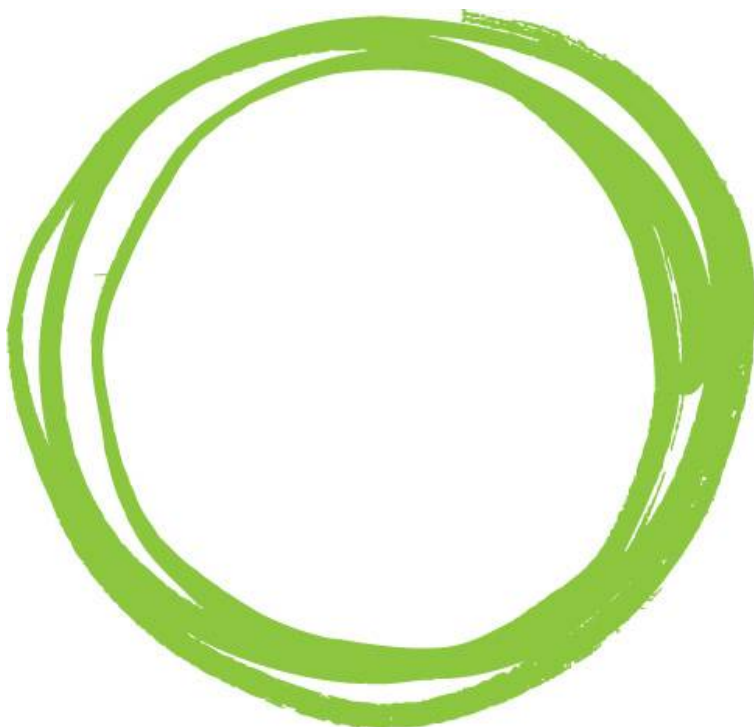


# Annual Governance Report

District of Easington

Audit 2007-2008

September 2008



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## 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.
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# Summary

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## Purpose

- 1 This report summarises the findings from our 2007/08 audit, which are 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.

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## Financial statements

- 3 We expect to issue an unqualified opinion on the financial statements following their re-approval by those charged with governance on 30 September 2008.
- 4 During the audit management has agreed to amend the financial statements to take account of the revised FRS 17 valuation.
- 5 The accounts presented for audit contained some minor errors but these did not have any impact on the bottom line. The reserves are as reported to Members in June 2008.

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## Value for Money

- 6 We are planning to issue an unqualified conclusion on the Council's arrangements for value for money. During 2007/08 the Council maintained adequate systems of internal control, risk management and financial management despite the uncertainty brought about by the LGR announcement.

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## Formal audit powers

- 7 There are no issues that require us to exercise our formal audit powers.

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## Next steps

- 8 We ask the Council to consider the matters raised in the report before approving the financial statements and approve the representation letter on behalf of the Council before we issue our opinion, conclusion and certificate.

# Financial statements and Annual Governance Statement

- 9 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.
- 10 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.
- 11 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

- 12 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
<p>Changed accounting requirements introduced by the SORP especially the revaluation reserve accounting and disclosure for financial instruments.</p>	<p>We provided seminars on these and other issues for officers.</p> <p>We are now satisfied with the accounting treatment in respect of the revaluation reserve and financial instruments accounting.</p>
<p>The 2006-07 accounts introduced a new Statement of Recognised Gains and Losses (STRGL) which most council had difficulty in completing and this identified as a risk for 2007/08.</p>	<p>The Council's 2006-07 STRGL was reviewed nationally along with a number of other councils.</p>

### Draft representation letter

- 13** 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 us the results of your assessment of the risk that the financial statements might be materially misstated because of fraud;
  - you have told us 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 us of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
  - you have told us 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.
- 14** Appendix 1 contains the draft of the letter of representation we seek from you.
- 

### Accounting policies and financial reporting

- 15** We considered the qualitative aspects of your financial reporting and have not identified any significant issues to raise with you.

