



Performance and Audit Scrutiny Committee 25 September 2012

Audit Commission Interim Annual Governance Report

1. Purpose of the Report

The attached report presents the results of the Audit Commission's *work to date* for 2011/12. There is one significant piece of work, regarding the Collection Fund, which is still incomplete. The report goes into some detail about this area.

For this reason, the Annual Governance Report is only an interim report, and it is proposed that, with the agreement of this Committee, the final Annual Governance Report is signed off by the Chair of this Committee.

The District Auditor will provide a verbal update to the Committee on progress made between the time of writing this report and the Committee meeting itself.

2. Recommendations

2.1 That the Committee **NOTES**:

- the progress made to date on the annual audit, including the adjustments in Appendix 2;
- the **VFM Conclusion** set out on pages 7 - 9 of the Interim 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.

2.2 That the Committee **APPROVES**:

- that final sign off should be delegated to the Chairman of this Committee, once the District Auditor has completed the final Annual Governance Report.

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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Interim Annual governance report

St Edmundsbury BC



Key messages

This report summarises the findings from my 2011/12 audit which is in progress. It includes the messages arising so far from my audit of your financial statements and my assessment of your arrangements to secure value for money in your use of resources.

Financial statements

I am writing an Interim Annual Governance Report as at 20 September 2012 ahead of the Council's Performance and Audit Committee meeting of 25 September 2012.

As at 20 September 2012, my audit of St Edmundsbury Borough Council's 2011/12 financial statements and value for money conclusion is partially complete. I and my audit team have concluded a number of areas of work. Where appropriate the Council have amended the 2011/12 financial statements for the classification and disclosure errors we have found. There are no errors of significance so far which impact on the Council's financial position and level of reserves. This position might change when I conclude my audit and should this be the case, I will agree with the Committee how I bring other matters to your attention before I issue my audit opinion. I outline at Appendix 2 the agreed errors to the financial statements so far.

However, at the date of writing this report, there is a risk that I will not be in a position to issue my audit opinion on the Council's financial statements by 28 September 2012. I bring the reasons for this to your attention. At this stage, I do not have sufficient appropriate audit evidence to give me assurance that the Council's Collection Fund statement is free from material error. Council officers raised with my team in July 2012 that there were significant reconciliation differences arising from the conversion of the Council's Council Tax and National Non-Domestic Rates (NNDR) systems from Northgate to Academy systems. This arose from the Council's revenue and benefits service transferring to Anglia Revenues Partnership (ARP) from 1 April 2011. Whilst the reconciliation and unsupported figures themselves are not material, the associated debits and credits on the NNDR and Council Tax payers systems were both material and significant. The Council have been working recently with ARP to try to resolve the issues and advised me and my team on 19 September that this was possible. On 20 September, my team have been presented with some of the working papers to support the reconciliation of the NNDR payers system and I expect my team will receive the same for Council Tax payers system shortly. The Council also intend to provide my team with the working papers that then reconcile NNDR and Council Tax payers system to the Collection Fund statement in the Council's 2011-2012 financial statements.

Having all these completed and final set of working papers will enable I and my team to complete our audit testing of the Collection Fund and the associated Council Tax and NNDR accounting entries for Cash and Bank, Debtors, Creditors and Comprehensive Income and Expenditure statement. I will need all of this work completed to give me sufficient assurance to conclude that the Collection Fund is free from material error and to inform my audit opinion on the Council's 2011-2012 financial statements.

As this is a significant matter, I bring this to the attention of the Committee ahead of its meeting on 25 September 2012. On 25 September, when I present my report, I will update the Committee either verbally or if possible through an addendum to this report on the current position and the actions I propose to take. Given the position of my audit to date, I am not in a position to finalise all parts of my Annual Governance Report. For example, I need to assess the impact of any unresolved issues, corrected and, if appropriate, uncorrected errors. I also need to ensure I have considered the relevance of any matters arising on my audit opinion and whether this has any impact on my value for money conclusion and/or my ability to certify closure of my 2011/12 audit. I will update my findings in all these areas on conclusion of my audit. I will agree with the Committee how I present a final version of my Annual Governance Report to you before I issue my opinion.

