

Annual Governance Report

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Annual Governance Report

Sedgefield Borough Council

Audit 2006/07

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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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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 Sedgefield Borough Council) 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 Council on 28 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 Council 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 in May 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 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 Council'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.

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Audit status

- 9 At the date of issue of this report our detailed audit is substantially complete. Only work on the Council's Use of Resources assessment remains ongoing, and as planned, we aim to give officers feedback on outcomes from this work by the end of October 2007.
- 10 The Council has taken a positive and constructive approach to our audit and we would like to take this opportunity to express our appreciation for the Council's assistance and co-operation.

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Accounts and Statement on Internal Control

- 11 Our work on the financial statements is 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 such instances of unadjusted misstatement to bring to your attention.

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. These are recorded in full at Appendix 6 but we provide an analysis of the most significant items below for your attention.
- 17 The revaluation and disposal values within the notes to the balance sheet relating to fixed assets were understated by £1,250K. This error arose as assets weren't revalued at the time of disposal, rather the difference between the existing book value in the accounts and the disposal proceeds was incorrectly accounted for as a profit or loss on disposal. Consequently:
 - the profit / loss on the income and expenditure account were overstated by £1,250K. Rather than a profit on disposal of £1,012K, the accounts now show a loss on disposal of £238K
 - there is a compensating error in the Statement of Movement in the General Fund.
- 18 The asset register and accounts omitted a jointly owned piece of land at the Gables, neighbouring Sedgefield Net-park. The value of Sedgefield's share of this land is estimated at £259K. The Council's fixed assets were understated by this value.

- 19 Since preparation and approval of the accounts by the Council, the Secretary of State announced that she was minded to implement a proposal for a single unitary council for County Durham if and when the Local Government and Public Involvement in Health Bill 2007 is enacted. This is clearly a significant post balance sheet event which warrants acknowledgement within the accounts to fully inform readers. The relevant accounting standard is ISA+570 which require disclosure if there is any uncertainty about continuing operations. Management have consequently amended the accounts to include an appropriate note disclosing developments on this issue.

Accounting practices

- 20 We are also required to report to you our view on the qualitative aspects of the Council's accounting practices and financial reporting and have set out below our observations on key issues affecting the Council.
- 21 The quality of the financial statements was good with relatively few changes being required to the accounts, despite the additional difficulty faced by all Council's in coping with the significant changes in the accounts format arising from the new Statement of Recommended Practice (SORP). However, we have identified scope for the Council to further improve the audit trail supporting its accounts through clearer referencing and indexing of working papers.

Systems of internal control

- 22 As part of our audit, we consider the systems of accounting and financial control and report to you any material weaknesses identified.
- 23 Our responsibility is not to provide a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but to address only those matters which have come to our attention as a result of the audit procedures we have performed. There are no material weaknesses in systems of accounting and financial control that have come to our attention.
- 24 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

Work performed

- 25 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. Our work to support our conclusion comprised the following elements:
- Our most recent use of resources assessment;
 - data quality work; and
 - the best value performance plan.
- 26 Details of our conclusion for each of the criteria specified by the Audit Commission are set out in Appendix 7.

Use of resources assessment

- 27 As mentioned in paragraph 9 above, we are due to undertake our Use of Resources assessment shortly, with a view to providing feedback to officers by 31 October 2007. We will report on the outcome of this work to the Council within our Annual Audit and Inspection Letter.

Data quality work

- 28 We are currently finalising our data quality review and will report our findings to the relevant officers. We have concluded that the Council have adequate arrangements in place for ensuring data quality, and there are no significant issues that we need to report to those charged with governance.

Best value performance plan

- 29 Our work in respect of the Council'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	Expected 2006/07
Financial statements and Statement on Internal Control	64,300	64,300
Use of Resources	35,600	35,600
Total Audit Fees	99,900	99,900
Grants certification work	18,000	Ongoing
Other work	n/a	n/a

- 31 The analysis above shows that at the present time we expect our audit fees will be contained within the totals you have already agreed
- 32 The outturn on inspection fees will be reported in the annual audit and inspection letter.

