

Annual governance report

Forest Heath District Council

Audit 2011/12



Contents

Key messages	3
Before I give my opinion and conclusion	5
Financial statements	6
Value for money	11
Fees	13
Appendix 1 – Draft independent auditor’s report	14
Appendix 2 – Uncorrected error	18
Appendix 3 – Corrected errors	19
Appendix 4 – Draft letter of management representation	24
Appendix 5 – Glossary	27

Key messages

This report summarises the findings from the 2011/12 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.

Financial statements

My audit is now substantially complete and I expect to issue an unqualified audit opinion.

The financial statements were submitted for audit on time and were complete. The working papers supporting the financial statements were received in accordance with the agreed timescale and were of good quality.

The draft accounts presented for audit have been amended for a small number of numerical and disclosure errors identified from my audit. Most of these amendments have not affected the reported total comprehensive net expenditure for the year or total assets employed at 31 March 2012.

I still need to complete my final review of the accounts. Should any further matters arise in concluding the outstanding work that need to be reported, I will raise them with the Head of Finance, ICT and Audit and Chair of the Performance and Audit Committee.

There are a small number of issues which I am required to report to those charged with governance which are covered in the detail of this report.

I would like to thank the Council's officers for their assistance during the audit and for responding to audit queries on a timely basis.

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 therefore plan to issue an unqualified value for money conclusion. My work has concluded that both criteria (financial resilience and adequate arrangements to secure economy efficiency and effectiveness) have been met.

Certificate

I am currently completing my audit work in relation to the Councils Whole of Government Accounts (WGA) submission, but am expecting this work to be completed before the Council meeting on the 26th September 2012.

I expect to complete the outstanding work and report my findings to management during September 2012. I plan to issue my certificate alongside my opinion and before the 30 September 2012.

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. 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 Council to:

- take note of the adjustments to the financial statements included in this report (appendices 2 and 3); and
- approve the letter of representation (appendix 4), on behalf of the Authority before I issue my opinion and conclusion.

Financial statements

The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As elected 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.

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 audit report.

Uncorrected error

The Council has decided not to adjust its financial statements for an error that I have identified during my audit. I bring this uncorrected error to your attention in detail in appendix 2.

Corrected errors

The Council has made some presentational amendments to its financial statements as a result of my audit. The detail of these changes are disclosed in appendix 3.

Significant risks and my findings

I reported to you in my Audit Plan presented to the Performance and Audit Committee on 12 April 2012, the significant risks that I identified relevant to my audit of your financial statements. In Table 1 I report to you my findings against each of these risks.

Table 1: **Risks and findings**

Risk	Finding
<p>Heritage Assets</p> <p>The 2011/12 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) adopts the requirements of FRS 30 Heritage Assets. There is a risk that the Council may be unable to identify and account for all heritage assets.</p> <p>A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.</p>	<p>I evaluated the management controls you have in place to recognise and value heritage assets. I also undertook testing to check that the Authority has accounted for heritage assets in accordance with FRS 30 and the Code and the financial statements are fairly stated.</p> <p>We have identified some minor disclosure amendments which we have agreed with the Council.</p>
<p>Property, Plant and Equipment</p> <p>As reported in our 2010/11 Annual Governance Report our work last year identified some errors and weaknesses in the Council's systems for accounting for fixed assets. There is a risk that the split of revaluations and impairments to either reserves or the comprehensive income and expenditure account will be materially misstated.</p>	<p>We followed up the issues raised last year.</p> <p>We reviewed and tested data extracted from the asset 4000 fixed asset system.</p> <p>We undertook procedures for reliance on the work of the valuer and carried out tests of detail on valuations and impairments.</p> <p>My testing did not identify any significant errors or weaknesses in 2011/12.</p>
<p>2010/11 Unadjusted Error</p> <p>In 2010/11 adjudication costs associated with the Newmarket Leisure Centre (£357k) were capitalised by the Council. In our view the adjudication costs are 'abnormal costs' and are not attributable to bringing the asset into working condition and are therefore revenue in nature. These costs were therefore reported as an unadjusted error in our Annual Governance Report.</p>	<p>We have considered information provided by officers to support their accounting view and also referred this to our Technical Team in previous years. Our conclusion remains unchanged for 2011/12. Therefore this uncorrected error was brought forward when considering errors and uncertainties in the 2011/12 financial statements.</p>

Risk

Accounting for the Brandon Economic Development Initiative

The Council is planning to purchase a piece of land and associated building in accordance with its economic development objectives. The Council's intention is to enter into a lease agreement. There is a risk that this material initiative does not achieve its anticipated investment potential and that the proposed accounting treatment is incorrect.

