 October 2007 given that our audit is incomplete we are not in a position to report our conclusion for each of the criteria specified by the Audit Commission. The criteria are listed at Appendix 6. We will report our conclusion at the completion of the audit alongside our opinion on the Statement of Accounts.

Use of resources assessment

- 26 We are currently finalising our report arising from our use of resources assessment. When finalised, we will discuss this with officers.

Data quality work

- 27 Our data quality review is now completed and we will report our findings to officers.

Best value performance plan

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

Audit fee update

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

	Plan 2006/07	Estimated Actual 2006/07
Financial statements and Statement on Internal Control	£75,060	To be confirmed
Use of Resources	£38,500	£38,500
Total Audit Fees	£113,560	To be confirmed
Grants certification work	£60,000	To be confirmed
Whole of Government Accounts (not included in original plan)		£2,395

- 30 Additional fees were raised during the year as set out in the table for reviewing and providing an opinion on the WGA return, which was not included in the original audit plan presented to the Performance Select Committee. As the audit is not yet complete we are not able to provide a final estimated position on fees for 2006/07. But we have already spent longer on the audit of the accounts than was budgeted for in the audit plan. This is due to:
- the delay in the submission of the accounts for audit;
 - the increased risk due to circumstances in which the accounts preparation process was suspended, which requires greater input from more senior staff and the need for an independent review of the proposed opinion before it can be issued;
 - the weaknesses identified in the system of internal control;
 - and the delays experiences in the resolution of audit queries.
- 31 The value of the additional fee has yet to be agreed with officers. 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.

Appendix 1 – The Audit Commission’s requirements in respect of independence and objectivity

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

Appendix 2 – Audit reports issued

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit and Inspection Plan	31 March 2006	31 March 2006	The Council
Interim Audit Memorandum	30 April 2007	A combined interim and final accounts memorandum will be issued following completion of the accounts audit.	Those charged with governance
BVPP Opinion and PI Audit Memorandum	By December 2006	December 2006	The Council
Report on Financial Statements to those Charged with Governance (ISA 260)	September 2007	Interim Report October 2007; Final - to be confirmed	Those charged with governance
Opinion on Financial Statements	September 2007	To be confirmed	The Council
Leadership and Governance	September 2007	November 2007	The Council
VFM Conclusion	September 2007	To be confirmed	The Council
Final Accounts Memorandum	November 2007	A combined interim and final accounts memorandum will be issued following completion of the accounts audit.	Those charged with governance
Annual Audit and Inspection Letter (including Direction of Travel Assessment)	March 2008	March 2008	The Council

Appendix 3 – Summary of misstatements identified

The following misstatements were identified during the course of our audit. The financial statements have not yet been adjusted for these errors as the audit is still in progress. We bring them to your attention to assist you in fulfilling your governance responsibilities.

Misstatements identified	Nature of adjustment required	Income and Expenditure Account		Balance Sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Transfers between tangible fixed asset classifications and intangible fixed assets and surplus properties classifications had been disclosed as revaluations.	A separate 'reclassifications' column should be included in the fixed assets disclosure. Reclassifications classified incorrectly as revaluations totalled £322k.				
Obsolete waste collection vehicles were impaired during the year by £412k. This impairment had been treated as a fall in market prices and taken to the Fixed Asset Restatement Account.	As the impairment was due to obsolescence, it should have been taken to the income and expenditure account. This misstatement will increase the deficit on the bottom line of the income and expenditure account by £412k, however this item will not impact on the general fund year end balance as the effect of it is removed in the 'reconciling items for the statement of movement on the general fund'.	412			412
The opening balances on the fixed assets disclosure are net	The SORP requires that opening balances are gross book values with net				

		Income and Expenditure Account		Balance Sheet	
book values.	book values given as an additional disclosure. Officers are working to split gross and net book valued and therefore the value of these amendments is not yet known.				
Central services to the public and Parish Council precepts have been split differently between the 2005/06 closing balances and the 2006/07 opening balances with an overall difference between the two sets of figures of £46k.	The 2006/07 opening balances should be consistent with the 2005/06 audited closing balances.				
£101k of deferred credits have been incorrectly charged to the Fixed Asset Restatement Account.	Deferred credits will increase by 101k with a corresponding decrease in the Fixed Asset Restatement Account.			101	101
The disbursement bank reconciliation did not reconcile to the general ledger by £658k. This was due to journal mis-postings that affected debtors, creditors and cash/bank.	Cash/bank			658	
	Debtors				2,545
	Creditors			1,887	