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Appendix 1 – Action plan

Page	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation Date
7	The Council should consider whether to approve the revision to the accounts in respect of a non-trifling error relating to the accounting treatment of assets on disposal. This error arose as assets weren't revalued at the time of disposal, rather the difference between the existing book value in the accounts and the disposal proceeds was incorrectly accounted for as a profit or loss on disposal. As a consequence the revaluation and disposal lines of the fixed assets note are understated by £1,250K, with other consequential changes	3				

Page	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation Date
7	The Council should consider whether to approve the revision to the accounts in respect of a non-trifling error relating to the omission from the asset register and accounts of a jointly owned piece of land at the Gables, neighbouring Sedgefield Net-park. The value of Sedgefield's share of this land is estimated at £259K.	3				
8	Under the accounting standard ISA+570 (which requires disclosure if there is any uncertainty about continuing operations), the Council should consider including a note to the accounts detailing the position with regard to the	3				

Page	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation Date
	possible future local government reorganisation in County Durham.					

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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 Council, 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.

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Appendix 3 – Audit reports issued

Planned output	Planned date of issue	Actual (or expected) date of issue	Addressee
Audit plan	April 2006	June 2006	Director of Resources
Interim audit memorandum	June 2007	Sept 2007	Director of Resources
Annual governance report	Sept 2007	Sept 2007	Council
Opinion on financial statements	Sept 2007	Sept 2007	Director of Resources & Council
Value for money conclusion	Sept 2007	Sept 2007	Director of Resources & Council
Final accounts memorandum	Oct 2007	Sept 2007	Director of Resources
BVPP report	Sept 2006	Nov 2006	Council
Data quality report	Oct 2007	Oct 2007	Director of Resources
Annual audit letter 2006	March 2007	March 2007	Council
Annual audit letter 2007	March 2008	Dec 2007	Council

Appendix 4 – Proposed auditor’s report

Independent auditor’s report to the Members of Sedgefield Borough Council

Opinion on the financial statements

I have audited the financial statements of Sedgefield 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 Housing Revenue Account, 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 Sedgefield 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 Commission¹.

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer’s responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Council Accounting in the United Kingdom 2006 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 Council 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 Council'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 only Explanatory Foreword. 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 Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council'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 Council as at 31 March 2007 and its income and expenditure for the year then ended.

Signed:.....

Dated:.....

Mr S Nicklin
District Auditor
Audit Commission
Nickalls House
Metro Centre
Gateshead
NE11 9NH

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Council’s Responsibilities

The Council 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 Council is required to prepare and publish a best value performance plan summarising the Council’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 Council 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 Council has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Council'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 Council'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, Sedgefield 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 Council's best value performance plan for the financial year 2006/07 in November 2006. I did not identify any matters to be reported to the Council and did not make any recommendations on procedures in relation to the plan.

