

Annual Governance Report

Warwick District Council

Audit 2007/08

Date

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

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

Summary

Purpose

- 1 This report summarises the findings from our 2007/08 audit, which is substantially complete. It identifies the key issues that you should consider before we issue our opinion, conclusion and certificate.
- 2 This report includes only matters of governance interest that have come to our attention in performing our audit. Our audit is not designed to identify all matters that might be relevant to you.

Financial statements

- 3 We are currently unable to conclude on the type of opinion we will issue on the financial statements. We have completed the necessary fieldwork; however we are working with officers to resolve issues arising out of the reconciliation of the legal records to the asset register held within finance.
- 4 The opinion audit plan identified early substantive testing on fixed asset revaluation, physical verification and agreement to title deeds. Agreement for this work was gained from the finance team at the end of April. At the beginning of May we requested an update on the work requested in our governance report last year on title deeds. This resulted in a spreadsheet from legal services containing all title deeds, however this had not been reconciled to the key records in the accounts. Given the risk associated with this issue external audit re-assigned staff to look at this and deferred some of the early testing that was originally planned.
- 5 We have undertaken two different reconciliations in order to try and gain assurance over the completeness of the asset register;
 - A reconciliation of the asset register held in finance to records held within property services, and
 - A reconciliation of the asset register held in finance to records held within legal services.
- 6 A full reconciliation of the asset register to property services records was undertaken, this identified 15 items in the property services records not on the asset register and 6 items in the asset register but not recorded in property services.
- 7 A sample reconciliation was undertaken of the asset register to records held within legal services. Of the 85 items in the sample, 8 items have required further investigation, with 3 items requiring a valuation from the district valuer. A further sample of 85 items is currently being completed.

- 8 The nature of the issue is such that we are evaluating whether there is sufficient assurance over the completeness assertion relating to fixed assets. As a result we are considering whether there is a need to issue a qualified opinion on the basis of a limitation of scope. In order for us to follow the requirements of the International Standards of Auditing (ISAs) this decision needs to be the subject of a 'peer review'. We are currently awaiting the outcome of this decision.
- 9 In addition to the issues identified on the fixed asset register we have also reported a number of material amendments to the accounts, these are included within appendix 2.
- 10 The final issue that we wish to report relates to the availability of finance staff to deal with audit queries during the planned final accounts visit. The lack of key staff to deal with queries resulted in the audit team suspending the visit, incurring additional time on the audit. This has been a contributing factor in the issuing of a late opinion.

Value for Money

- 11 We are unable to fully conclude on the value for money conclusion until the issue surrounding the reconciliation of the asset register has been resolved. The outcome of this decision will have an impact on the criteria relating to the management of assets. All other criteria have been concluded as having appropriate arrangements in place.

Next steps

- 12 We ask the Audit Committee to:
 - consider the matters raised in the report and note that a final governance report will need to come back to the committee prior to us issuing an opinion.
 - agree to adjust the financial statements as set out in our recommendations;
 - approve the representation letter on behalf of the Council before we issue our opinion, conclusion and certificate; and
 - agree the proposed action plan.

Financial statements and Annual Governance Statement

- 13** 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 the financial statements and Annual Governance Statement. It is therefore important that you consider our findings before you adopt the financial statements and the Annual Governance Statement.
- 14** In planning our audit we identified specific risks and areas of judgement that we have focused on during our audit. We report to you the findings of our work in those areas.
- 15** In addition, auditing standards require us to report to you:
- the draft representation letter which we are asking management and you to sign;
 - our views about the Council's accounting practices and financial reporting;
 - errors in the financial statements;
 - any expected modification to our report;
 - weaknesses in internal control; and
 - certain other matters.

