

With the agreement of the Chairman, this report can be considered as a matter of urgency prior to Agenda Item 5, in accordance with S100B(4) of the Local Government Act 1972, as this report is required to be considered by the Committee prior to consideration of the 2010/11 Statement of Accounts

Performance and Audit Scrutiny Committee 20 September 2011

Audit Commission presentation of 2010/11 ISA 260 Annual Governance Report to those charged with Governance

1. Purpose of the Report

The attached report presents the results of the Audit Commission's *work to date* for 2010/11, and sets out the key issues which Members are asked to consider before the audit is completed.

2. Recommendations

2.1 That the Committee **NOTES**:

- that the financial statements presented for audit were **free from material misstatement** (subject to finalisation of the audit by the auditors);
- that **three errors** have been adjusted for, as set out on page 6 and page 20 of the Annual Governance Report;
- the **Findings** on pages 7, 8 and 9 of the Annual Governance Report;
- the **Internal Control issues** raised on pages 10 and 11 of the Annual Governance Report;
- the **Recommendation** on page 12, with respect to preparation of working papers;
- the **VFM Conclusion** set out on pages 15 and 16 of the Annual Governance Report, that the auditor intends to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in our use of resources.

The Chief Finance Officer will provide a verbal update on the management response to the Internal Control issues raised on pages 10 and 11, and the Recommendation on page 12 of the Annual Governance Report.

2.2 That the Committee **APPROVES**:

- the attached Letter of Representation on behalf of the Council, before the District Auditor issues his opinion and conclusion.

3. Corporate Objectives

3.1 The recommendations meet the following objective, as contained within the Corporate Plan:-

- (a) Corporate Priority: *“To raise Corporate standards and efficiency”*.

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St Edmundsbury Borough Council - Audit for the year ended 31st March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of St Edmundsbury Borough Council, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31st March 2011.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Supporting records

All relevant information and access to persons within the entity has been made available to you for the purpose of your audit, and all the transactions undertaken by the Authority have been properly reflected and recorded in the financial statements.

Irregularities

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

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;
- 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; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value. For asset valuations, lease agreements, provisions and accruals, I confirm:

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the process;
- the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events do not require adjustment to accounting estimates and disclosure included within the financial statements.

Related party transactions

I confirm that I have disclosed the identity of St Edmundsbury Borough Council related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of St Edmundsbury Borough Council.

I confirm that this letter has been discussed and agreed by the Authority on xx September 2011.

Signed

Name

Position

Date

Annual governance report

St Edmundsbury Borough Council

Audit 2010/11



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Traffic light explanation

Red  Amber  Green 

Key messages

This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

Audit opinion and financial statements

- My audit of the financial statements is substantially complete. I anticipate issuing an unqualified audit opinion subject to clearance of outstanding issues.
- Management provided IFRS compliant accounts by 30 June 2011 deadline, supported by adequate working papers. This is a good achievement.
- Management has amended the statement of accounts for some errors found during the audit as set out in this report and Appendix 2. These amendments are presentational and do not impact on the financial position of the Council.

- Management has also updated accounting policies and amended several disclosure notes.

Value for money

- I anticipate issuing an unqualified value for money conclusion stating that proper arrangements were in place to secure economy, efficiency and effectiveness in your use of resources.

Weakness in internal control

- I have not identified any significant weaknesses in internal control. However, we identified weaknesses in three key controls that are relevant to preparing the financial statements.

Before I complete my audit

I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

I ask you to confirm to me

I ask the Performance and Audit Scrutiny Committee to:

- take note of the adjustments to the financial statements which are set out in this report and impact on the Comprehensive Income and Expenditure Statement and Balance Sheet (set out at Appendix 2); and
 - approve the letter of representation, provided alongside this report before I issue my opinion and conclusion.
-

Financial statements

I intend to issue an unqualified opinion subject to clearance of outstanding issues. The Chief Finance Officer signed the financial statements, on 30 June 2011 by the statutory deadline. The accounts presented for audit were IFRS compliant and of good quality. Some adjustments have been agreed with officers. Supporting working papers were adequate.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report. We have yet to conclude our audit in the following key areas:

- debtors – we have experienced difficulties obtaining a year end analysis of sundry debtors (£1.5m) from which to undertake sample testing;
- creditors – we have experienced difficulties obtaining a year end analysis of purchase ledger creditors (£0.529m) from which to undertake sample testing. In addition, our work has identified one sample failure which cannot be fully extrapolated until creditors testing is complete;
-
- income/expenditure - we have experienced difficulties reconciling the Council's working papers to the Comprehensive Income and Expenditure Statement (CIES) to provide assurance that sample selection is from the full income and expenditure population;
- property, plant and equipment (PPE) – awaiting resolution of a number of queries on additions and valuations; and
- reserves – audit review linked to PPE work above.

