

Annual Governance Report

September 2006



# **Annual governance report**

**Gedling Borough Council**

**Audit 2005/06**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our reports to the Authority**

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 members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

### **Copies of this report**

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## Purpose of this report

- 1 We are required by the Audit Commission's statutory Code of Audit Practice for Local Government bodies (the Code) to issue a report to those charged with governance summarising the conclusions from our audit work. For the purposes of this report, the Authority's Audit Committee is considered to fulfil the role of those charged with governance and references to the Audit Committee should be read as such.
- 2 We are also required by professional auditing standards to report to the Audit Committee certain matters before we give our opinion on the financial statements. The section of this report covering the financial statements fulfils this requirement.
- 3 This is our annual governance report covering the audit of the Authority for the year ended 31 March 2006 and is presented by the District Auditor.
- 4 The principal purposes of the report are:
  - to reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and the Audit Committee;
  - to share information to assist both the auditor and those charged with governance to fulfil their respective responsibilities; and
  - to provide the Audit Committee with recommendations for improvement arising from the audit process.
- 5 The Audit Commission has circulated to all audited bodies a Statement of Responsibilities of Auditors and Audited Bodies that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement.

## Scope of the report

- 6 In undertaking our audit, we comply with the statutory requirements of the Audit Commission Act 1998 and the Code. Auditors' responsibilities are to review and report on, to the extent required by the relevant legislation and the requirements of the Code:
  - the Authority's financial statements; and
  - whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 7 Our risk assessment and planned response to the key audit risks was summarised in our audit and inspection plan. A summary of our responsibilities and audit approach is included in Appendix 1. The annual governance report summarises the significant findings, conclusions and recommendations arising from our audit work. The results of our inspection work, and our separate grant claims' certification programme, will be reported in the Annual Audit and Inspection Letter in March 2007.

- 8** We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 2. Appendix 3 provides information about the fee charged for our audit and Appendix 4 sets out the requirements in respect of independence and objectivity.

## Key messages

### Financial statements

- 9 Our work on the financial statements is now substantially complete. We anticipate being able to issue an unqualified opinion soon after 25 September, following consideration of this report by those charged with governance. A draft auditor's report including our opinion on the financial statements is attached at Appendix 5.

### Use of resources

- 10 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. We anticipate being able to issue an unqualified conclusion on the use of resources soon after 25 September 2006. A draft auditor's report including our use of resources (VFM) conclusion is attached at Appendix 5.

## Financial statements

- 11 We are required to give an opinion on whether the Authority's financial statements present fairly the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended.

## Status of the audit

- 12 Our work on the financial statements is now substantially complete.

## Matters to be reported to the Audit Committee

- 13 We have the following matters to draw to the Audit Committee's attention.
- 14 On the basis of our audit work, subject to the satisfactory conclusion of any work outstanding, we currently propose to issue an unqualified audit report. A draft auditor's report is attached at Appendix 5.

## Adjusted misstatements

- 15 To assist you in fulfilling your governance responsibilities, we are required to consider reporting adjusted misstatements to you where these are material. We have none to report.

## Qualitative aspects of accounting practices and financial reporting

- 16 Our audit includes consideration of the qualitative aspects of the financial reporting process, including matters that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements.
- 17 There are no matters we wish to report to you under this heading.

## Material weaknesses in internal control identified during the audit

- 18 Our audit has not identified weaknesses in systems of accounting and financial control which we should report to you.
- 19 We have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed.

## Matters specifically required by other auditing standards

- 20 Other auditing standards require us to communicate with you in other specific circumstances including:

- where we suspect or detect fraud;
- where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
- non-compliance with legislative or regulatory requirements and related authorities.

21 We have no such matters to report to you.

### **Any other matters of governance interest**

22 Finally, we are required to report any other matters that we believe to be of governance interest. We have no such matters to report.

### **Letter of representation**

23 We obtain written representations from management as an acknowledgement of its responsibility for the fair presentation of the financial statements and as audit evidence on matters material to the financial statements. The text of the required letter of representation is included at Appendix 6 to be signed by the Chief Executive and the Head of Finance.

## **Next steps**

24 We are drawing these matters to the Audit Committee's attention so that:

- you can consider them before we issue our opinion on the financial statements.; and
- the representation letter can be signed on behalf of the Authority and those charged with governance before we issue our opinion on the financial statements.