**Errors in the financial statements**

- 16 We identified errors in the financial statements (other than those of a trivial nature) and reported these to management. Management has agreed to adjust the financial statements for the errors identified. The most significant is shown in Table 2 below:

**Table 2 Errors in the financial statements**

Issue	Resolution
<p>The FRS17 liability is calculated by the actuary. Due to the short time scales involved the actuary uses projected asset figures. For 2007/08 the actuary projected the position to 31 March based on the actual assets as at 28 February. Due to the fact that the Pension Fund was in the process of asset transition at 28 February the actuary used estimated asset returns to project the assets to 31 March. The result of using these estimates was that the actuary's total projected assets figure was significantly lower than the assets shown in the Pension Fund accounts as at 31 March 2008.</p>	<p>The actuary was therefore requested to provide revised FRS17 figures using the actual assets at 31 March.</p> <p>The impact of the amendments on the financial statements is a £2,820k decrease to the Pensions Liability and Pension Reserve shown on the Balance Sheet, and an increase to the actuarial gain shown in the Statement of Total Recognised Gains and Losses (STRGL).</p>

- 17 We also have to report a further issue but we are not proposing any amendment to the Statement of Accounts. The PWLB has provided an estimate for the fair value of loans in accordance with FRS 26. The Council has however relied upon its treasury management specialist (Sector) for the fair value of the loans outstanding as at 31 March 2008 from PWLB. This is reported as part of the note 35 on fair value of loans in the Statement of Accounts.
- 18 Sector has not used the PWLB approach to the estimation of fair values (i.e. a redemption basis) but instead has estimated fair values based on PWLB terms for new loans. In our view this estimate is on a different basis to that envisaged in FRS 26. The difference between Sector's estimate and that provided by PWLB is £2,097k or 2.7 per cent. We do not propose to modify our audit report.

**The audit report**

- 19 We plan to issue an unmodified report including an unqualified opinion on the financial statements. Appendix 3 contains a copy of our draft report.

### Material weaknesses in internal control

- 20 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 aware.
- 21 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.

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### Other matters

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

# Value for money

- 23** 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 twelve criteria specified by the Commission. Our conclusion is informed by our work on Use of Resources, a scored judgement reported to the Audit Commission.
- 24** We have assessed the arrangements of the Council as adequate in all twelve areas and we therefore propose to issue an unqualified conclusion.



# Formal audit powers

25 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 Authority'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.

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

# Independence

- 27** 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.
- 28** We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 29** 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

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

## Audit fees

- 31** 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 3     Audit fees**

	<b>Plan 2007/08</b>	<b>Actual 2007/08</b>
Financial statements and Annual Governance Statement	£84,815.00	£84,815.00
Value for Money	£39,424.00	£39,424.00
National Fraud Initiative	£ 625.00	£ 625.00
<b>Total Audit Fees</b>	<b>£124,864.00</b>	<b>£124,864.00</b>
Other work (statutory inspection)	£ 12,230.00	£ 12,230.00

- 32** The analysis above shows that we contained our audit fee within the totals you have already agreed.
- 33** An extra fee of £2,000 was charged in relation to a complaint received concerning a planning application. Having investigated the issues raised we concluded that no further audit action is required and have informed the Chief Executive of the outcome.

## Independence

- 34 We have not provided any non-audit services as allowed under the Audit Commission's advice and assistance power.

### Our arrangements to ensure independence and objectivity

- 35 We have comprehensive procedures to ensure independence and objectivity. These are outlined in Table 4.

**Table 4 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"><li>do not hold a financial interest in any of our audit clients;</li><li>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</li><li>may not enter into business relationships with UK audit clients or their affiliates.</li></ul> <p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none"><li>the general requirement to carry out work independently and objectively;</li><li>safeguarding against potential conflicts of interest;</li><li>acceptance of additional (non-audit) work;</li><li>rotation of key staff;</li><li>other links with audited bodies;</li><li>secondments;</li><li>membership of audited bodies;</li><li>employment by audited bodies;</li><li>political activity; and</li><li>gifts and hospitality.</li></ul>
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>

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# Appendix 1 – Draft letter of Representation

To: Cameron Waddell  
The Audit Commission  
Nickalls House  
Metro Centre  
GATESHEAD  
NE11 9NH

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## District of Easington 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 and members of District of Easington Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2008.

### Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements which present fairly and for making accurate representations to you. I acknowledge my responsibilities under the relevant statutory authorities to prepare the Council's accounts in accordance with proper practices as defined in relevant legislation or guidance.

I believe that the amended financial statements are free from material misstatements, including omissions. I also believe that the aggregated effect of uncorrected financial misstatements identified during the audit is immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

### 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 Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council meetings, have been made available to you.

### Going concern

I am satisfied that it is appropriate to adopt the going concern basis in the preparation of the financial statements and that the financial statements include, such disclosures, if any, relating to going concern.

## Appendix 1 – Draft letter of Representation

### 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 Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. 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. 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
- that subsequent events do not require adjustment to the fair value measurement.

### Assets

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

- losses arising from sale and 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.

### 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;
- 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 provided 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.

### Insurance

I consider that there is adequate insurance cover for all major risks.

### Specific representations

Members, who have not signed 'related party transaction' returns for the financial year 2007/08 have not got any such interests do disclose and therefore do not contravene statutory or ISA+550 requirements.

## Appendix 1 – Draft letter of Representation

I confirm that this letter has been discussed and agreed by the Council on 30 September 2008.

Signed on behalf of Easington District Council.

Name Janet Johnson

Position Chief Executive

Name Tom Bell

Position Director of Finance and Corporate Services

Name David Taylor

Position Monitoring Officer

Date

# Appendix 2 – Adjusted Non Trifling Errors in the Financial Statements

36 The following amendments have been agreed with officers to the accounts approved by Members in June 2008. The amended accounts will be presented to those charged with governance for re-approval on 30 September 2008.

**Table 5**

Issue	Resolution
Incorrect presentation of the group accounts for East Durham Homes (EDH) pension costs.	Group accounts amended
Classification between non-operational and operational assets	Classifications corrected
Incomplete disclosure notes relating to financial instruments	Correct disclosure notes included
Examination of working papers supporting Officers Emoluments (Note 8 to Accounts and Note 2 to the Group Accounts) showed that 2 employees earned between £50,000 and £59,999 rather than 1 as shown in Accounts.	<p>Note 8 amended to show 2 employees earned between £50,000 and £59,999.</p> <p>Note 2 to the Group Accounts has been amended to show 11 employees earned more than £50,000 in the year.</p>



# Appendix 3 – Independent auditor's report to the Members of District of Easington Council

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## Independent auditor's report to the Members of District of Easington Council

### Opinion on the financial statements

I have audited the Authority and Group accounting statements and related notes of District of Easington Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of District of Easington 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 Director of Financial Services and auditor

The Director of Finance and Corporate Services' responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

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 Authority and Group accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial position of the Group and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE 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 governance statement covers all risks and controls. Neither am I 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 Authority and Group accounting statements, and consider whether it is consistent with the audited Authority and Group accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority and Group accounting 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 Authority and Group accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority and Group accounting statements and related notes, 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 Authority and Group accounting statements and related notes 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 Authority and Group accounting statements and related notes.

### **Opinion**

In my opinion:

- The Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended; and
- The Group financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 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 regularly to review the adequacy and effectiveness of these arrangements.

#### 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.

#### 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, District of Easington Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008.

#### Best Value Performance Plan

We have issued our statutory report on the audit of the authority's best value performance plan for the financial year 2007/08 in November 2007. We did not identify any matters 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.

Cameron Waddell

District Auditor  
Audit Commission  
2nd Floor, Nickalls House  
Metro Centre  
Gateshead  
NE11 9NH

30 September 2008

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# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, covering the £180 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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## Copies of this report

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