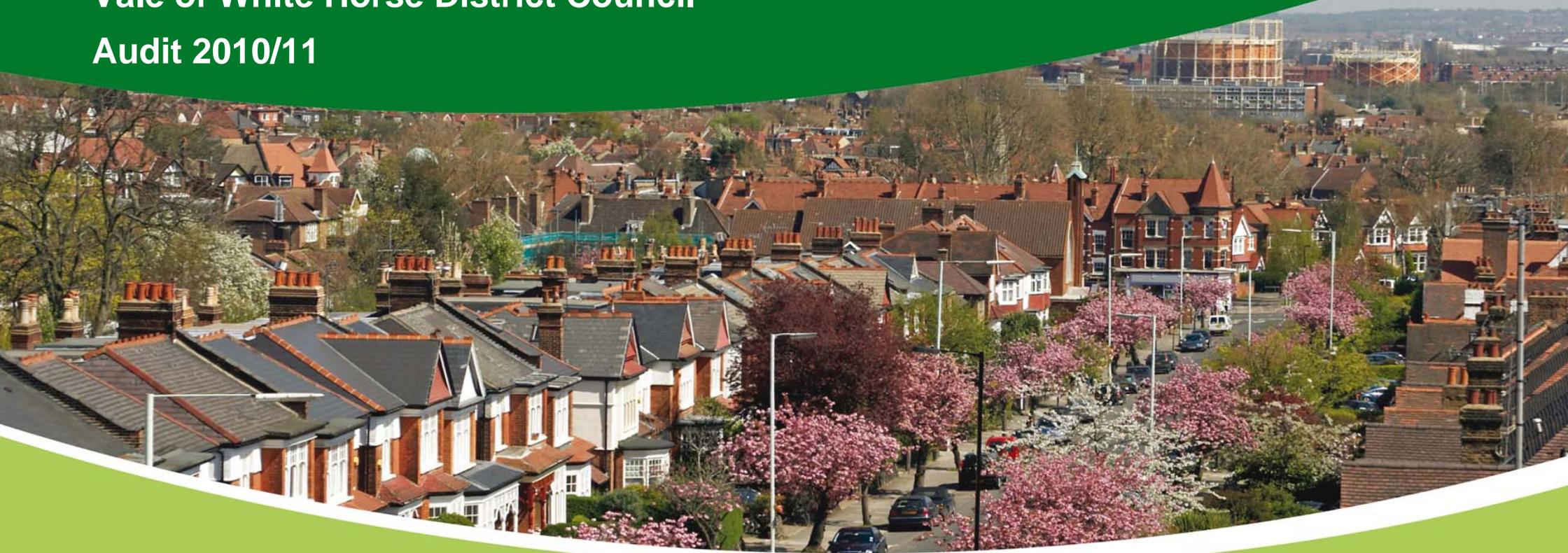


# Annual governance report

Vale of White Horse District 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

Work on your audit is now complete and I propose issuing an unqualified audit opinion on the due date of 30 September 2011.

This was the first year you had prepared accounts under International Financial Reporting Standards (IFRS). The changes required were significant and your officers worked up to the deadline of 30 June to produce accounts for us to audit.

This did not leave time for quality assurance processes to take place. As a result, the accounts you are adopting today have changed considerably, and I have had to charge an additional fee of £1,540 for extra work in identifying all the errors and inconsistencies in the accounts presented to me and auditing additional information in notes.

The main areas to highlight are:

- No written instructions were given to the internal valuer, and the valuation report did not say how this had been done
- Amended disclosure of pension changes
- Debtor analysis incorrect
- Creditor analysis incorrect
- Numerous small casting and consistency changes
- Over complicated notes that required additional audit procedures

## Value for money

Having reviewed your arrangements against the criteria set by the Audit Commission I am satisfied that your arrangements support an unqualified value for money conclusion. I intend to give this at the same time as the opinion on your accounts. There are no issues I wish to raise with you.

# Before I complete my audit

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## 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 identified one threat to independence relating to a member of the audit team. The safeguard I put in place was that he did not carry out any work on your payroll system or within the procurement. This reduced the threat to an acceptably low level.

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

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## I ask you to confirm to me

### **I ask the audit and governance committee to:**

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
  - approve the letter of representation, provided alongside this report, on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
  - agree the Action plan in Appendix 4
-

# Financial statements

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**The accounts submitted for audit had not been quality checked. As a result additional work was needed before I could issue my opinion, resulting in additional audit fee of £1,540**

## **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.

## **Errors in the financial statements**

The accounts presented for audit contained numerous inconsistencies and arithmetical errors. I have not detailed these within this report.

There were also a number of other adjustments I asked to be made which are listed in Appendix 2

There are no errors I asked to be adjusted that officers have not agreed to make.

## **Recommendation**

### **Recommendation**

**R1** Quality assurance procedures should be carried out before accounts are presented for audit. Simplifying a number of notes in 2011/12 will reduce the level of work required both in preparing and auditing the accounts.

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# Financial statements

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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.