Key areas of judgement and audit risk

- 16** In planning our audit we identified key areas of judgement and audit risk that we have considered as part of our audit. Our findings are set out in Table 1.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
Management capacity may be insufficient to provide information and resources for the final accounts audit.	While officers had sufficient capacity to produce a set of financial statements by the 30th June deadline, not all anticipated resources were available to answer audit queries during the first two weeks of the planned final accounts visit. This resulted in a suspended final accounts visit. When the audit did resume all accountants did make themselves fully available to answer auditors' queries. However, this original delay has been a contributing factor in a late opinion.
The 2006/07 audit identified an issue relating to missing title deeds. There is a	Testing of ownership of assets by verification to title deeds has not

Issue or risk	Finding
risk that this issue is not resolved and there is insufficient evidence of ownership of fixed assets.	highlighted any areas of concern. To address the issue of missing deeds legal services carried out a review exercise. This exercise was conducted independently from finance, and consequentially no reconciliation had been performed to the asset register that forms the basis of the accounts. The exercise was queried by audit at the beginning of May and a reconciliation requested. The results of this exercise are highlighted in the main conclusions of this report and remain the key area of uncertainty.
In 2007/08 the Statement on Internal Control will be replaced by the Annual Governance Statement and a risk remains that arrangements will be inadequate.	The arrangements for the compilation of the Annual Governance Statement have been reviewed and are considered appropriate.
There are a number of changes to the Statement of Recommended Practice (SoRP) in 2007/08. There is a risk that not all of these are actioned.	Appendix 2 outlines a number of changes required to the accounts where the initial accounts presented to members for approval did not comply with the SoRP.

Draft representation letter

17 Before we issue our opinion, auditing standards require us to obtain from you and management, written representations that:

- you acknowledge your collective responsibility for preparing financial statements in accordance with the applicable financial reporting framework;
- you have approved the financial statements;
- you acknowledge your responsibility for the design and implementation of internal controls to prevent and detect fraud and error;
- you have told me the results of your assessment of the risk that the financial statements might be materially misstated because of fraud;
- you have told me of any actual or suspected fraud by management, employees with significant roles in internal control or others (where the fraud could have a material impact on the financial statements);
- you have told me of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;

Financial statements and Annual Governance Statement

- you have told me about all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements;
 - you have assessed the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council where relevant to the fair value measurements or disclosures;
 - you are satisfied that all related parties requiring disclosure in the financial statements have been disclosed and that the disclosure is adequate;
 - you are satisfied that the individual or collective impact of errors we have identified, but that you have not corrected, is not material; and
 - cover areas where other sufficient appropriate evidence cannot reasonably be expected to exist, for example the completeness of the disclosure of contingent liabilities.
- 18** We need specific representations from you about the procedures for updating the fixed asset register and the controls you believe to be in place to ensure its completeness. This is required as a result of the issues found in reconciling the asset register to the legal services records.
- 19** Appendix 1 contains the basis of the letter of representation we seek from you. Officers will prepare the final letter for your approval.

Accounting policies and financial reporting

- 20** We consider the qualitative aspects of your financial reporting. Table 2 contains the issues we want to raise with you.

Table 2 Accounting practice and financial reporting

Issue	Finding
Compliance with the SoRP	A number of disclosure notes in relation to financial instruments have been omitted, these relate largely to the authority's exposure to risk as a result of using these instruments.
Availability of finance staff during the planned final accounts visit.	Due to resourcing constraints the finance team were unable to deal with all audit queries during the first two weeks of the planned visit.

Recommendation

- R1** The disclosure checklist should be completed prior to the approval of the financial statements. This should be fully documented to demonstrate compliance. In areas where officers have interpreted the guidance or chosen a particular option this should be explained in the authority's accounting policies.
- R2** The Head of Finance should alert the Audit Manager as soon as possible to any resourcing issues that would impact on the final accounts visit.

Errors in the financial statements

- 21** Management has agreed to adjust the financial statements for the errors identified in Appendix 2. However, because of the nature of these errors we are reporting these to you.

The audit report

- 22** We are currently unable to conclude on the type of audit report that we will issue. Our proposed audit report will be included in the final version of this report.

