

Annual Governance Report

September 2007



Annual Governance Report

Gedling Borough Council

Audit 2006/07

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

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.

Copies of this report

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

www.audit-commission.gov.uk

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Purpose of this document

- 1 In accordance with the Audit Commission's Code of Audit Practice (the Code), this report provides a summary of the work we have carried out during our 2006/07 audit of accounts, the conclusions we have reached and the recommendations we have made to discharge our statutory audit responsibilities to those charged with governance (in this case the Audit Committee) at the time they are considering the financial statements.
- 2 In preparing our report, the Code requires us to comply with the requirements of International Standards on Auditing (United Kingdom & Ireland) – ISA (UK&I) - 260 'Communication of Audit Matters to Those Charged with Governance', by reporting to you matters relating to the audit of the financial statements. 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.
- 3 We are also required to communicate to you the Audit Commission's requirements in respect of independence and objectivity, and these are set out at Appendix 2.
- 4 This report has been prepared for presentation to the Audit Committee on 25 September 2007. Members are invited to:
 - consider the matters raised in the report before the financial statements are approved;
 - approve the representation letter on behalf of the Authority and those charged with governance before we issue our opinion; and
 - consider amending the financial statements for unadjusted misstatements, significant qualitative aspects of financial reporting and any recommendations for improvement in the action plan.
- 5 Our work during the year was performed in line with the plan that we presented to you on 24 April 2006. We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 3.

Key messages

- 6 Our work on the financial statements is substantially complete. We propose issuing an unqualified audit opinion on 28 September 2007 (a draft report is attached at Appendix 4).
- 7 In our view, the Statement on Internal Control (SIC) has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit.
- 8 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. We propose issuing an unqualified conclusion on the use of resources on 28 September 2007 (a draft report is attached at Appendix 4).

Audit status

- 9 At the date of issue of this report our detailed audit is substantially complete. If any significant matters arise in completing the remainder of our work we will report them to members at the Audit Committee on 25 September.
- 10 The Authority has taken a positive and constructive approach to our audit and we would like to take this opportunity to express our appreciation for the Authority's assistance and co-operation.

Accounts and statement on internal control

- 11 Our work on the financial statements is substantially complete.
- 12 Auditors are required to obtain written confirmation of certain representations from management and those charged with governance before an audit report is issued, such as acknowledgement of responsibility for the fair presentation of the financial statements in accordance with the applicable financial reporting framework and responsibility for the design and implementation of internal control to prevent and detect error.
- 13 The auditor should also obtain written representations from management on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist.
- 14 The final draft of the letter of representation has been attached as Appendix 5.

Unadjusted misstatements

- 15 We are required to report to you all unadjusted misstatements that we have identified during the course of our audit, other than those that are clearly trivial. There are no unadjusted misstatements for us to bring to the attention of members.

Adjustments to the financial statements

- 16 We are also required to bring to your attention misstatements that have already been corrected by management where we consider them relevant to your wider governance responsibilities. The accounting entries are recorded in full at Appendix 7. We provide below a commentary.

Pensions

- 17 The value of the pension fund's assets, as estimated by the actuary, understated their actual value by £0.827 million. We have therefore made the following changes to the accounts.
 - Pension Liability was £19.387 million, now £18.56 million (credit).
 - Pensions Reserve balance was £19.387 million now £18.56 million (debit).
- 18 These changes are also reflected in Note 9.

Note to Cash Flow statement

- 19 There was also a need for a technical adjustment to a note to the Cash Flow statement. This issue arose at many authorities.

- 20 Note 37[a] contained a reconciliation between the movement on the General Fund Balance (£1.272 million) and the Revenue Activities Net Cash Flow (£2.165 million) within the cash flow statement. This reconciliation should be between the balance reported in the Income and Expenditure account (£11,000) and the Revenue Activities Net Cash Flow (£2.165 million).

Accounting practices

- 21 We are also required to report to you our view on the qualitative aspects of the Authority's accounting practices and financial reporting and have set out below our observations on key issues affecting the Authority.
- 22 We have nothing to report.

Systems of internal control

- 23 As part of our audit, we consider the systems of accounting and financial control and report to you any material weaknesses identified. We have no matters we wish to draw to your attention
- 24 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.
- 25 We have also reviewed whether the SIC has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit. There are no matters arising.

Use of resources

Value for money conclusion

- 26 The Code requires us to reach a conclusion on whether we are satisfied that the Council has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources – the value for money conclusion. In meeting this responsibility, we review evidence that is relevant to the Council's corporate performance management and financial management arrangements across a range of criteria specified by the Audit Commission. Details of our conclusion for each of the criteria specified by the Audit Commission are set out in Appendix 8. In drawing our conclusions we also took account of the following work specified by the Audit Commission:
- use of resources assessment;
 - data quality work; and
 - the best value performance plan.

Use of resources assessment

- 27 We reported our 2006 assessment of the Council's use of its resources in our audit and inspection letter in March 2007. We are currently completing our 2007 use of resources assessment. When finalised, we will discuss this with the relevant officers.