## Use of resources

### Value for money conclusion

- 25** The Code requires us to issue reach a conclusion on whether we are satisfied that the Authority has proper arrangements in place for securing economy, efficiency and effectiveness in its use of your resources (the value for money conclusion). In meeting this responsibility, we will review evidence that is relevant to the Authority's corporate performance management and financial management arrangements. Our work in reaching the value for money conclusion is integrated with our work on the use of resources assessment. The use of resources assessment is a qualitative assessment of the effectiveness of the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources. The five areas we make assessments on are; financial statements, financial management, financial standing, internal control and value for money.
- 26** We have completed our work in relation to the use of resources and there are no matters which we wish to draw to the attention of the Audit Committee.

## Use of auditors' statutory powers

- 27 Auditors are required to consider the exercise of certain statutory powers during the course of the audit, as summarised in Table 1 below.

**Table 1 Use of statutory powers**

The District Auditor has not exercised his statutory powers in respect of the 2005/06 audit

<b>Issue</b>	<b>Auditor responsibility</b>	<b>Impact</b>
Section 8 reports	Section 8 of the Act requires that auditors should consider whether, in the public interest, they should report on any matter that comes to their attention in the course of the audit so that it may be considered by the body concerned or brought to the attention of the public.	There have been no section 8 reports in respect of the financial year 2005/06.
Section 11 recommendations	To consider whether a written recommendation should be made to the audited body requiring it to be considered and responded to publicly.	There have been no s11 recommendations.
Best value	To consider whether to recommend that the Audit Commission should carry out a best value inspection of the Authority under section 10 of the Local Government Act 1999 and/or that the Secretary of State should give a direction under section 15 of that Act.	Our work in respect of the Authority's 2005/06 Best Value Performance Plan (BVPP) was reported in the Annual Audit and Inspection Letter issued in March 2006. No recommendations were made to the Audit Commission or the Secretary of State.

## Closing remarks

- 28 This report has been discussed and agreed with the Head of Finance. A copy of the memorandum will be presented at the Council meeting on 25 September.
- 29 The report makes no recommendations.
- 30 The Authority has taken a positive and constructive approach to our audit, especially as regards producing our audit opinion to an earlier national timescale. I would like to take this opportunity to express my appreciation for the Authority's assistance and co-operation.

**Andrew Blackburn**  
**District Auditor**

September 2006

# Appendix 1 – Audit responsibilities and approach

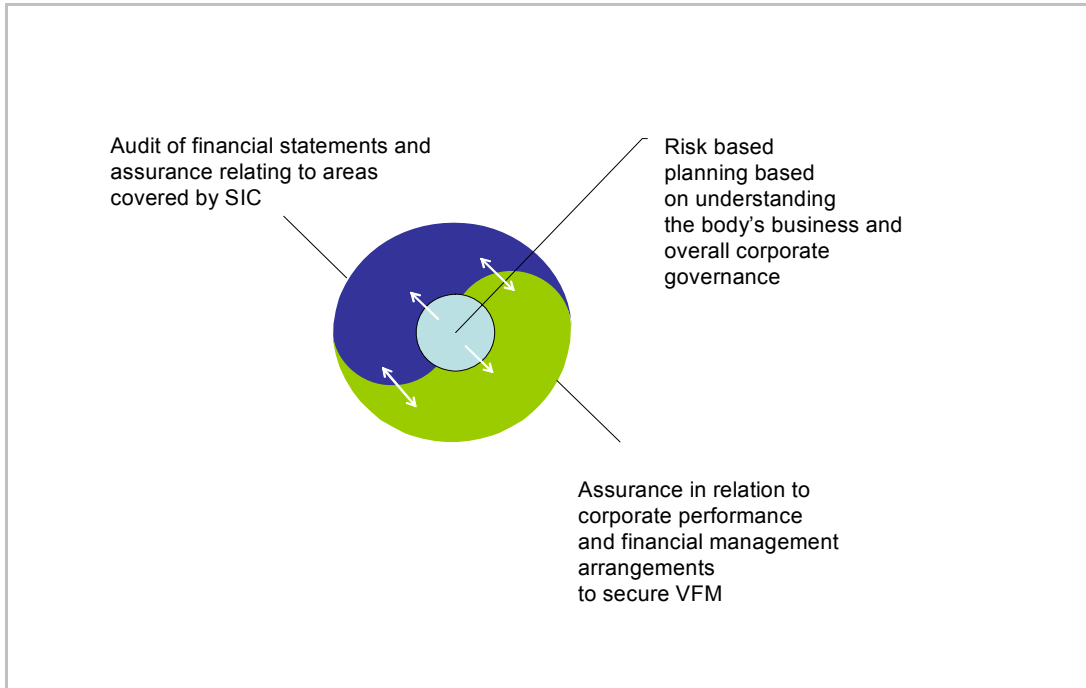
## Audit objectives

- 1 Our objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on the significant risks that are relevant to our audit responsibilities.

