

Committee: Performance Select Committee

Agenda Item

Date: 21 September 2010

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Title: Annual Governance Report 2009/10

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Item for decision

Summary

1. Attached is the Annual Governance Report by the District Auditor, Debbie Hanson of the Audit Commission. The report summarises the outcomes of the 2009/10 audit. The auditors will attend the Committee to present the report and answer Members' questions.
2. The Assistant Chief Executive – Finance has been consulted on the report and is content that it reflects a fair summary of the outcomes from the audit process. The Assistant Chief Executive – Finance's advice to Members is that the content of the report and its appendices can be approved.
3. This report along with the Committee's comments will be submitted to Full Council on 30 September.
4. The audit is substantially complete at the time of issuing this report (10 September). It is possible that additional issues will arise as part of completing the audit. These will be reported to Members at the meeting.

Recommendations

5. As specified by the District Auditor in her report (page 3), Members are recommended to:
 - a) consider the matters raised in the report before approving the financial statements (pages 7 to 10);
 - b) take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
 - c) agree to adjust the errors in the financial statements the auditor has identified which management has declined to amend or set out the reasons for not amending the errors (Appendix 3); **(NB: see comments below)**
 - d) take note of the qualified Value For Money Conclusion (Appendix 1);
 - e) approve the letter of representation on behalf of the Council before the auditor issues her opinion and conclusion (Appendix 4); and
 - f) agree the response to the proposed action plan (Appendix 6).

Financial Implications

6. There are no direct financial implications arising from the recommendations.
7. As things stand today, none of the adjustments made arising from the external audit process affect the Council's revenue position, revenue reserves or the outturn previously reported to Members.

Background Papers

[2009/10 Outturn Report](#) to Finance & Administration Committee 17 June

[2009/10 Accounts covering report](#) to Performance Select Committee 22 June

[2009/10 Accounts report](#) to Full Council 29 June

Impact

Communication/Consultation	The District Auditor's report has been agreed with the Assistant Chief Executive – Finance.
Community Safety	None
Equalities	None
Health and Safety	None
Human Rights/Legal Implications	It is a legal requirement that the Council approves the report prior to completion of the external audit and publication of the accounts.
Sustainability	None
Ward-specific impacts	None
Workforce/Workplace	None

Unadjusted misstatements

8. Not all of the matters arising from the audit have resulted in adjustments being made to the accounts. These are known as "unadjusted misstatements" and are detailed in Appendix 3 of the District Auditor's report.
9. The term "misstatement" in this context can be something of a misnomer because these are in practice queries which are unproven as errors and/or are agreed between the auditors and Assistant Chief Executive – Finance on pragmatic and proportionate grounds not to pursue.
10. Unadjusted items arise for two main reasons:
 - Immaterial misstatements where a judgement is made not to adjust the accounts on practicality grounds.
 - Differences of interpretation of accounting requirements between the Council and the auditor, but that the nature of the difference is not material

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to the user's understanding of the accounts, or the Council's financial position, and thus do not prevent the issue of an unqualified audit opinion.

11. There is a requirement for unadjusted items to be formally reported to Members before the audit opinion is issued, so that there is evidence to show that Members are satisfied that the accounts can be published without making the adjustments.

12. The most significant unadjusted item relates to a difference of opinion between officers and the auditor relating to the bad debt provisions for Council Tax, Business Rates and Sundry Debts. This is an area of the audit that is still to be concluded. The auditor's current view is that the bad debt provision is potentially understated i.e. the Council is potentially overstating the value of recoverable debts on its Balance Sheet. The 2009/10 accounts use a methodology for estimating future bad debts that is consistent with that used in the 2008/09 audited accounts. Collection rates have remained consistent so in the view of officers there is no evidence of a worsening position and therefore the previous methodology used remains appropriate. Clearly this is an area that needs to be kept under close review as economic trends continue but in the view of officers there is not yet sufficient evidence to assume that a significantly higher incidence of bad debt will occur. The Assistant Chief Executive – Finance is satisfied that the Balance Sheet is fairly stated.

13. The unadjusted items arising in this year's audit are detailed in Appendix 3 of the auditor's report. The Assistant Chief Executive - Finance's advice to members is that the accounts may be published without adjusting for these items for the reasons stated in paragraph 9 above.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
Additional issues arise as part of concluding the external audit	2	2	Close liaison with external auditors and reporting to Members.

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.