Material weaknesses in internal control

We 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 of which you are not

- 23** We have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made. We have reported only those matters which have come to our attention because of the audit procedures we have performed.

Other matters

24 There are no other matters that auditing standards require me to report to you.

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Value for money

- 25** We are required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. We assess your arrangements against seven criteria specified by the Commission. Our conclusion is informed by our work on Use of Resources, a scored judgement reported to the Audit Commission.
- 26** We identified weaknesses in arrangements for securing value for money as detailed below.

Table 3 Value for money conclusion: criteria where assessed as not adequate

Criterion	Finding
The body has put in place arrangements for the management of its asset base.	<p>In assessing this criteria we are required to consider the following questions;</p> <p>1) The organisation has an up to date corporate capital strategy linked to its corporate objectives (or IRMP) and medium-term financial strategy;</p> <p>2) The organisation has an up to date asset management plan that details existing asset management arrangements and outcomes, and planned action to improve corporate asset use;</p> <p>3) The organisation maintains an up to date asset register.</p> <p>4) The organisation has a designated corporate property function</p> <p>5) The organisation's arrangements for reporting to members are sufficient to ensure that they fulfil their responsibility in relation to the council's land and buildings portfolio at both a strategic and service level;</p> <p>6) The organisation has an annual programme of planned maintenance based</p>

Criterion	Finding
	<p>on a rolling programme of property surveys;</p> <p>7) The organisation has assessed the level of backlog maintenance; and</p> <p>8) The organisation's capital programme gives priority to potential capital projects based on a formal, objective approval process;</p> <p>All areas are judged to have appropriate arrangements expect for question 3 where testing undertaken during the financial statements highlights concerns over the completeness of the asset register.</p>

- 27** We are currently considering whether the weakness identified above is sufficient to issue an except for conclusion in relation to the management of assets.

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Formal audit powers

28 We have:

- a power to issue a public interest report. We do so where we believe this is necessary to draw a matter to your attention, or to that of the public;
- a power to apply to court for a declaration that an item in the Council's accounts is contrary to law;
- a power to issue an advisory notice. An advisory notice requires the Council to meet and consider the notice before:
 - making a decision that might give rise to unlawful expenditure; or
 - taking an unlawful course of action that would give rise to a loss; or
 - making unlawful entry in the accounts; and
- a power to seek judicial review of a decision of the Council.

29 We have not and do not propose to exercise these powers.

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Independence

- 30** The Code of Audit Practice and the APB's Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.
- 31** We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 32** We communicate to you:
- any relationships between us and the Council, its members and senior management that might affect our objectivity and independence and any safeguards put in place;
 - total fees charged to you for audit and non-audit services; and
 - our arrangements to ensure independence and objectivity.

Relationships with the Council

- 33** We have identified no relationships that might affect objectivity and independence.

Audit fees

- 34** We reported our fee proposals as part of the Audit Plan for 2007/08. The table below reports the outturn fee against that plan.

Table 4 Audit fees

	Plan 2007/08	Actual 2007/08
Financial statements, Annual Governance Statement and Whole of Government Accounts	74,342	Audit not yet complete
Use of Resources	23,181	23,181
Data Quality	5,241	5,241
National Fraud Initiative	625	625
Total Audit Fees	103,389	Audit not yet complete

- 35** We have contained our fees to that agreed in the initial plan for Use of Resources, Data quality work and the National Fraud Initiative. The financial statements audit has taken longer to complete than planned. The reasons for this relate to both the potential qualification surrounding the issues on the fixed asset register, plus the need to suspend the final accounts visit. We will discuss with officers the additional fee relating to the financial statement audit once the audit has been concluded.