Turning to the rest of the Council's financial statements, the Council submitted unaudited 2011/12 accounts on time and were complete. Apart from the issues arising on the Collection Fund statement, my work so far has revealed that the Council's financial statements did not have any significant errors or omissions which have had an impact on the Council's year end financial position and level of reserves. The vast majority of my audit findings so far relate to classification errors and areas where disclosures in the accounts can be enhanced. I am pleased to say that officers have agreed to all our audit findings so far and will be correcting these in the draft financial statements that you will receive. I provide further details on these agreed errors at Appendix 2. In my 2010/2011 Annual Governance Report, I recommended that the Council ensured that all working papers provided for audit showed how material figures have been calculated and are fully supported to underlying records and documentation. Earlier this year, on 24 January 2012, I and my team held a final accounts and closedown workshop with the Council's finance team with the aim of setting out each of our respective responsibilities and requirements ahead of the Council's preparation and our audit of the 2011/12 financial statements. I felt this was a very positive and productive workshop. I think it is fair to say that since then we have seen some improvements in working papers but there are still areas where either audit trails can be enhanced to inform audit testing or where there are lead officers in place to take ownership to progress some of our queries. I and my team will discuss our specific and detailed feedback points with the Council's finance team in a workshop we will hold before November 2012.

We are otherwise on track completing our work and review procedures across all areas of the financial statements before 28 September 2012. There are some significant areas we are finalising, including resolving queries on bank reconciliations. I also need to complete my final review of the audit work and the Council's financial statements before I issue my audit opinion.

There are two significant events that have taken place since the balance sheet date where I have sought additional disclosures and representations to support the Council's accounting entries in the 2011/12 financial statements:

- The Council have shown £3.251million under Assets Held for Sale for Hamlet Croft. At the balance sheet date, the disposal of Hamlet Croft was subject planning permission being granted. This happened on 16 August 2012 and the sale has since taken place. Strictly, the practitioner's code states that if there is a barrier to sale such as a planning determination, the Council should not be accounting for Hamlet Croft as an Asset Held for Sale. However, I am satisfied that the substance of the transaction is an Asset Held for Sale and that to present it otherwise would be a distortion to the Council's financial statements and not provide clarity for a reader of the accounts. I am also satisfied that the sale was substantially complete at the balance sheet date and that the planning conditions were customary and not a barrier to sale. I have asked that the Council expand Note 21 to the financial statements to disclose full details of the transaction and why there is a departure from Code. I have also asked for management representations in the Council's letter of representation to confirm their understanding of the transactions and planning conditions at the balance sheet date. I need to receive these representations before I issue my audit opinion.
- As part of its joint working with Forest Heath District Council, I am aware that the Councils are going through a management of change process and intend to create a new joint management team structure, the details of which were developed after the balance sheet date. I have liaised closely with the Councils Joint Chief Executive and Statutory Responsible Financial Officer on these proposals and I have reviewed the reports presented to members to date. Whilst the Council is not in a position at this stage to quantify the costs associated with the management of change proposals, I have asked the Council to include an explanatory note in its Annual Governance Statement and in the Post Balance Sheet event note in the 2011-2012 financial statements which sets out the Council's plans and the associated governance, financial and risk management implications. I am pleased to confirm that I am satisfied with the Council's proposed disclosures.

Value for money (VFM)

I have completed my work in this area and expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. I need to finalise this once I have concluded my audit of the Council's 2011-2012 financial statements, as I need to consider if there are any matters arising which impact on my value for money conclusion. At this stage, I do expect to issue an unqualified value for money conclusion. My work so far has concluded that both criteria (financial resilience and adequate arrangements to secure economy efficiency and effectiveness) have been met. My findings are set out in pages 7 to 9 of this report.

Whole of Government Accounts

Alongside my work on the financial statements, I also need to review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report have been specified by the National Audit Office. I expect to conclude my work and report to the National Audit Office at the same time as I issue my audit opinion on the Council's 2011-2012 financial statements and certify closure of my audit.

