

Annual Governance Report

Uttlesford District Council

Audit 2010/11



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Key messages

This report summarises the findings from my 2010/11 audit which now complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

	Our findings
Unqualified audit opinion	✓
Proper arrangements to secure value for money	✓

Audit opinion and financial statements

- My audit of the 2010/11 financial statements is now complete. Following member approval of the final version of the financial statements and receipt of the letter of representation, I propose to issue an unqualified opinion.
- The Council's 2010/11 financial statements were the first prepared under International Financial Reporting Standards (IFRS). The Council has responded well to this significant challenge. No matters have arisen from my audit because of this transition to the new reporting standards.

- The financial statements presented to me were complete and largely free from error. They did contain some errors, however none of these were material. There is no impact upon the usable reserves as a result of these changes.
- Management have agreed to all changes I recommended.
- I 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.

Value for money

- I considered if the Council had put in place arrangements to secure financial resilience and secure economy, efficiency and effectiveness in its use of resources.
- I have concluded the Council has put these arrangements in place and I will therefore issue an unqualified value for money opinion.

Before I complete my audit

I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

I ask you to confirm to me

I ask the audit committee to:

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2); and
 - approve the letter of representation, provided in Appendix 3 of this report, on behalf of the Council before I issue my opinion and value for money conclusion.
-

Financial statements

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 these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

- 1** The financial statements were presented to me for audit on 30 June 2011, the statutory deadline. An acceptable set of working papers accompanied the accounts. My audit of the financial statements is complete. I therefore plan to issue my audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report.
- 2** The move to IFRS gave all Local Government organisations including District Councils, the difficult task of reviewing their past accounting policies and accounts and restating them in the format required by IFRS. It also required the current year accounts to be prepared in the new format. Overall, the Council prepared well for this transition. No issues have arisen from my audit because of this change in accounting standards.

Errors in the financial statements

- 3** The draft financial statements presented for audit did contain some errors but none of these were material. The Council has agreed to amend for all the changes I have recommended. Appendix 2 contains details of the amendments. There is no impact upon the usable reserves as a result of these changes

Non-material amendments

- 4** My review of 'other land and buildings' found that, where buildings were valued upwards in the year, they were understated by the value of their brought forward depreciation. The means that 'other land and buildings' are understated by £469,000 and the revaluation reserve understated by the same amount.
- 5** When undertaking a review of the fixed asset register, I found one item included within this that had been disposed of during 2010/11. As this item was no longer the property of the Council, it should not be included within the financial statements. The property was included in the balance sheet at a value of £110,000. Other 'land and buildings' on the balance sheet are therefore overstated by this amount. There was no receipt from the disposal of

this asset and therefore a loss on disposal of £110,000 should be disclosed in the Comprehensive Income and Expenditure Statement. This has increased expenditure by £110,000. The revenue impact of this loss is reversed out of the general fund balance through the Movement in Reserves Statement. There is therefore no impact on the level of usable reserves held by the Council.

Key audit risks

6 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Key audit risk and our findings

Key audit risk	Finding
<p>1. IFRS</p> <p>2010/11 will be the first year that the Council will be required to prepare its accounts in accordance with International Financial Reporting Standards (IFRS).</p>	<p>My audit found that the Council prepared well for the transition to IFRS.</p>
<p>2. Fixed Asset Register</p> <p>During my 2009/10 audit, I found that some land was omitted from the Council's fixed asset register and therefore the financial statements. This resulted in a material error.</p>	<p>My audit of the fixed asset register in 2010/11 found one non material item included that had been disposed of during the year. Details are provided in paragraph 5 above. My audit also found that the Council has made improvements in the robustness of the fixed asset register. Further details are provided in the section on my value for money conclusion.</p>
<p>3. Economic downturn</p> <p>Following the outcomes of the Comprehensive Spending Review, and in common with other public sector bodies, the Council will be required to make considerable cost savings.</p>	<p>My audit work has found that the Council has fully reflected the impact of the changing economic climate within the financial statements. The impact of cost savings have also been considered when undertaking my value for money review. Details of this are set out below.</p>

Financial statements

Quality of your financial statements

7 I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. This is the one issue I want to raise with you.

Accounting practices, policies, estimates and financial closures

Issue	Findings and recommendations
1. Additional Disclosure on Comprehensive Income and Expenditure Statement	In June 2010, the government announced that public sector pensions would no longer be linked to the Retail Price Index (RPI), but would instead be linked to the Consumer Prices Index (CPI). This has resulted in a reduction in the pension liability of £3,857,000. This amount was initially treated as income under 'Non-Distributed Costs' in the Comprehensive Income and Expenditure Statement (CIES). However, this should be treated as negative expenditure. I have requested that an additional line is added to the CIES to highlight this amount as an exceptional item. This will help the reader of the accounts understand the significant movement in 'Non-Distributed Costs' in 2010/11 compared to 2009/10.

Other matters

8 During 2010/11, the Council paid termination benefits to members of staff that were made redundant. My audit work concluded that the termination payments included in the accounts were fairly stated. However, my review of one of these payments identified weaknesses in the documentation of the key decisions supporting the payment. I have therefore recommended that the Council it improves the transparency of its decision making and ensures that adequate documentation is retained to support any decisions regarding termination benefits and associated payments.

9 My work on the collection fund found a difference between the non domestic rate (NDR) income reported in the NDR system and the income recorded in the general ledger. The difference between the two systems is £376,000. The Council is currently unable to resolve this difference. This therefore remains an uncertainty as I am unable to conclude which figure is correct.

Letter of representation

10 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. A copy of this letter is provided in Appendix 3.

