

# Annual governance report

New Forest District Council

Audit 2011/12

B



 **audit**  
commission

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# Key messages

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**This report summarises the findings to date from the 2011/12 audit. 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.**

## **Financial statements**

My audit is ongoing. Subject to the satisfactory clearance of the outstanding matters, I expect to issue an unqualified audit opinion on 28 September 2012.

The quality of the draft financial statements submitted for audit was good, and has improved compared with 2010/11. There were a few presentational amendments to some of the disclosure notes, and one minor classification error on the Balance Sheet, but I did not identify any other errors impacting on the income and expenditure account or balance sheet.

The Council provided sufficient and adequate quality working papers in support of the draft financial statements. However, there are areas which could be improved which would increase efficiency in preparing the accounts, and reduce the amount of time required to discuss issues with officers during the audit. I make recommendations within this report on the more significant aspects.

## **Value for money (VFM)**

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

# Before I give my opinion and conclusion

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**My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit 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 am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2011/12.

## **I ask the Audit Committee to:**

- take note of the corrected adjustments to the financial statements included in this report (appendix 2);
- approve the letter of representation (appendix 3), on behalf of the Council before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (appendix 5).

# Financial statements

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**The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As elected 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

My audit of the 2011/12 financial statements is ongoing. The more significant areas of my audit that are ongoing are listed below:

- Consideration of the report from the Hampshire County Council Pension Fund audit when received (anticipated week commencing 10 September 2012).
- Receive and consider the Council's response to my enquires on its Heritage assets.
- Complete my consideration of the Council's Property, Plant and Equipment valuations.

I will update Members on my progress with the audit at the 21 September Audit Committee meeting.

Subject to satisfactory clearance of the outstanding matters, I anticipate issuing an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

## Corrected errors

I have not identified any material errors in the Council's financial statements, or any errors that significantly impact on the primary statements. I have identified a few disclosure errors in the notes to the financial statements, these are summarised at Appendix 2.

Management have corrected all the identified errors, therefore, there are no uncorrected errors to bring to your attention.

## Significant risks and my findings

In my January 2012 Audit Plan I reported to you the significant risks that I identified relevant to my audit of your financial statements. Table 1 summarises my findings against each of these risks.

Table 1: **Risks and findings**

Risk	Finding
<p><b>Heritage Assets</b></p> <p>The Code adopts the requirements of FRS 30 Heritage Assets for the first time in 2011/12. During the year, the Council had not provided me with assurance that it had arrangements in place to identify and account for heritage assets.</p> <p>A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that you hold and maintain principally for its contribution to knowledge and culture.</p>	<p>In the draft financial statements submitted for audit the Council reported a high level summary of the potential Heritage assets in the Explanatory foreword.</p> <p>I am reviewing the Council's arrangements for identifying potential Heritage assets, and the Council's rationale for not including these within its balance sheet.</p> <p>I have raised a few queries with the Council, and I have requested additional disclosures in the statements to meet the requirements of the Code of Practice on Local Authority Accounting (the Code).</p>
<p><b>Valuation of property, plant and equipment (PPE)</b></p> <p>Councils must value PPE at fair value (with some exceptions). In previous financial years your internal valuer prepared valuations on a cyclical basis. For 2011/12 you planned to use an external valuer for the cyclical valuation. At the time of issuing my 2011/12 Audit Plan, you had not settled your procurement of the services and I did not have enough assurance over your valuation arrangements.</p>	<p>The Council procured Hampshire County Council (HCC) Property Services to undertake the valuation of its PPE. I undertook audit procedures to ensure I was able to rely on HCC Property Services as an expert, concluding that I would be able to place reliance on their work. I have reviewed your valuation arrangements and I am satisfied that proper arrangements were in place for the cyclical valuations to provide material assurance for your financial statements.</p> <p>In my initial analysis of your accounts I questioned the lack of annual movement on your investment properties. IAS 16 requires the Council to value its investment properties annually. Following my queries, accountancy staff obtained verbal assurance from the Council's Valuer that property prices have not moved as incomes have not changed. The Council should improve its procedures in this area, ensuring that an annual review of investment properties is specifically included in its valuation instructions, and within the Valuers' report.</p>

## Recommendation

**R1** Formally value investment properties annually.

## Significant weaknesses in internal control

It is the Council's responsibility to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the Council's controls only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I have not identified any significant weaknesses, but I did identify the following matters for management to address. The weaknesses in internal control in Table 2 are only those I have identified during the audit that are relevant to preparing the financial statements.

