

# Annual Governance Report

Vale of White Horse District Council

Audit 2009/10

Date **September 2010**

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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

## **2009/10 Annual Governance Report**

I am pleased to present the results of my audit work for 2009/10.

I discussed and agreed the report with the Chief Executive and Executive Director of Finance on 8 September 2010 and have updated it as issues have been resolved.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 9);
- take note of the adjustments to the financial statements set out in this report (Appendix 2); and
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 5).

Yours faithfully

Maria Grindley

Date 15 September 2010

# Key messages

This report summarises the findings from the 2009/10 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.

| <b>Financial statements</b>                     | <b>Results</b> | <b>Page</b> |
|---|----------------|-------------|
| Unqualified audit opinion                       | Yes            | 7           |
| Financial statements free from material error   | No             | 7           |
| Adequate internal control environment           | Yes            | 8           |
| <b>Value for money</b>                          | <b>Results</b> | <b>Page</b> |
| Adequate arrangements to secure value for money | Yes            | 10          |

## Audit opinion

- 1 My work on your financial statements is nearing completion and I anticipate giving an unqualified opinion by the due date of 30 September 2010.

## Financial statements

- 2 The accounts adopted by the Audit and Governance Committee on 30 June 2010 were made available for audit supported by detailed working papers. Supplementary working papers were produced in response to queries in a timely manner.
- 3 There were two material adjustments in the financial statements. The material adjustments related to property valuations and to classification of Landsbanki investments. One non material adjustment and a number of minor and presentational adjustments have also been made to the statements as presented to Members.

## Value for money

- 4 My work on the use of resources assessment supports a positive value for money conclusion. I anticipate giving the value for money conclusion at the same time as the opinion. Whilst we are not reporting a scored assessment for 2009/10 there are no areas where the Council is performing below minimum standards to be drawn to Members' attention.

## Key messages

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### Audit fees

- 5 The audit fee is unchanged from that submitted to the Audit and Governance Committee in March 2010.
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### Independence

- 6 I can confirm that there were no relationships giving rise to a threat to independence, objectivity and integrity.

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# Next steps

**This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It 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.**

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**7** I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 9);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 5)

# 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.**

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## Opinion on the financial statements

- 8 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.
- 

## Errors and adjustments in the financial statements

- 9 There were two material errors and one non material (but significant) error in the accounts adopted by the Council on 30 June 2010. The main reasons for the errors were:
- There had been no review of previous property impairments (see paragraphs 10 - 12);
  - The Landsbanki investment (value £750k) had been moved to long term debtors. Under the Statement of Recommended Practice (SORP) this has to be shown as a long term investment. This reclassification has no impact on net assets.
  - One asset had been re-valued to £386k as if it had planning permission, although this has still not been given. Capital accounting regulations do not allow this to be done and so the accounts have been amended to reflect its status as an asset held for disposal (at £200k).
  - Presentation of the restated figures within the cash flow statement did not comply with that required by the statement of recommended practice (SORP);
  - There were a number of minor presentational errors and inconsistencies within the accounts that officers have corrected.
  - HM Treasury has confirmed that from April 2011 increases in public sector pensions will be linked to the Consumer Prices Index ('CPI') rather than the Retail Prices Index. You have added a Post Balance Sheet Event (PBSE) note to your accounts to reflect this as the change will make a material difference to the future cost of pensions.