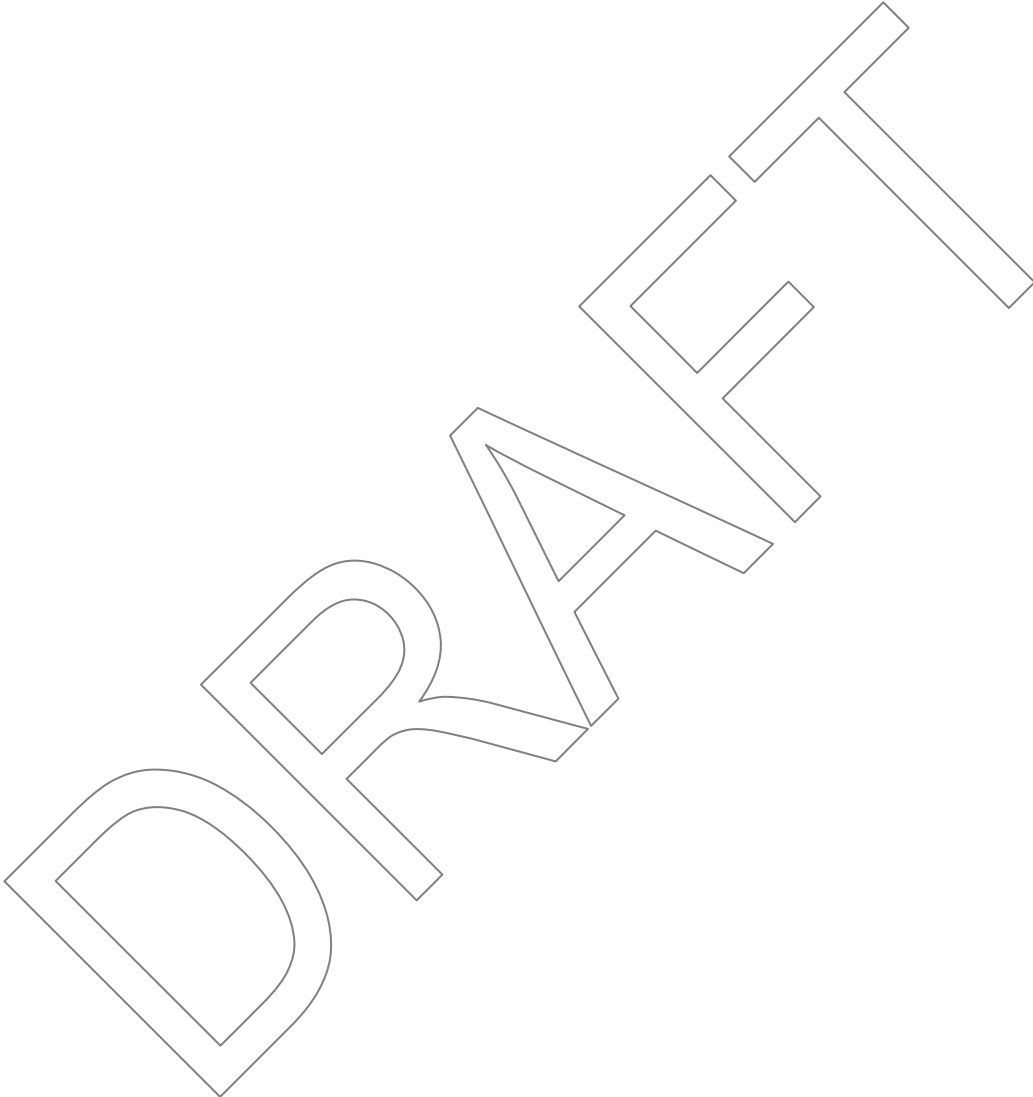
Certificate

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.

Signed:.....

Dated:.....

Mr S Nicklin
District Auditor
Audit Commission
Nickalls House
Metro Centre
Gateshead
NE11 9NH



Appendix 5 – Management representation letter

To:
Steve Nicklin
District Auditor
Audit Commission
Nickalls House
Metrocentre
Gateshead

Sedgefield Borough Council - Audit for the year ended 31 March 2007

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers and members of Sedgefield Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2007.

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements which present fairly and for making accurate representations to you.

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

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 committee meetings, have been made available to you.

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.

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.

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.

In all material respects, the expenditure and income disclosed in the financial statements has been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

The body 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.

Assets

The following have been properly recorded and when 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.

Irregularities

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

Post balance sheet events

Since the date of approval of the financial statements by Sedgefield Borough Council, no additional significant post balance sheet events have occurred (except for the decision of the Secretary of State regarding the possible local government re-organisation in County Durham which has already been noted in the revised accounts) which would require additional adjustment or disclosure in the financial statements.

We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete stock and no stock is stated at an amount in excess of net realisable value.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

Signed on behalf of Sedgefield Borough Council

Signed

Name	Alan Smith	Dennis Hall	Brian Allen
Position	Director of Resources	Solicitor to Council	Chief Executive
Date	28 Sept 2007	28 Sept 2007	28 Sept 2007

Appendix 6 – Summary of adjusted misstatements

- 1 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.

Adjusted misstatements	Nature of Adjustment	Income and Expenditure Account		Balance Sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Description of Misstatement					
Dr Profit on Disposal I+E	Assets not revalued upon disposal	1250			
Cr Profit on Disposal STMR			1250		
Dr Fixed assets	Omitted asset re the Gables			259	
Cr FARA					259

Appendix 7 – Value for money conclusion

- 2 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.
- 3 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 Council 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
5	The body has put in place arrangements to maintain a sound system of internal control.	4.2	3	Adequate

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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	3	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	4	Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	3.1	4	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