Table 2: **Internal control issues and my findings**

Description of weakness	Potential impact	Management action
<b>Reconciliations</b> All reconciliations were signed and dated as prepared, but I did notice some year-end reconciliations, including payroll reconciliations, that had not been signed and dated as reviewed.	There is no evidence that these reconciliations had been reviewed in accordance with the Council's procedures. Potentially, if not reviewed, errors could go undetected.	<b>R2</b> Sign and date all reconciliations to confirm their review.
<b>Aged debt analysis</b> At year end, the Council's aged debt analysis is £103k less than the debtors balance in the ledger.	Bad debt provisions may not fully reflect the total debt owed to the Council.	<b>R3</b> Establish why the aged debt analysis does not agree to the ledger, and correct this going forward.

## Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

I have the following matters that I wish to report.

Table 3: **Other matters**

Issue	Finding
Compliance with accounting policies – componentisation of PPE.	IAS 16 requires that where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. The Council has a componentisation policy but has not formally reviewed its Property, Plant and Equipment assets to confirm whether it should separately depreciate any significant components.  I have sufficient assurance on the accounts for this year, but the impact of not properly completing this procedure is cumulative, increasing the audit risk for future years.
Non-current asset register	Staff do not use the asset register records for all categories of Non-current Assets; reliance is placed upon alternative records.
Financial disclosures	I have identified a small number of disclosure notes that are not specifically required by the Code, therefore could be deleted by the Council, ie Notes 6, 10 and 11. Management have already removed two notes from the statements submitted for audit that were not applicable to the Council. Removal of the disclosures not required by the Code would further reduce the length of the statements, and also reduce the time to prepare and audit them.



Issue	Finding
Overall review of the financial statements and working papers before submission for audit	My view is that the quality of some of the working papers could be improved to reduce the number of initial audit queries and discussions with officers. An example is the audit trail from the financial statements to the Council's ledger. This, together with other specific examples, has been discussed with the Accountancy manager.

### Recommendations

- R4** Formally review Property, Plant and Equipment assets to confirm whether any significant components should be separately depreciated.
- R5** Maintain the asset register and reduce the reliance on supporting spreadsheets to produce capital accounting entries.
- R6** Review the financial statements and consider removing disclosure notes that are not required by the Code.
- R7** Improve the clarity of the specific working papers discussed with the Accountancy Manager.

## Whole of Government Accounts

Alongside my work on the financial statements, I will also be reviewing the Council's Whole of Government Accounts return and reporting my findings to the National Audit Office. The extent of my review and the nature of my report are specified by the National Audit Office. I expect to complete my work on your Whole of Government Accounts return by 28 September 2012. I have no matters to report at this stage.

# Value for money

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

I assess your arrangements against the two criteria specified by the Commission. In my January 2012 Audit Plan I reported that I had not identified any significant risks that were relevant to my conclusion, but I did identify two areas (listed in Table 4 below) that I would keep a watching brief over during the year. I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the risks I identified.

I intend to issue an unqualified conclusion stating that the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

Table 4: **Value for money conclusion criteria and my findings**

Criteria	Risk	Findings and Conclusions
<p><b>1. Financial resilience</b></p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</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>Non-delivery of the Council's Medium Term Financial Plan.</p>	<p>I have previously reported positively on the Council's financial resilience arrangements, specifically on the Council's understanding of the economic environment, its local risks, and the action taken in response to the Comprehensive Spending Review in late 2010. Nothing has come to my attention during the course of my 2011/12 work that changes my view of the Council's underlying arrangements, therefore my work in support of the 2011/12 VFM conclusion has focussed on the two specific risks I reported in my Audit Plan:</p> <p><b>Medium Term Financial Planning arrangements</b></p> <ul style="list-style-type: none"> <li>■ The Council has delivered its required 2011/12 savings and efficiencies.</li> <li>■ The Council is on track to deliver its planned 2012/13 position; and in its recent budget monitoring report to Cabinet (September 2012), forecast almost £0.5m additional savings/increased income for the year.</li> </ul>