- 10 As there had been no review of previous property impairments, I requested further work by your officers to verify the value of your non-operational property assets. These were significantly impaired in 2008/09 (by some £10m) and were shown at 2008/09 values in the statements. Using information from the Audit Commission's independent valuer, who provides overall guidance on property valuation indices for use by auditors, this was out of line with my expectations.
- 11 There were also no written instructions to your valuer from Finance setting out the requirements for property valuation at the year end, and your valuer had not produced a written report to support the figures within the statements. This made it impossible to review the basis for the unchanged valuations. Officers have agreed to formalise arrangements for property valuations in future which should reduce uncertainty.
- 12 Following on from a meeting with my staff, your valuer reconsidered values for the five assets most heavily impaired in 2008/09 (which accounted for £9.6m of the total). As a result, the value of these assets has been increased by £1.77m.
- 13 You have amended the accounts for the errors I identified. You have also amended the minor and presentational errors identified. The impact of these errors is shown in Appendix 2.
- 14 As agreed with Members at the 30 June Audit and Governance Committee the section of the annual governance statement within the accounts has been amended to remove inclusion of the Audit Commission within the control framework.

#### Recommendation

- R1** The arrangements for obtaining property valuations should be reviewed to ensure correct valuations are included within the financial statements.

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#### Important weaknesses in internal control

- 15 I did not identify any material weaknesses in internal control as a result of my audit.

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#### Key areas of judgement and audit risk

- 16 In planning my audit I did not identify any specific risks or areas of judgement that I needed to consider as part of my audit.

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#### Accounting practice and financial reporting

- 17 I consider the non-numeric content of your financial reporting. Table 1 contains the issues I want to raise with you.

**Table 1 Non numeric content in financial reporting**

| <b>Issue or risk</b>  | <b>Finding</b>  |
|---|---|
| The foreword to the accounts includes information on the potential impact of central government funding in the future | This information is additional to the information covered by my audit opinion, and includes an element of speculation. As such it will be excluded from my opinion. |

**Letter of representation**

- 18** Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation.

# Value for money

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

## Value for money conclusion

- 19** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 4.
- 20** I identified one risk to my value for money conclusion in my fees letter in March 2010.

**Table 2 Value for money conclusion: risk area identified**

| Risk area  | Finding  |
|--|--|
| The Council move to a shared management structure with the Vale of White Horse District Council was identified as having a potential impact on the internal control environment. | I concluded that changes in year did not impact on my assessment of the internal control environment to support my value for money conclusion. |

- 21** I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft report.

# Glossary

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## Annual governance statement

- 22** Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.
- 23** It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.
- 24** The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.
- 

## Audit closure certificate

- 25** 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 certificate.
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## Audit opinion

- 26** On completion of the audit of the accounts, auditors must give their 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;
  - whether they have been prepared properly, following the relevant accounting rules; and
  - for local probation boards and trusts, on the regularity of their spending and income.
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## Qualified

- 27** The auditor has some reservations or concerns.
- 

## Unqualified

- 28** The auditor does not have any reservations.
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**Value for money conclusion**

**29** 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.

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# Appendix 1 – Independent auditor's report to Members of Vale of White Horse District Council

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## **Opinion on the accounting statements**

I have audited the Authority accounting statements and related notes of Vale of White Horse District Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, 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 Vale of White Horse District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

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## **Respective responsibilities of the Executive Director Finance and auditor**

The Executive Director of Finance's responsibilities are for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword (excluding the information on future prospects). I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements. My responsibilities do not extend to any other information.

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### **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

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### **Opinion**

In my opinion the Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

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

### **Authority's Responsibilities**

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

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### **Auditor's Responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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### **Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects Vale of White Horse District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

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## 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.

Maria Grindley  
Officer of the Audit Commission  
Unit 5 Isis Business Centre  
Horspath Road Cowley OX4 2RD

Xx September 2010

# Appendix 2 – Amendments to the draft accounts

I identified the following misstatements during my audit and managers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities.