Should any further matters arise in completing the remaining work, I will raise them by addendum report or directly with Members on 20 September 2011. Should any further changes to the financial statements arise before I issue my opinion on 30 September 2011, I will raise them directly with the Chief Executive, Chief Finance Officer and the Chair of the Performance and Audit Scrutiny Committee.

Corrected Errors in the financial statements

Management has corrected the accounts for some errors to comply with the disclosure requirements specified by the IFRS Code of Practice. The amendments are presentational and do not impact on the financial position of the Council.

Note 12 – Property, Plant and Equipment

Our review of Property, Plant and Equipment determined assets under construction (AUC), brought into service during 2010/11 (£24.5m), were de-recognised as AUC prior to being disclosed as additions for the individual categories of property, plant and equipment. These assets should have been re-classified within the disclosure note. De-Recognition is defined under the Code as taking place only on disposal of the asset or when no future economic benefit or service potential is expected from the asset.

This error has impacted on capital additions disclosures which are overstated by the same amount.

Review also found all capital expenditure was initially allocated to AUC additions prior to the de-recognition issue above. In some cases, the capital expenditure was genuine addition/enhancement to existing assets and was misclassified as AUC. The extent of this misclassification is currently being reconsidered by officers but will lead to a further adjustment to disclosure note 12.

Note 24 - IAS19 Pension disclosures

Review of the IAS19 Pensions Disclosures identified a £597k difference between the disclosed pension liability/reserve of £20,933k and the Actuarial estimate of liabilities of £21,530k. Minor differences between actual pension contributions and those recognised by the Actuary normally arise due to the Actuary estimating the final month's contribution for the year. Other variances have also arisen since the introduction of IAS19 (FRS17) due to changes in actuarial assumptions which have increased the cumulative effect of these variances year on year. CIPFA best practice is to review, conduct reasonable tests recommended by the Actuary on the IAS19 report, and assuming the variance is reasonable, to write off the difference against Actuarial Gains and Losses so that the closing pension liability/reserve reflects the Actuarial estimate. Details of the amendment to the balance sheet are shown at Appendix 2.

Note 28 – Amounts reported for Resource Allocation Decisions

Review of the segmental reporting disclosure Note 28 'Amounts Reported for Resource Allocation Decisions' found the information inconsistent with the Comprehensive Income & Expenditure Statement disclosures and the budget monitoring process ongoing throughout 2010/11. The review determined internal recharges of £16m had been incorrectly included within the Income & Expenditure figures. Officers have now removed these figures and produced revised working papers which bring Note 28 in line with the quarterly monitoring reports. Detailed reconciliations to the accounts have been agreed to revised working papers and the financial statements corrected.

Financial statements

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 these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Key audit risk and our findings

Key audit risk	Finding
<p>1. International Financial Reporting Standards (IFRS)</p> <p>Local authorities are now required to prepare financial statements under the International Financial Reporting Standards (IFRS), as adopted by the Code of Practice on Local Authority Accounting in the United Kingdom (Code of Practice).</p> <p>There is a risk that the 2010/11 financial statements do not meet the new requirements.</p>	<p>We reviewed and tested whether the Council:</p> <ul style="list-style-type: none">– identified those transactions and balances that will be affected by the transition to IFRS;– adopted and correctly applied accounting policies that comply with the requirements of the Code and IFRS;– appropriately restated 2009/10 transactions and balances in accordance with the adopted accounting policies and IFRS; and– made all appropriate disclosures in accordance with adopted accounting policies and the requirements of the Code and IFRS. <p>We undertook some early work in respect of IFRS implementation issues, in particular, leases, government grants and review of the Council's proposed componentisation policy. We have no significant matters to report.</p>

Key audit risk

Finding

2. Fixed assets

A new asset management system was implemented in December 2010 to ensure that IFRS reporting requirements could be fully captured and maintained.

There is a risk that fixed asset data has not been completely and accurately transferred to the new system.

The surface car park at the Arc shopping development was completed and brought into use by the end of 2009/10. The Council has not yet completed a valuation and impairment review and reclassified the asset as other land and buildings.

There is a risk that fixed assets are misstated.

We reviewed Internal Audit work in respect of the system change and adopted a fully substantive audit approach to the testing of fixed assets.