Appendix 4 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R1 Journal forms should be filed with supporting evidence to ensure an adequate audit trail is maintained.	3				
8	R2 Journals should be subject to independent review and approval by a senior officer.	3				
8	R3 Control and bank accounts reconciliations should be fully reconciled and independently reviewed by a senior officer.	3				
8	R4 All bank accounts should be reconciled on a regular basis.	3				
8	R5 A complete and accurate record of the Council's assets should be prepared and maintained. A clear process for other departments to notify finance of asset purchases or disposals should be put in place.	3				

Appendix 5 – Audit issues still to be resolved

The following is a summary of the issues that require resolution before we can give an opinion on the accounts.

Issue	Status
The council has written £4,287k of capital expenditure on council houses off to the Fixed Asset Restatement Account (FARA).	We have requested evidence to support the value of this write off. Capital expenditure should be disclosed in the fixed assets note prior to being written off to the FARA.
An adjustment of £196k has been made to revaluation and council house disposal figures in the fixed asset spreadsheet.	We have requested an explanation and supporting evidence for this adjustment.
The Major Repairs Allowance (MRA) has been used as a reasonable approximation of depreciation on HRA assets. While MRA is used as an approximation at some authorities, the reasonableness of this approach should be evidenced. The use of the MRA is also inconsistent with the Council's stated accounting policy.	We have requested evidence that the MRA is not materially inconsistent with the estimate of depreciation based on the Council's accounting policy.
The Statement of Total Recognised Gains and Losses (STRGL) does not currently reconcile the movement between the opening and closing balance sheets. The difference is currently £3,365k.	We have requested that officers review the STRGL to identify the reasons it does not reconcile.
There are balancing figures in the Cashflow Statement to the value of £2,466k	We have requested that officers prepare a new cashflow statement that does not contain balancing figures, which will also take account of any other audit amendments to the financial statements.
Year end reconciliations had not been prepared for three bank accounts: <ul style="list-style-type: none"> • Credit card account • Allpay account 	We have requested that officers provide reconciliations for these accounts.

Issue	Status
<ul style="list-style-type: none"> • Direct debit holding account 	
<p>Transfer to/from earmarked reserves for 2005/06 in the Statement of Movement on the General Fund does not agree to the movement on the earmarked reserves. There is currently a difference of £2,018k.</p>	<p>We have requested that officers review these figures to identify the reasons they do not agree.</p>
<p>We are awaiting responses to our analytical review queries.</p>	<p>We have requested that officers provide responses to our queries.</p>
<p>We received the Whole of Government Accounts (WGA) return on the 23 October 2007. We have not yet undertaken our review of this return.</p>	<p>We review this return for consistency with the audited accounts. Therefore, the return will be reviewed once audit queries are resolved and an audited version of the accounts can be provided.</p>

Appendix 6 – Value for money conclusion

The Audit Commission has published, in accordance with the Code of Audit Practice, 12 criteria on which auditors are required to reach a conclusion on the adequacy of an audited body's arrangements for economy, efficiency and effectiveness in its use of resources.

The Code criteria are linked to the use of resources assessment (UoR) key lines of enquiry (KLoEs). A score of Level 2 or higher under the KLoEs will result in an assessment that the Authority has adequate arrangements in place for the purposes of the Code criteria. The Code criteria and the linked KLoEs are show in the table below.

Code Criteria	Description	Associated UoR KLoE
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	N/A
2	The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	N/A
3	The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	N/A
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	LG DQ KLoEs
5	The body has put in place arrangements to maintain a sound system of internal control.	4.2
6	The body has put in place arrangements to manage its significant business risks.	4.1
7	The body has put in place arrangements to manage and improve value for money.	5.2
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	2.1

Code Criteria	Description	Associated UoR KLoE
	priorities.	
9	The body has put in place arrangements to ensure that its spending matches its available resources.	3.1
10	The body has put in place arrangements for managing performance against budgets.	2.2
11	The body has put in place arrangements for the management of its asset base.	2.3
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	4.3