**Table 3**

|  |   | Income and Expenditure Account |          | Balance sheet |          |
|--|---|--------------------------------|----------|---------------|----------|
| Adjusted misstatements                               | Nature of adjustment  | Dr £000s                       | Cr £000s | Dr £000s      | Cr £000s |
| I&E account (below net service expenditure)<br>SMGFB | revision to accounts to reflect reversal of impairment in 2008/09 (no net impact on bottom line)                    | 1770                           | 1770     |               |          |
| Non operational assets                               | revision to accounts to reflect reversal of impairment in 2008/09   |                                |          | 1770          |          |
| revaluation reserve                                  | revision to accounts to reflect reversal of impairment in 2008/09   |                                |          |               | 1770     |
| non operational assets                               | reversal of speculative valuation:<br>reclassification as asset held for sale                                       |                                |          | 200           | 386      |
| LT debtors<br>LT Investments                         | Landsbanki investment classified as debtor; SORP requires it to be shown as an investment (no impact on net assets) |                                |          | 740           | 740      |

|  |   | Income and Expenditure Account |          | Balance sheet |          |
|--|---|--------------------------------|----------|---------------|----------|
| Adjusted misstatements   | Nature of adjustment                              | Dr £000s                       | Cr £000s | Dr £000s      | Cr £000s |
| Cash flow statement  | removal of incorrect prior year adjustment column | n/a                            | n/a      | n/a           | n/a      |
| NB capital adjustment impacts on a number of notes throughout the accounts |   |                                |          |               |          |

A number of minor presentational errors and omissions have also been corrected.

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# Appendix 3 – Draft letter of representation

To: Maria Grindley  
District Auditor  
Isis Business Centre, Horspath Road  
Oxford OX4 2RD

## Vale of White Horse District Council- Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers and Members of Vale of White Horse District Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010

### Compliance with the statutory authorities

I acknowledge 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: A Statement of Recommended Practice which give a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

### Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

### Irregularities

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

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or

- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.
- I also confirm that I have disclosed:
- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

### **Law, regulations, contractual arrangements and codes of practice**

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

I have reviewed the Council's contracts with the private sector and confirm that [other than those disclosed in the financial statement] there are no public to private service concession arrangements.

### **Assets**

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

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

### **Compensating arrangements**

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

### **Contingent liabilities**

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements.

### **Related party transactions**

I confirm the completeness of the information disclosed regarding the identification of related parties. Cllr McGee has not made a return regarding related party transactions but I am satisfied from the declarations he has made in year that there are no matters that should have been declared.

I also confirm that, whilst no specific declarations were requested, there are no significant related party transactions that should be recorded relating to either our major contractor, Capita, or with South Oxfordshire District Council with whom we share a number of staff and services.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

### **Post balance sheet events**

Since the date of approval of the financial statements by the Audit and Governance Committee, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements except for the change from RPI to CPI for pensions indices, which is reflected in the revised statements.

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

Signed on behalf of Vale of White Horse District Council

I confirm that the this letter has been discussed and agreed by the Audit and Governance Committee on 15 September 2010.

Signed

Name

Position

Date

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# Appendix 4 – Value for money criteria

| <b>KLOE</b>                                    | <b>Met</b> |
|--|------------|
| <b>Managing finances</b>                       |            |
| Planning for financial health                  | <b>Yes</b> |
| Understanding costs and achieving efficiencies | <b>Yes</b> |
| Financial reporting                            | <b>Yes</b> |
| <b>Governing the business</b>                  |            |
| Commissioning and procurement                  | <b>Yes</b> |
| Use of information                             | <b>Yes</b> |
| Good governance                                | <b>Yes</b> |
| Risk management and internal control           | <b>Yes</b> |
| <b>Managing resources</b>                      |            |
| Natural resources                              | <b>Yes</b> |
| Strategic asset management                     | <b>n/a</b> |
| Workforce                                      | <b>Yes</b> |

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# Appendix 5 – Action Plan

| Page no. | Recommendation  | Priority<br>1 = Low<br>2 = Med<br>3 = High | Responsibility | Agreed | Comments | Date |
|----------|---|--|----------------|--------|----------|------|
|          | Property valuations   |  |                |        |          |      |
| 8        | R1 The arrangements for obtaining property valuations should be reviewed to ensure correct valuations are included within the financial statements. | 3  |                |        |          |      |