Value for money

I am required to conclude whether the Council put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

11 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

12 I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Value for money criteria and our findings

Criterion	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The Council has put in place proper arrangements to secure financial resilience.</p> <p>The Council is in a stable financial position and has reasonable level of reserves at the end of 2010/11. The Council produces budget reports which include forecasts and detail any remedial action agreed by senior management. The Council has demonstrated that it will challenge high spend areas, as shown by the cancelling of the Superloo contract.</p> <p>The Council, along with other public section bodies across the country, has been subject to funding cuts. The effects of this have been considered in the 2010/11 Medium Term Financial Strategy (MTFS) and in the completion of the 2011/12 document. My review of these documents found that they reflect the Council's strategic objectives and include details of secured savings and efficiencies, as well as indications of where further savings can be made. The strategies also consider the results of consultations with the public. The 2011/12 MTFS is linked to other resource strategies and includes financial modelling.</p>

Criterion

Findings

The Council's treasury management arrangements ensure that the organisation has sufficient cash to meet its needs; in particular that it maintains a balance between security, liquidity and yield.

Budget holders are provided with training to ensure that financial literacy and skills are developed throughout the organisation.

There remain however some areas of potential improvement. My review of the Council's expenditure found that the level of expenditure (per head) on central services is high. The average is £116 per head whereas the figure for this Council is £147. This expenditure covers services provided to the public by central departments, for example, the cost of conducting elections. The reason for this is unclear, but does highlight a potential area for savings. The Council has also used all its usable capital receipts at the end of 2010/11 and will need to fund future capital expenditure through borrowing. Associated financing and repayment costs will therefore need to be considered as part of future MTFS updates.

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The Council has put in place proper arrangements to challenge how it secures economy, efficiency and effectiveness.

The Council is seeking ways to make savings by using partnership working, for example the revenues and benefits partnership with Harlow District Council. Feasibility and options appraisal were carried out by a third-party consultant, which concluded that savings could be made from this joint working. One of the objectives of this partnership, beyond savings, is to maintain, as a minimum the current levels of service performance.

My review included a consideration of the current activities of the Council. The Council's reviews of day centre provision and the Supaloo contract indicates that it is prioritising resources, using options appraisal and looking at alternative means of providing services to the public.

The Council is developing a value for money methodology and a pilot study has been undertaken. Some of the services within the organisation are using comparative data and taking part in benchmarking exercise. However, this is not yet Council wide practice and is therefore an area for improvement.

In 2010, the Council has reviewed its procurement strategy. This has resulted in a commitment to leave the Procurement Hub and internalise the function by employing its own

Criterion**Findings**

procurement manager.

Progress is being made towards developing a robust asset management plan. In September 2010, an arrangement with Braintree District Council's Asset Management Team started, with Braintree providing asset management advice and consultancy to support the Council. However, further work is required to collate the information held so the plan can make a more useful contribution to the development of an asset management strategy.

Appendix 1 – Draft audit report

Independent Auditor's Report to the Members of Uttlesford District Council

Opinion on the Authority accounting statements

I have audited the accounting statements of Uttlesford District Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and 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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Assistant Chief Executive - Finance and auditor

As explained more fully in the Statement of the Assistant Chief Executive – Finance Responsibilities, the Assistant Chief Executive - Finance is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Uttlesford District Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on Authority's 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 review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Uttlesford District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the accounts of Uttlesford District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Debbie Hanson

Officer of the Audit Commission

3rd Floor, Eastbrook, Shaftesbury Road, Cambridge, CB2 8BF

29 September 2011

Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Land and buildings	Understatement of land and buildings value due to accounting error for brought forward depreciation			469	
Revaluation reserve					469
Land and buildings	Inclusion in the financial statements of an asset that had been disposed of for nil value				110
Loss on sale		110			
Movement in Reserves Statement	Adjustments to the Movements in Reserves Statement to reverse the revenue impact of the loss on disposal		110		
Totals		110	110	469	579

Appendix 3 – Letter of representation

Debbie Hanson
Engagement Lead
Audit Commission
3rd Floor
Eastbrook
Shaftesbury Road
Cambridge
CB2 8BF

Uttlesford District Council - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of 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 2011.

Compliance with the statutory authorities

I have fulfilled 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 which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

Supporting records

All relevant information and access to persons within the entity has 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 financial statements.

It has come to my attention that the Collection Fund disclosures regarding the distribution of previous years' surpluses to major precepting authorities are inconsistent with the actual transactions between the Council and those authorities. The inconsistencies are not material and as the Collection Fund disclosures appear to be intuitively correct, I consider that no adjustment is necessary. The issue is to be investigated and if necessary appropriate corrections will be made in the 2011/12 accounts.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

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;
- 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; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. 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.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

For all accounting estimate assumption, I confirm:

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the process;
- the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures; and
- the completeness and appropriateness under the financial reporting framework.

The estimate of the recoverable value of the Council's deposit with Landsbanki is based upon advice in the CIPFA LAAP82 bulletin. This is by consultation and agreement between myself and the external audit team. LAAP82 is based on the assumption that local authority depositors will be confirmed as preferential creditors of Landsbanki, and Landsbanki's own estimate of the dividend payable. Pending outcomes of legal proceedings in Iceland there is no independent or definitive information available to confirm the assumptions within LAAP82 and the possibility exists that the recoverable amount will be lower than the amount declared in the accounts.

Related party transactions

I confirm that I have disclosed the identity of Uttlesford District Council's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of Uttlesford District Council

I confirm that the this letter has been discussed and agreed by the Performance and Audit Committee on 29 September 2011

Signed

Name

Position

Date

Appendix 4 – Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any

individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Value for money conclusion

The auditor’s conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and

- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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0844 798 7070

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