Data quality work

- 28 We are currently finalising our data quality review and will report our findings to the relevant officers. There are no significant issues to report to those charged with governance.

Best value performance plan

- 29 Our work in respect of the Authority's 2006/07 best value performance plan (BVPP) was reported in the 2006 annual audit and inspection letter. No recommendations were made to the Audit Commission or the Secretary of State.

Audit fee update

- 30 We reported our fee proposals as part of the Audit Plan for 2006/07. The table below reports the outturn fee against that plan.

	Plan 2006/07 £	Actual 2006/07 £
Financial statements and Statement on Internal Control	50,845	58,118
Use of Resources	22,149	22,149
Total Audit Fees	72,994	80,267
Grants certification work	25,000	25,000 est.
Other work	0	0

The extra cost of £7,273 for audit work on the Financial statements and Statement on Internal Control arose because of the need to carry out work on the proposed Large Scale Voluntary Transfer (LSVT) of housing stock.

- 31 The outturn on inspection fees and grants certification fees will be reported in the annual audit and inspection letter in March 2008.

Appendix 1 – Action plan

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Page	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated implementation date
	There are no recommendations					

Appendix 2 – The Audit Commission’s requirements in respect of independence and objectivity

- 1 We are required to communicate the following matters to those charged with governance:
 - 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 audit team and which are required to be disclosed under auditing and ethical standards.

Appendix 3 – Audit reports issued

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit plan	April 2006	April 2006	Audit Committee
Opinion audit plan	-	August 2007	Head of Corporate Services
Annual governance report	September 2007	September 2007 (planned)	Audit Committee
Opinion on financial statements	September 2007	September 2007 (planned)	Council
Use of resources conclusion	September 2007	September 2007 (planned)	Council
Final accounts memorandum	October 2007	October 2007 (planned)	Head of Corporate Services
BVPP report	October 2006	December 2006	Council
Data quality report	-	November 2007 (planned)	Chief Executive
Annual audit letter	March 2008	March 2008 (planned)	Council

Appendix 4 – Proposed auditor's report

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 2007 under the Audit Commission Act 1998, which comprise the Explanatory Foreword, Income and Expenditure Account, Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Collection Fund 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 Chief Finance Officer and auditors

The Head of Corporate Services' 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 200 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 2006.

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’ issued in 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.

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 2006, the financial position of the Authority as at 31 March 2007 and its income and expenditure for the year then ended.

Andrew Blackburn, District Auditor
Audit Commission, Littlemoor House, Littlemoor, Eckington, Sheffield S21 4EF
September 2007

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 having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, 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 2007.

Best value performance plan

I issued my statutory report on the audit of the authority’s best value performance plan for the financial year 2006/07 on 15 December 2006. 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 2007

Appendix 5 – Management representation letter

Council to insert hard copy letter of representation.

Appendix 6 – Summary of unadjusted misstatements

- 1 We are required to report to you all unadjusted misstatements that we have identified during the course of our audit, other than those that are clearly trivial. The items below are brought to your attention to enable you to consider whether the financial statements should be amended for them. If you choose not to amend the financial statements in respect of these items, you should extend the representation letter to explain why.

		Income and Expenditure Account		Balance Sheet	
Unadjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Description of Misstatement					
Dr					
Cr					
Net Effect					

Appendix 7 – Summary of 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.

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Adjustments to FRS 17 figures provided by actuary	Correct entry within the balance sheet				
Dr Pensions Liability Account				827	
Cr Pension Reserve					827
Net Effect				827	827

Appendix 8 – Value for money conclusion

The Audit Commission has published, in accordance with the Code of Audit Practice, 12 criteria on which auditors are required to reach a conclusion on the adequacy of an audited body’s arrangements for economy, efficiency and effectiveness in its use of resources.

The Code criteria are linked to the use of resources assessment (UoR) key lines of enquiry (KLoEs). A score of Level 2 or higher under the KLoEs will result in an assessment that the Authority has adequate arrangements in place for the purposes of the Code criteria. The Code criteria and the linked KLoEs are show in the table below.

Code criteria	Description	Associated UoR KLoE	UoR score March 2007	VFM conclusion
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	N/A	N/A	Adequate
2	The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	N/A	N/A	Adequate
3	The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	N/A	N/A	Adequate
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	LG DQ KLoEs	N/A	Adequate

Code criteria	Description	Associated UoR KLoE	UoR score March 2007	VFM conclusion
5	The body has put in place arrangements to maintain a sound system of internal control.	4.2	3	Adequate
6	The body has put in place arrangements to manage its significant business risks.	4.1	3	Adequate
7	The body has put in place arrangements to manage and improve value for money.	5.2	4	Adequate
8	The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	2.1	3	Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	3.1	2	Adequate
10	The body has put in place arrangements for managing performance against budgets.	2.2	3	Adequate
11	The body has put in place arrangements for the management of its asset base.	2.3	3	Adequate
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	4.3	3	Adequate