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### Figure 1 Code of Audit Practice

Code of Practice responsibilities



## Approach to the audit of the financial statements

- 2 In our approach to auditing the financial statements, we adopt a concept of materiality. Material errors are those which might be misleading to a reader of the financial statements. We seek, in planning and conducting our audit of the accounts, to provide reasonable assurance that your financial statements are free of material misstatement. In planning our work we considered the arrangements of the Authority which had most impact on our opinion. These included:
  - the standard of the overall control environment and internal controls;
  - reliance on internal audit;
  - the likelihood of material misstatement occurring from material information systems; or a material error failing to be detected by internal controls;
  - any changes in financial reporting requirements; and
  - the effectiveness of procedures for producing the financial statements and supporting material.
- 3 The results of the above feed into our risk assessment which determines the level and type of testing undertaken on each element of the financial statements. The keys risks that we identified include:
  - Preparation for the Whole of Government Accounts;
  - The need to update our assessment of Internal Audit , and
  - New financial systems.

## Approach to audit of arrangements to secure value for money

- 4 The scope of these arrangements is defined in paragraph 20 of the Code as comprising:
  - corporate performance management; and
  - financial management arrangements.
- 5 Our conclusion is informed and limited by reference to relevant criteria covering specific aspects of audited bodies' arrangements, specified by the Code.

- 6 In planning audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, considered and assessed relevant significant business risk. Significance is defined by the Code as 'a matter of professional judgment and includes both quantitative and qualitative aspects of the risk'.
- 7 The potential sources of assurance when reaching the value for money conclusion include:
  - the Authority's whole system of internal control as reported in its statement on internal control;
  - results from statutory inspections or the work of other regulators, for example, corporate assessments, service assessments (whether by the Commission or other regulators), etc.;
  - work specified by the Audit Commission, for example, the use of resources assessments, and data quality work;
  - links to the financial statements' audit, including review of internal audit, the SIC and budgetary control arrangements; and
  - other work necessary to discharge our responsibilities.

## Appendix 2 – Audit reports issued

**Table 2**

<b>Planned output</b>	<b>Planned date of issue</b>	<b>Actual date of issue</b>	<b>Addressee</b>
Audit and inspection plan	April 2005	April 2005	Council
Interim audit memorandum	June 2006	With final accounts memorandum	Management
Annual governance report	September 2006	September 2006	Audit Committee
Opinion on financial statements	September 2006	September 2006	Council
Value for money conclusion	September 2006	September 2006	Council
Final accounts memorandum	November 2006		Management
Use of resources assessments	March 2006	March 2006	Management
BVPP report	December 2005	December 2005	Council

## Appendix 3 – Fee information

**Table 3**

<b>Fee estimate</b>	<b>Plan 2005/06 £</b>	<b>Actual 2005/06 £</b>
Audit		
Accounts	51,550	51,550
Use of resources	17,030	17,030
Total audit fees*	68,850	68,850
Voluntary improvement work	0	0

\*The outturn on inspection and grant certification fees will be reported in the Annual Audit and Inspection Letter in March 2007.



## **Appendix 4 – The Audit Commission’s requirements in respect of independence and objectivity**

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

# Appendix 5 – Independent auditor’s report to Gedling Borough Council

# Independent auditor’s report to the Members of Gedling Borough Council

## Opinion on the financial statements

I have audited the financial statements of Gedling Borough Council for the year ended 31 March 2006 under the Audit Commission Act 1998, which comprise the Consolidated Revenue Account, the Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves and the Cash Flow Statement. and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Gedling Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

## Respective responsibilities of the Head of Finance and auditors

The Head of Finance's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements present fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005.

I review whether the statement on internal control reflects compliance with CIPFA’s guidance ‘The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003’ published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises the Explanatory Foreword and Summary Accounts. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

### **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In my opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended.

## **Conclusion on 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 regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the Authority is required to prepare and publish a best value performance plan summarising the Authority’s assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

### **Auditor’s Responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority 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 in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. 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.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the Authority’s best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

### **Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and I am satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, in all significant respects, Gedling Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006.

### **Best Value Performance Plan**

I issued my statutory report on the audit of the Authority’s best value performance plan for the financial year 2005/06 on 16 December 2005. I did not identify any matters to be reported to the Authority and did not make any recommendations on procedures in relation to the plan.

## **Certificate**

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

Andrew Blackburn – District Auditor

Audit Commission, Littlemoor House, Littlemoor, Eckington, Sheffield S21 4EF

September 2006

## Appendix 6 – Letter of representation

1 Text

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