Accounting for the Home of Horseracing Trust (HoHT) Project

The Council is the lead organisation for the proposed Home of Horseracing Trust project in Newmarket. This is a capital project anticipated to be funded by donations via the HoHT, national lottery monies and contribution from the Council. The project aims to restore the Place House, Stables and Mews to form an educational and cultural racing heritage museum complex and rehabilitation centre for ex race horses.

Due to the size and nature of the scheme, this represents potential material risk to the Council in a number of areas including treatment of any abortive costs, incorrect recovery of VAT, incorrect recording of, and accounting for, transactions associated with the asset in the financial statements.

Finding

We referred this to our Legal and Technical Team and undertook early work to consider the accounting issues associated with this proposed purchase and lease agreement. On 2 May 2012 we fed back our observations in a letter to the Corporate Director (Resources). We were not minded to challenge any of the Council's proposed accounting arrangements. In our view, there were also no legal concerns at this point that we needed to raise with the Council.

No assumptions were made in our 2011/12 plan in respect of this work. Therefore as previously communicated to members an additional fee was agreed with officers and has been reported in Table 5.

We planned to refer this to our Legal and Technical Team and undertake early work to consider the legal, technical and accounting issues associated with this project. However, complete papers to support this initiative are not yet available for our review due to the timescales and complexity of the project process. We will therefore continue to liaise with officers and undertake additional audit work at a mutually convenient point.

There were no assumptions made in our 2011/12 plan in respect of this work and no related work has been undertaken during our 2011/12 audit.

Significant weakness in internal control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- additional disclosures have been included to report proposals to introduce a joint management team between Forest Heath District Council and St Edmundsbury Borough Council. These proposals represent significant events or developments in the post balance sheet period and therefore have been highlighted more prominently to the reader;
- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

The following weaknesses in internal control are only those I have identified during the audit that are relevant to preparing the financial statements.

Table 2: Internal control issue and my findings

Description of weakness	Potential impact	Management action
<p>Towards the end of 2011/12 the IT service provision for Forest Heath joined with St Edmundsbury BC. Review of the ICT environment found Forest Heath's control environment could be considered high risk for network access given that:</p> <ul style="list-style-type: none"> • continuity moving into the joint arrangements was limited and the understanding of previous arrangements is patchy; • remaining officers in the new joint team are mainly from St Edmundsbury and access to the old IT help desk system for our key testing was not possible; • it is unclear whether existing policies and procedures (which appear to be in draft) 	<p>Deficiencies in this area could impact the validity and accuracy of financial reporting and disclosure of an entity.</p> <p>Insufficient controls over processing accuracy may result in inaccurate financial results.</p> <p>Weaknesses could result in loss of integrity of the organisation's systems and data.</p> <p>We have a significant degree of mitigation in that controls around material financial systems are strong and there have been no major changes to the 'off the shelf' systems.</p>	<p>I understand that this has been addressed as part of the considerations made by the Council in respect of its future shared service arrangements.</p>

Description of weakness	Potential impact	Management action
<ul style="list-style-type: none"> have been formalised and communicated to staff; the change management process and associated management of risk appear to have been poorly handled; there are poor network controls per the penetration testing report which also identifies a number of vulnerabilities in the Council's IT systems; and arrangements for starters/leavers was weak with officers identifying that a significant number of leavers had not been removed from the network. 		

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

I have no other matters to bring to your attention.

Whole of Government Accounts

Alongside my work on the financial statements, I have also reviewed and reported to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report were specified by the National Audit Office. I have no matters to report.