Certificate

Once I have concluded my audit of the Council's 2011/2012 financial statements and Whole of Government Accounts return, I expect to then be able to certify completion of audit. I am not aware of any other matters that would require me to delay my certificate or that would require me to exercise any of my statutory audit powers. I have not received an objection to the Council's 2011/2012 financial statements.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit so far. I have not designed my audit 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 am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

I ask the Performance and Audit Scrutiny Committee at this stage to:

- Note the current status of the audit as set out in key messages on pages 2 to 5 of this report.
- Note agreed errors to the financial statements included in this report (Appendix 2).
- Agree how you wish to receive a further update from me on my audit of the Council's 2011/12 financial statements before I issue my audit opinion.

Value for money

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

I assess your arrangements against the two criteria specified by the Commission. In my April 2012 Audit Plan I did not identify any significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria. I intend to issue an unqualified conclusion stating that the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

Table 1: **Value for money conclusion criteria and my findings**

Criteria	Findings	Conclusion
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</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>It is clear that in the current economic climate the leadership team and finance staff are acutely aware of the financial pressures facing the Council. A Medium Term Financial Strategy (MTFS) is in place which is updated on a rolling basis for any new assumptions, change in central government funding or changed financial status. The MTFS sets out the financial framework for delivery of the Council's priorities.</p> <p>The Council has a well established 'DRIVE' process (Dynamic Review, Innovation, Value and Enterprise) which seeks to identify and achieve significant year-on-year budget savings. This has delivered savings of £8.9m since 2005/06.</p>	<p>The Council has proper arrangements in place to secure financial resilience.</p>

Criteria	Findings	Conclusion
	<p>Regular budget and performance monitoring reports are presented to the Performance and Audit Scrutiny Committee which provides robust challenge on financial matters.</p> <p>A sound system of internal control is in place. Internal Audit has given 'substantial assurance' opinions on all fundamental systems.</p> <p>The Council also focuses on the longer term requirements, for example, it is already planning for major repairs and refurbishment of the Council's leisure facilities now that its programme of substantial capital investment and asset disposals is coming to an end.</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 2011/12:</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>The Council has a history of strong leadership from officers and members to ensure resources are prioritised, and there is a focus on spending reductions.</p> <p>The recent recruitment of a joint Chief Executive for St Edmundsbury BC and Forest Heath DCs confirms the authorities commitment to work together to maximise efficiencies through shared positions/structures and services.</p> <p>Implementation of shared services is a key source of potential savings and reductions. Business cases, monitoring of progress in implementing the programme, next activities, etc. are through the Shared Services Steering Group.</p>	<p>The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness</p>

Criteria	Findings	Conclusion
	<p>Resources have been effectively reallocated to meet changing needs. All activity areas have been subject to detailed review to achieve efficiency savings and ensure priority areas fully properly supported.</p> <p>There is active consultation with a range of stakeholders to help determine local priorities.</p> <p>The Council has a good understanding of costs and how these relate to performance. Use of performance and financial monitoring to ensure ongoing efficiency and productivity.</p>	

Appendix 2 – Agreed errors

I identified the following errors during the audit which management have agreed to address in the revised financial statements.

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Balance Sheet – Long Term Investments	Long Term Investments overstated following a classification error				4,063
Balance Sheet – Short Term Investments	Short Term investments understated following a classification error			4,063	
Balance Sheet - Heritage Assets	The de-minimis level set for the recognition of assets was at a level likely to give rise to material misstatement of the completeness of assets. De-minimis has therefore been lowered to ensure assets are fairly stated			595	
Balance Sheet – Revaluation Reserve	The de-minimis level set for the recognition of assets was at a level likely to give rise to material misstatement of the completeness of assets. De-minimis has therefore been lowered to ensure assets are fairly stated				595

		Statement of comprehensive income and expenditure	Balance sheet
CIES – Other Operating Expenditure	Proceeds of Asset Sale received in advance of the sale have been misclassified as receipts relating to 2011/12 rather than at taken as income at the point of sale.	50	
Balance Sheet – Capital Receipts IN Advance	Proceeds of Asset Sale received in advance of the sale have been misclassified as receipts relating to 2011/12 rather than at taken as income at the point of sale.		50

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20 September 2012