Criteria	Risk	Findings and Conclusions
	<p>Inadequate arrangements for addressing the new council housing financing regime introduced by the Localism Act.</p>	<ul style="list-style-type: none"> <li>■ Members are aware of the 2013/14 financial challenges. Following a Member briefing in July 2012, a report to the September 2012 Cabinet meeting clearly sets out the potential impact of the proposed Government changes to local taxation, business rates and future funding, and provides the 2013/14 budget setting timetable. Through its measured ‘workstream’ approach to identifying savings and efficiencies, the Council is well placed to continue to deliver its Medium Term Financial Plans once 2013/4 funding levels are confirmed.</li> </ul> <p>More generally, the introduction of Member ‘Task and Finish groups’ is a positive development, and has improved Members’ understanding and scrutiny of the challenging issues the Council faces.</p> <p><b>New Housing strategy, taking account of the changes to the Council House financing regime</b></p> <p>The Localism Act provision for Councils to be responsible for their own Housing service meant the Council had to pay the Government £143million in March 2012, but in return, it is now in control of its Housing Revenue Account.</p> <p>The national changes to council housing financing mean the Council is no longer debt free. This is a significant change for the Council, but it has positively embraced the change in control within its new Housing Strategy. This strategy is integral to delivery of the elements of the Corporate Plan relating to Housing. I am satisfied that the Council’s new Housing Strategy links to the Council’s medium term financial planning, specifically in relation to the repayment plan for the new external debt.</p> <p><b>Conclusion:</b></p> <p>Therefore, in my view the Council continues to have proper arrangements in place to secure financial resilience.</p>

Criteria	Risk	Findings and Conclusions
<p><b>2. Securing economy efficiency and effectiveness</b></p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2011/12:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>		<p>Historically I have reported that the Council has been successful in implementing changes that achieve savings without significantly impacting on service delivery. I did not raise any specific risks in this area in my 2011/12 audit plan.</p> <p>Nothing has come to my attention during the 2011/12 audit to change my view on the Council's arrangements. I note that the more significant plans in place to secure economy, efficiency and effectiveness, such as the senior manager reviews and closer working with the New Forest National Park Authority, are delivering the planned outcomes.</p> <p><b>Conclusion:</b></p> <p>Therefore, in my judgement the Council continues to have proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p>

# Fees

## I reported my planned audit fee in the January 2012 Audit Plan.

I anticipate completing the 2011/12 audit within the planned fee.

Table 5: Fees

	Original scale fee 2011/12 (£)	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	121,794	121,794	121,794
Claims and returns		23,000	23,000
Non-audit work		N/A	0
<b>Total</b>		<b>144,794</b>	<b>144,794</b>

The Audit Commission has paid a rebate of £9,744 to reflect attaining internal efficiency savings. This reduces the net amount payable to the Audit Commission to £135,050.

# Appendix 1 – Draft independent auditor’s report

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

I have audited the financial statements of New Forest District Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of New Forest 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 Responsible Financial Officer and auditor**

As explained more fully in the Statement of the Responsibilities, the Executive Director is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial 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 financial statements sufficient to give reasonable assurance that the financial 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 Executive Director; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view of the financial position of New Forest District Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

### **Opinion on other matters**

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

### **Matters on which I report by exception**

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

### **Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### **Respective responsibilities of the Authority and the auditor**

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.

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.

**Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

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 2011, 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 2012.

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 2011, I am satisfied that, in all significant respects, New Forest District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

**Certificate**

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

Kevin Suter

Officer of the Audit Commission

Audit Commission  
Collins House  
Bishopstoke Road  
Eastleigh  
Hampshire  
SO50 6AD

September 2012



# Appendix 2 – Corrected errors

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I did not identify any non-trivial errors in the primary statements. I did however identify errors in the following disclosure notes, all of which have been corrected by management in the financial statements submitted for approval:

- Note 13 – Property, plant and equipment assets and impairments. This is a complex and long note. Management have amended this note to improve compliance with the Code, relevance to the Council's arrangements and to make it easier to understand.
- Note 19 – Inventories. The Council had incorrectly included work in progress as inventory work in progress. Management has amended the 'Client services work in progress columns' within Note 19, and made trivial amendments to the Council's Balance Sheet. There is no overall impact on the Council's balances.
- Note 49 – Leases. During 2011/12, management have identified some leases (one material) that were omitted from the 2010/11 lease disclosure note. The 2010/11 comparators in Note 49 of the 2011/12 statements have been updated to include these leases.