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 3: **Value for money conclusion criteria and my findings**

Criteria	Findings	Conclusion
1. Financial resilience The organisation has proper arrangements in place to secure financial resilience. Focus for 2011/12: 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.	 The Council's leadership team fully understands the challenging current financial position and potential implications. Committee reports set out the financial challenge being faced and regular budget and performance monitoring reports are presented to the Performance and Audit Committee for robust scrutiny and challenge. The Medium Term Financial Strategy and budget report sets out in broad terms how the financial challenges and any potential opportunities will be met over the coming years. Financial plans are incorporated into the Council's service plans etc. For 2011/12 the Council managed to achieve a broadly balanced position. The Council's financial outturn position showed an underspend of £115k which was transferred to the General Fund. Overall, the general fund balance is just below £2m, in line with the	 The Council has proper arrangements in place to secure financial resilience.

Criteria	Findings	Conclusion
	<p>Council's reserves and balances policy. Previous assessments indicated that monitoring arrangements were strong, with good finance and performance reporting. These arrangements have been maintained in this period.</p> <p>Risk management arrangements require further development to become fully embedded and form part of regular reporting mechanisms.</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 Forest Heath DC and St Edmundsbury BC 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>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>	<p>The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness</p>

Fees

I reported my planned audit fee in the April 2011 Fee Letter and April 2012 Audit Plan.

I will complete the audit within the planned fee, as outlined below. As reported in my 2011/12 Audit Plan, I set the fee equal to the Audit Commission scale fee.

Table 4: **Fees**

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	103,075	103,075
Claims and returns	35,600	35,600
Additional audit work – Brandon Economic Development Initiative	-	4,500
Total	138,675	143,175

Appendix 1 – Draft independent auditor's report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FOREST HEATH DISTRICT COUNCIL

Opinion on the financial statements

I have audited the financial statements of Forest Heath District Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Forest Heath District 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 Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing 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 financial statements sufficient to give reasonable assurance that the financial 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 and Group's circumstances and have been consistently applied and adequately disclosed; the

reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Forest Heath District Council as at 31 March 2012 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

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

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

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 2011, 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 2012.

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 2011, I am satisfied that, in all significant respects, Forest Heath District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

I certify that I have completed the audit of the financial statements of Forest Heath District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

[Signature]

Neil Harris
District Auditor

The Audit Commission's Audit Practice
3rd Floor, Eastbrook,
Shaftesbury Road,
Cambridge,
CB2 8BF

____ September 2012

Appendix 2 – Uncorrected error

I identified the following error during the audit which management have not addressed in the revised financial statements.

		Comprehensive income and expenditure statement		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Newmarket Leisure Centre - asset cost	The Authority has not valued an element of its property, plant and equipment in accordance with the Code of Practice on Local Authority Accounting ('the Code') by erroneously including Adjudication costs in its valuation. These costs are 'abnormal costs' which are not directly attributable to bringing the asset into use and so should be reported as a cost of service. £37k has been capitalised during this year and £357k in previous years.				
	Net cost of services	37			
	Impairment of property, plant and equipment		37		
	Capital receipts reserve (£37K + £357k)				394
	General Fund			394	

Appendix 3 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

		Statement of comprehensive income and expenditure		Balance Sheet		Other Statements and Supporting Notes	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Disclosure of revaluations and impairments	<p>The Authority had not initially met the minimum disclosure requirements for the Comprehensive income and expenditure statement (CIES). This was because impairment losses on non-current assets charged to the revaluation reserve should be separately disclosed on the face of the statement. The level of detail was already correctly reported by the Council in note 26 and has now been reflected in the CIES.</p> <p>- Surplus arising on the revaluation of property, plant and equipment assets</p> <p>- Impairment losses on non-current assets charged to the revaluation reserve</p>		437				
Investments	A £3,076k investment (£3m principal						