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## Key audit risk and our findings

Key audit risk	Finding
<b>1. IFRS changes</b> I considered there was an inherent risk to the accounts for 2010/11 due to the scale and complexity of changes required to meet IFRS requirements	The restated figures for the 2009/10 balance sheet were ready for review in March 2011, and I was satisfied that these figures were accurate ahead of beginning my audit of the 2010/11 accounts.  Your officers found completing the remaining changes and the additional notes needed placed increased strain on the staff within Finance and they worked on the revised statements up to the date for approval of the accounts for audit.

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# Financial statements

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## Significant weaknesses in internal control

I did not identify any significant weaknesses in internal control during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

## Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. There is one issues I wish to raise with you before I give my opinion.

- To comply with accounting requirements, property valuations have to be obtained at 31 March. It is important that the instructions to any valuer clearly set out what is needed, and do not ask for anything to be excluded from the valuations. You used your in house valuer to do this, but there were no written instructions to him. This meant I was unable to be see what he had been asked to do. The report he submitted was very brief and did not set out the method he followed in valuing your property. I was able to gain enough assurance that your property is not materially mis-stated by other work I carried out and by using my own expert.

### Recommendation

**R2** Written instructions should be given to the person who values property at the end of 2011/12. Full details of how the valuation was carried out should be included in his report.

## 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. A draft of the letter I am asking for is shown in Appendix 3.

# Value for money

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**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.

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## Value for money criteria and our findings

Criterion	Findings
<p><b>1. Financial resilience</b></p> <p><b>The organisation has proper arrangements in place to secure financial resilience.</b></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>...</p> <p>I found your arrangements to secure financial resilience support your future operation. The plans in place to deliver savings identified within your medium term financial plan are sound. You have a history of achieving savings, and have used joint working and fit for the future reviews to identify future opportunities. Your plans take into account the impact of the Government spending review.</p>
<p><b>2. Securing economy efficiency and effectiveness</b></p> <p><b>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</b></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>Joint working with South Oxfordshire District Council and continued outsourcing of functions has delivered considerable efficiencies over the past 3 years. You are continuing to look for opportunities to improve efficiency to help you meet your priorities.</p>

## Report by exception

The Audit Commission requires me to report by exception where significant matters come to my attention, which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in your use of resources. There is nothing I wish to raise with you.

# Appendix 1 – Draft audit report

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## **Opinion on the Authority accounting statements**

I have audited the accounting statements of Vale of White Horse District 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 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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

## **Respective responsibilities of the Strategic Director and auditor**

As explained more fully in the Statement of Responsibilities, the Executive Director 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 Auditing Practice's 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 Vale of White Horse District 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 the 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 to review regularly 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, Vale of White Horse District 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 of Vale of White Horse District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Maria Grindley  
District Auditor  
Unit 5, Isis Business Centre,  
Horspath Road  
Cowley OX4 2RD  
30 September 2011

# Appendix 2 – Amendments to the draft financial statements

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

		Adjustment	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s
CIES – non distributed costs	The exceptional credit to expenditure of £5,979k had been shown as part of non distributed costs rather than as an item on its own.	5979 added line for Exceptional credit	5979 increase non distributed costs
CIES – actuarial gains and losses	hidden pension costs of £248k should be included within gross expenditure above the net cost of services line	248 Increase non- distributed costs gross expenditure	248 reduce actuarial gains / losses on pension liabilities
note 17 Debtors	analysis across debtor types incorrect	562 Increase other local authorities line	379 reduce public corporations line 183 reduce other entities line

		Adjustment	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s
note 20 – creditors	analysis across creditor types incorrect	886	263
		reduce public corporations & trading funds line	increase central government bodies line
		843	1466
		reduce other entities and individuals line	increase other local authorities line
various figures	Numerous rounding, casting and inconsistency errors between main statements and notes	not quantified	not quantified

# Appendix 3 – Draft letter of Representation

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To:

Maria Grindley, District Auditor  
Unit 5 Isis Business Centre  
Horspath Road  
Cowley,  
Oxford OX4 2RD

## **Vale of White Horse District Council - Audit for the year ended 31 March 2011**

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

## **Related party transactions**

I confirm that I have disclosed the identity of Vale of White Horse District Council'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 requirement of the framework.

In particular I am satisfied that there are no undisclosed relationships with the financial services provider Capita or with South Oxfordshire District Council as a result of joint working.

4 Members (Councillor Wise, Councillor McGhee, Councillor Bowring and Councillor Jennings) failed to complete returns at the end of 2011/12. I am satisfied that the risk of significant undisclosed relationships from these Members is low.

**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 Vale of White Horse District Council

I confirm that this letter has been discussed and agreed by the Audit and Governance Committee on 28th September 2011.

Steve Bishop, Executive Director

# Appendix 4 – Action Plan

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## Recommendations

### Recommendation 1

Quality assurance procedures should be carried out before accounts are presented for audit. Simplifying a number of notes in 2011/12 will reduce the level of work required both in preparing and auditing the accounts.

**Responsibility**

**Priority**

**Date**

**Comments**

### Recommendation 2

Written instructions should be given to the person who values property at the end of 2011/12. Full details of how the valuation was carried out should be included in his report.

**Responsibility**

**Priority**

**Date**

**Comments**

# Appendix 5 – Glossary

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## 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.

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 third party.