The system is unable to extract data to determine the split of fixed asset revaluations and impairments to either reserves or the CIES. Officers are therefore required to extract and reanalyse data to prepare disclosures which are compliant with the Code. Our review of the spreadsheet analysis found that under certain scenarios, for example, where there has been a previous impairment written off to the CIES, the spreadsheet logic does not fully address all possible outcomes. We have assurance that this has not produced a material error in the financial statements this year however we have identified non trivial errors of £140k for the impairment disclosure and £121k for the depreciation adjustment. Amendments are being discussed and agreed with officers.

We reviewed the valuation report to confirm that the surface car park has been valued and categorised on the appropriate basis. We confirmed that the surface car park has been re-valued in 2010/11 as required. The revaluation led to an impairment of £3.5m.

The Apex came into use in October 2010. We have sufficient evidence to conclude that it is not unreasonable for the Apex to be classified as a specialised asset and to be valued on a Depreciated Replacement Cost (DRC) basis (on transfer from 'assets under construction' to 'other land and buildings' when brought into use during the year).

3. Payroll

A system change/upgrade occurred at the start of the year. There is a risk that payroll data has not been completely and accurately transferred to the new system

We:

- considered any system implementation work undertaken by Internal Audit;
- documented and walkthrough the new payroll system and identify and test key controls; and
- undertook predictive analytical review procedures to give us assurance on the

Key audit risk	Finding
	<p>accuracy of the new payroll system.</p> <p>We have no significant matters to report.</p>
<p>4. Group accounts</p> <p>An assessment to determine whether group accounts are required should be undertaken annually.</p> <p>Following changes under IFRS and the Code of Practice there is a risk that potential entities requiring the preparation of group accounts may not have been identified.</p>	<p>We reviewed the Council's assessment and identification of potential group entities. No group accounts were identified by officers and a detailed rationale was provided confirming this position in respect of the relationship with Abbeycroft Leisure Trust. We have considered this in the light of the enhanced disclosures contained within the financial statements and conclude that current disclosures provide sufficient information to the reader of the accounts.</p> <p>The assessment to determine whether group accounts are required should continue to be undertaken annually, and for 2011/12 should also include Anglia Revenues Partnership.</p>

Financial statements

Significant weaknesses in internal control

I do not provide a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which officers may make. I report only on those matters which have come to my attention because of the audit processes I performed.

I have not identified any material weakness in the design or operation of an internal control that might result in a material error in your financial statements.

Other weaknesses in internal control

The control environment at the Council is generally strong. However, we identified weaknesses in three key controls that are relevant to preparing the financial statements.

Internal control issues and our findings

Description of weakness	Potential effect	Management action
<p>1. Benefits system reconciliation</p> <p>Review and walkthrough of the controls operating in the benefits system found that the monthly reconciliation of the housing benefits, council tax and NNDR systems to the general ledger were significantly delayed during the period due to the move to Anglia Revenues Partnership. The March 2011 Housing Benefits reconciliation was not completed until 19 August 2011 although all other reconciliations were completed prior to preparation of the financial statements.</p>	<p>Timely reconciliations are essential for a strong control environment and to identify any issues prior to the preparation of the financial statements.</p> <p>We have been unable to place assurance on the year end Housing Benefits system reconciliation control. We have undertaken additional substantive procedures to gain the necessary assurance.</p>	<p>Ensure that benefits system reconciliations are completed promptly at the end of each month.</p>

Description of weakness	Potential effect	Management action
<p>2. Benefits system: daily reconciliation to the Council Tax system</p> <p>Controls testing of the Benefits system found the daily amounts paid over to the Council Tax system did not operate for the period 8 February 2011 to 14 March 2011 due to staff leaving employment.</p>	<p>To improve the control environment, controls should be operated consistently throughout the whole accounting period. We have been unable to place assurance on the daily reconciliation as the control had not operated consistently throughout the period. We have undertaken additional substantive procedures to gain the necessary assurance.</p>	<p>Ensure that the benefits system daily reconciliation to the Council Tax system operates consistently throughout the whole accounting period.</p>
<p>3. Journal authorisation</p> <p>Our testing of material year end journals identified 2 out of 21 items where the supporting documentation and authorisation had not been kept on the relevant working paper file. Adequate documentation was subsequently provided however the journals had not been appropriately authorised. This issue was also found when testing listed debtors.</p>	<p>There is a risk that transactions could be made in error if procedures are not followed or that errors could be missed.</p>	<p>Ensure that all year end journals are appropriately authorised.</p>

Financial statements

Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

These are the issues I want to raise with you.