		Statement of comprehensive income and expenditure		Balance Sheet		Other Statements and Supporting Notes	
reported within cash equivalents	plus £76k accrued interest) with Progressive Building Society had been disclosed within cash and cash equivalents, but as the term of the investment is greater than 3 months and maturity is less than 12 months from the balance sheet date, it should be classified within short term investments. This impacts upon note 19, note 22 and the cash flow statement.						
	- Short term investments			3,076			
	- Cash and cash equivalents				3,076		
Collection Fund – Precepts	The Authority has misreported the precept payments for this year and last between payees. The total payment figure is understated by £78,000 for 2011/12 in the Collection Fund and related note C3.					collection fund	collection fund
	Precept Payments – Suffolk County Council	-				68	- (68 in 2010/11)
	Precept Payments – Suffolk Police Authority	-				10	- (10 in 2010/11)

	Statement of comprehensive income and expenditure	Balance Sheet	Other Statements and Supporting Notes	
Long Term Heritage Assets – note 47	The table disclosed in note 47 omitted the long term asset valuation at 31 March 2011 and indicated a restatement of £68,851,000. The note should have disclosed:		note 47	note 47
	- 31 March 2011 valuation	-	69,141	
	- revaluation amount	-	290	
Financial Instruments – note 22	Financial Instruments disclosure requirements are complex and a number of amendments have been agreed with the Council this year. The most significant being the inclusion of cash and accrued interest balances year within the scope of the note, but the impact is limited to this note alone. <i>Categories of Financial Instruments:</i>		note 22	note 22
	- Money Market Loans - Long Term (accrued interest)	-	412	
	- Money Market Loans - Current figure (2011/12: 283k accrued Interest+ 6,249k cash; 2010/11 accrued interest + 3,158k cash)	-	6,532 (3,690 in 2010/11)	

	Statement of comprehensive income and expenditure	Balance Sheet	Other Statements and Supporting Notes
<i>Fair Values of Assets and Liabilities</i>			
- Money Market Loans - Carrying Amount (2011/12: 412k long term accrued interest, 283k short term accrued Interest, 6,249k cash; 2010/11 532k short term accrued interest, 3,158k cash)	-		6,944 (3,690 in 2010/11)
- Money Markey Loans - Fair Value (2011/12: 4,585k cash, 1,672k cash excluding Investments, 102k erroneous client calculation; 2010/11: 3,158k cash)	-		6,155 (3,158 in 2010/11)
Grant Income – note 36			note 36
The Council Tax Benefit subsidy and the Council Tax Benefit administration subsidy figures should be disclosed in the ‘Credited to Services’ section of note 36 and in respect of grant income. The Housing Benefit Subsidy has also been understated.			
- Council Tax Benefit Subsidy	-		3,759 (3,701 in 2010/11)
- Council Tax Benefit Administration Subsidy	-		205 (200 in 2010/11)

	Statement of comprehensive income and expenditure	Balance Sheet	Other Statements and Supporting Notes
- Housing Benefit Subsidy (increase from £15,147k to £15,160k)	-		13

Appendix 4 – Draft letter of management representation

Forest Heath District Council - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Forest Heath District Council here, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on 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.

Uncorrected misstatement

The effects of the uncorrected financial statements misstatement shown below is not material to the financial statements. This misstatement has been discussed with those charged with governance within the Council and the reason for not correcting this item is as follows.

- Overstatement of Newmarket Leisure Centre - FHDC incurred professional costs to determine the appropriate amount of expenditure for Newmarket Leisure Centre. In our view even though these are intangible in nature they continue to be proper capital costs. These adjudication costs would not have been incurred if the asset had not been acquired. They are not attributable to the delivery of services and they do not have the nature of a revenue cost. In our view they are wholly and properly attributable to the construction contract and to the development of the leisure centre.

Supporting records

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

Going Concern

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

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 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.

Related party transactions

I confirm that I have disclosed the identity of the Authority's 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 requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Forest Heath District Council

I confirm that this letter has been discussed and agreed by the Council on [date]

Signed

.....

Linda Pope

Chief Financial Officer

Date.....

.....

Cllr Stewart

Chairman of the Council

Date.....

Appendix 5 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement

within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative 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

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

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

© Audit Commission 2012.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

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.