# Appendix 3 – Draft letter of management representation

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## New Forest District Council - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other Directors of New Forest 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 2012.

### **Compliance with the statutory authorities**

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

### **Supporting records**

I have made available all relevant information and access to persons within the Council for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Council.

### **Internal control**

I have communicated to you all deficiencies in internal control of which I am aware

### **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 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 Authority 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.

#### **Related party transactions**

I confirm that I have disclosed the identity of the 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 requirements of the Code.

#### **Subsequent events**

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

#### **Comparative financial statements**

I have restated some 2010/11 figures in the 2011/12 financial statements - due to changes to the Service Reporting Code of Practice [SeRCoP], non inclusion of 'Pay in lieu' from the Terminations disclosure note, identification of a lease during 2011/12 and an amendment to the classification of work in progress within the inventories note. The restatements have been marked as such in the statements. Written representations previously made in respect of 2010/11 remain appropriate.

#### **Investment properties**

Although not subject to the formal valuation as required by the Code, I am satisfied that the value of investment properties has not changed significantly in 2011/12.

### Property, Plant and Equipment assets - Componentisation

I am satisfied there are no significant components within the Property, Plant and Equipment assets that need to be depreciated over a different period than the main asset.

**Comment [k1]:** Need to consider Heritage assets before final LoR provided (may need a rep).

Signed on behalf of New Forest District Council

I confirm that this letter has been discussed and agreed by the Audit Committee on 21 September 2012.

Signed

Name

Position

Date

# Appendix 4 – Glossary

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## **Annual Audit Letter**

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

## **Annual Governance Statement**

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.

## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

## **Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

**Auditor(s)**

Auditors appointed by the Audit Commission.

**Code (the)**

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

**Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

**Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

**Financial statements**

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

**Internal control**

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

**Materiality**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative 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**

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

### **Those charged with governance**

Those entrusted with the supervision, control and direction of the Authority. This term includes the Council's Members and its Audit Committee.

### **Whole of Government Accounts**

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

# Appendix 5 – Action plan

## Recommendations

### Recommendation 1

Formally value investment properties annually.

**Responsibility** Head of Property Services/Accountancy Manager

**Priority** Medium

**Date** January 2013

**Comments** This issue will be included in the list of requirements for 2012/13.

### Recommendation 2

Sign and date all reconciliations to confirm their review.

**Responsibility** Accountancy Manager

**Priority** Medium

**Date** Ongoing

**Comments** Agreed

### Recommendation 3

Establish why the aged debt analysis does not agree to the ledger, and correct this going forward.

**Responsibility** Accountancy Manager

**Priority** Medium

**Date** October 2012

**Comments** This issue is currently being worked on with ICT and the Sundry Debtors team.



**Recommendation 4**

Formally review Property, Plant and Equipment assets to confirm whether any significant components should be separately depreciated.

<b>Responsibility</b>	Head of Property Services/Accountancy Manager
<b>Priority</b>	Medium
<b>Date</b>	December 2012
<b>Comments</b>	The Council is reviewing its accounting treatment of expenditure on PPE assets and will include componentisation issues within that review.

**Recommendation 5**

Maintain the asset register and reduce the reliance on supporting spreadsheets to produce capital accounting entries.

<b>Responsibility</b>	Accountancy Manager
<b>Priority</b>	Medium
<b>Date</b>	December 2012
<b>Comments</b>	Use of the system will be reviewed with Property Services and CIPFA

**Recommendation 6**

Review the financial statements and consider removing disclosure notes that are not required by the Code.

<b>Responsibility</b>	Accountancy Manager
<b>Priority</b>	Low
<b>Date</b>	Ongoing
<b>Comments</b>	This will be continually reviewed but we are currently satisfied with our current level of presentation.

## Recommendation 7

Improve the clarity of the specific working papers discussed with the Accountancy Manager.

<b>Responsibility</b>	Accountancy Manager
<b>Priority</b>	Medium
<b>Date</b>	October 2012
<b>Comments</b>	The Accountancy Manager will discuss requirements with the audit team and implement any agreed items for 2012/13.

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



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September 2012