Our arrangements to ensure independence and objectivity

36 We have comprehensive procedures to ensure independence and objectivity. These are outlined in Table 5.

Table 5 Arrangements to ensure independence and objectivity

Area	Arrangements
Independence policies	<p>Our policies and procedures ensure that professional staff or an immediate family member:</p> <ul style="list-style-type: none"> do not hold a financial interest in any of our audit clients; may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; and may not enter into business relationships with UK audit clients or their affiliates. <p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none"> the general requirement to carry out work independently and objectively; safeguarding against potential conflicts of interest; acceptance of additional (non-audit) work; rotation of key staff; other links with audited bodies; secondments; membership of audited bodies; employment by audited bodies; political activity; and gifts and hospitality.
Code of Conduct	<p>The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff have to comply with ethical guidance issued by their relevant professional bodies.</p>
Confidentiality	<p>All staff are required to sign an annual undertaking of confidentiality as a condition of employment.</p>

Appendix 1 – Draft Letter of Representation

To: Dave Rigg

Audit Commission

2nd Floor, No.1 Friarsgate

1011 Stratford Road

Solihull

West Midlands

B90 4EB

Warwick District Council - Audit for the year ended 31 March 2008

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Warwick District Council, the following representations given to you in connection with your audit of Warwick District Council's financial statements for the year ended 31 March 2008. All representations cover the accounts included within the financial statements.

Compliance with the statutory authorities

I acknowledge 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: A Statement of Recommended Practice which present fairly the financial position and financial performance of the district and for making accurate representations to you.

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the authority and the reasons for not correcting these items are as follows;

- reason 1 etc;
- reason 2
-

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the authority have been properly reflected and

recorded in the accounting records. All other records and related information, including minutes of the Authority meetings, have been made available to you.

Irregularities

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

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.
- 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; and
- 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.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the 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. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For [xyz] assumption, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events [require/do not require] adjustment to the fair value measurement.

Independence

Group entities

[specific representation if needed]

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in Note X to the financial statements we have no other lines of credit arrangements.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; [and]
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements[.]; and
- no financial guarantees have been given to third parties.]

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Post balance sheet events

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

The authority has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

If adoption of the financial statements and the representation are on the same day this paragraph is not required.

Signed on behalf of Warwick District Council

I confirm that the this letter has been discussed and agreed by the Council on [date]

Signed

Name

Position

Date

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Appendix 2 – Adjusted Misstatements

The following misstatements were identified during the course of our audit and the financial statements have been adjusted by management. We bring them to your attention to assist you in fulfilling your governance responsibilities.

Description of Misstatement	Nature of Adjustment	Value £000s
Interest on balances should be included in the carrying value of investments to ensure compliance with the SORP in relation to financial instruments.	Increase the balance of investments and reduce debtors	1,357
The Council amended 2006/07 comparative figures for the financial instrument adjustment account when an amendment to the opening GF balance for 2007/08 was required to ensure compliance with the SoRP.	2006/07 comparative figures to reflect the closing balance last year, amendment required to the opening general fund balance.	2,084
Note 15 to the Core Financial Statements identified a surplus asset held for disposal which had been treated as a revaluation instead of an addition..	Asset to be treated as an addition rather than a revaluation.	186
Overage receipt in respect of an asset sold in the past.	This has been treated as revenue but should in fact have been treated as a capital receipt with a profit on sale of the asset being shown on the face of the I&E.	2,450
Financial Summary: Note 1 & I&E a/c. Officers identified an error in the statements presented to members with adjustments for recharges being made to Council Tax	Amend Net cost of Central Services to the	590

Benefits rather than Housing Services.	Public by +£590k Original Estimate; +£568k Actual and Variation by +£22k .	
Balance sheet debtors and creditors. Benefits Subsidy balance incorrectly categorised	Adjust Debtors by +£185k and Creditors by - £185k	185
There is a suspense account for PARIS income which has not been identified therefore included as a creditor balance. This should have been allocated to the debtor accounts to give a true picture of the debtors outstanding.	The creditors are required to be debited by £314k and the debtors should be credited by this total.	314

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