Accounting practices, policies, estimates and financial closures

Issue	Findings and recommendations
<p>1. Quality of the accounts and supporting working papers</p> <p>The Chief Finance Officer signed the financial statements on 30 June by the statutory deadline. This is a good achievement given the complexities involved in preparing accounting entries in line with IFRS involving more complex areas of work. The financial statements were of good quality and included annotation highlighting officer consideration of new requirements and evidence of senior officer review. Working papers provided for audit were adequate. High level audit trails were generally available but often required further analysis or query to progress audit testing, for example the sales ledger bad debt provision working paper shows annual movements but does not detail how the annual provision was calculated. Obtaining further information in some areas often involved being directed to several officers rather than the lead officer taking ownership to progress queries. This has led to inefficiencies and delays in progressing some key areas of audit work.</p>	<p>Recommendation:</p> <p>Ensure that all working papers provided for audit show how the material figures within the financial statements have been calculated and are fully supported by source documentation.</p>
<p>2. Financial Statements Disclosures – Note 40 Defined Benefit Pension Schemes</p> <p>Note 40 ‘Defined Benefit Pension Schemes’ analyses the Present Value of Scheme Liabilities and the Fair Value of Scheme Assets. The disclosure note does not provide the full analysis provided by the Actuary as certain items are netted against each other and the Council has interpreted the nature of some contributions paid differently to the Actuary. The Council intend to separately disclosure the following items consistent with the Actuary’s report :</p> <ul style="list-style-type: none">• Estimated Unfunded Benefits	<p>No further action required.</p>

Issue	Findings and recommendations
<ul style="list-style-type: none"> • Estimated Benefits Paid • Contributions by Members • Contributions by Employers • Contributions in Respect of Unfunded Benefits 	
<p>3. Note 34 - Capital Grants Receipts in Advance The prior year comparators had been omitted from the statements submitted for audit. The 2009/10 figures have now been included.</p>	<p>No further action required.</p>

Financial statements

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements.

The letter of representation is provided separately to this report.

Value for money

I am required to conclude whether the Council put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for money criteria and our findings

Criterion	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The Council has a robust approach to delivery of efficiency savings through the DRI-VE scheme which has results in significant year on year savings since 2005/06. In 2010/11 the Council delivered savings of £1.6m. The focus continues to be on longer term financial solutions rather than short term financial fixes. There is no evidence of dependency on reserves and investment income to balance budgets, or the use of reserves to fund recurrent expenditure.</p> <p>The Council completed some scenario planning at the initial budget planning stage. This contributed to the longer term Medium Term Financial Strategy document for 2011/14 which highlighted a funding gap going forward.</p> <p>The Council reviews its priorities and updated its financial plans in the light of increased financial pressures. Linked to this is good communication to staff and external stakeholders of the medium to long-term financial strategy, current financial position and likely financial</p>

Criterion	Findings
	<p>challenges.</p> <p>Accurate in-year forecasting enabled the Council to deliver a revenue underspend of £0.847m at the end of 2010/11, increasing the general fund balance carried forward by £0.643m. Previous assessments indicated that monitoring arrangements were strong, with good finance and performance reporting. These arrangements have been maintained in this period.</p>
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>There is evidence of strong leadership from senior management and members to ensure that resources are prioritised and there is a focus on spending reductions. Resources have been reallocated to meet changing needs as part of this process.</p> <p>Review arrangements are in place to ensure that strategic priorities are delivered. The Council also consulted with stakeholders during the year.</p> <p>The Council uses regular performance and financial monitoring to ensure ongoing efficiency and productivity.</p> <p>There is a good understanding of costs and how these related to performance. The Council is prepared to investigate longer term options in order to secure reductions, for example via shared working with Forest Heath District Council and moving the revenues and benefits function to Anglia Revenues Partnership from 2011/12.</p>

Appendix 1 – Draft audit report

Independent auditor's report to the Members of St Edmundsbury Borough Council

Opinion on the Authority accounting statements

I have audited the accounting statements of St Edmundsbury Borough Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and 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 St Edmundsbury Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Audit Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of St Edmundsbury Borough Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on Authority's 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 under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, St Edmundsbury Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

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.

Neil A Harris

Officer of the Audit Commission

Crown House, Crown Street, Ipswich, Suffolk IP1 3HS

September 2011

Appendix 2 – Amendments to the draft financial statements

I identified the following misstatement during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Balance Sheet – Other Long Term Liabilities	Pension Fund Liability understated following cumulative variances between actual pensions activity and those areas estimated by the Actuary.				597
Balance Sheet – Unusable Reverse	Pension Fund Reserve understated following cumulative variances between actual pensions activity and those areas estimated by the Actuary.			597	

Appendix 3 – Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Value for money conclusion

The auditor’s conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;

- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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

