

Annual Governance Report

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Annual Governance Report

Vale of White Horse District Council

Audit 2006/07

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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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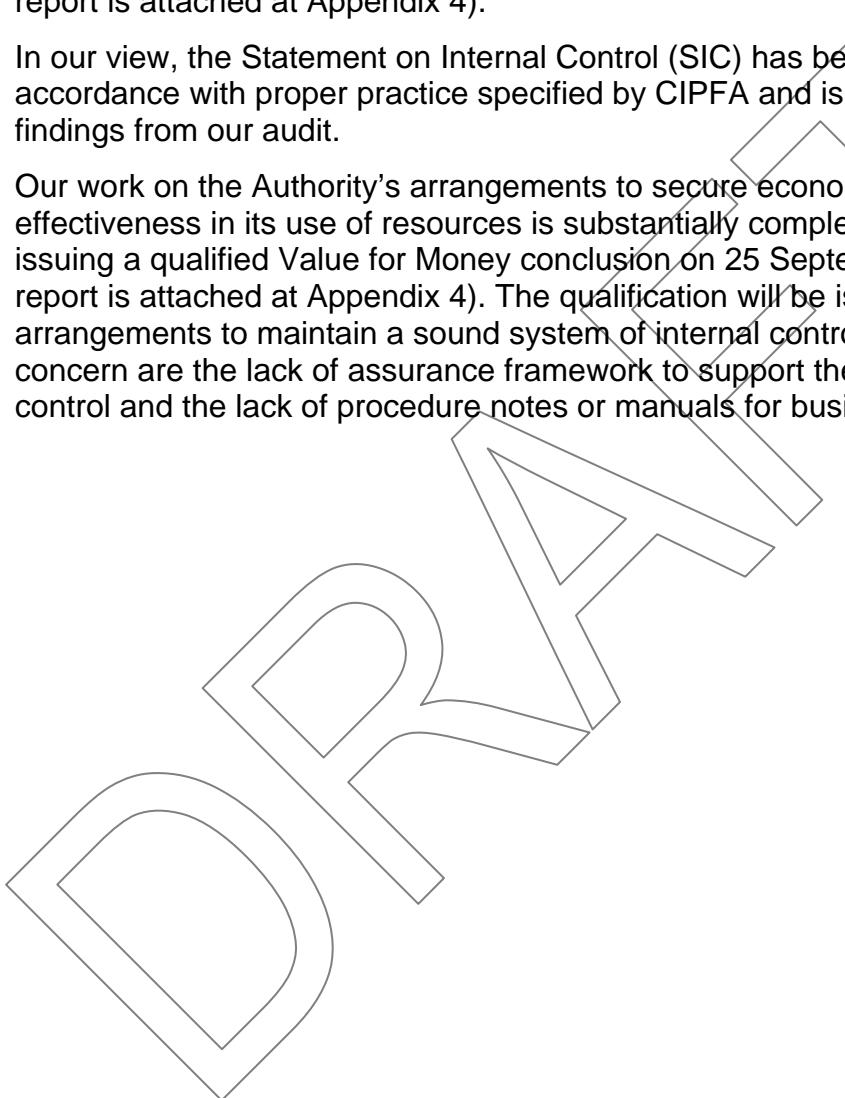
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Purpose of this document

- 1 In accordance with the Audit Commission's Code of Audit Practice (the Code), this report provides a summary of the work we have carried out during our 2006/07 audit of accounts, the conclusions we have reached and the recommendations we have made to discharge our statutory audit responsibilities to those charged with governance (in this case the Audit and Governance Committee) at the time they are considering the financial statements.
- 2 In preparing our report, the Code requires us to comply with the requirements of International Standards on Auditing (United Kingdom & Ireland) – ISA (UK&I) - 260 'Communication of Audit Matters to Those Charged With Governance', by reporting to you matters relating to the audit of the financial statements. Other auditing standards require us to communicate with you in other specific circumstances including:
 - where we suspect or detect fraud;
 - where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
 - non-compliance with legislative or regulatory requirements and related authorities.
- 3 We are also required to communicate to you the Audit Commission's requirements in respect of independence and objectivity, and these are set out at Appendix 2.
- 4 This report has been prepared for presentation to the Audit and Governance committee on 25 September 2007. Members are invited to:
 - consider the matters raised in the report before the financial statements are approved;
 - approve the representation letter on behalf of the Authority and those charged with governance before we issue our opinion; and
 - consider amending the financial statements for unadjusted misstatements, significant qualitative aspects of financial reporting and any recommendations for improvement in the action plan.
- 5 Our work during the year was performed in line with the plan that was presented to the Council in April 2006. We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 3.

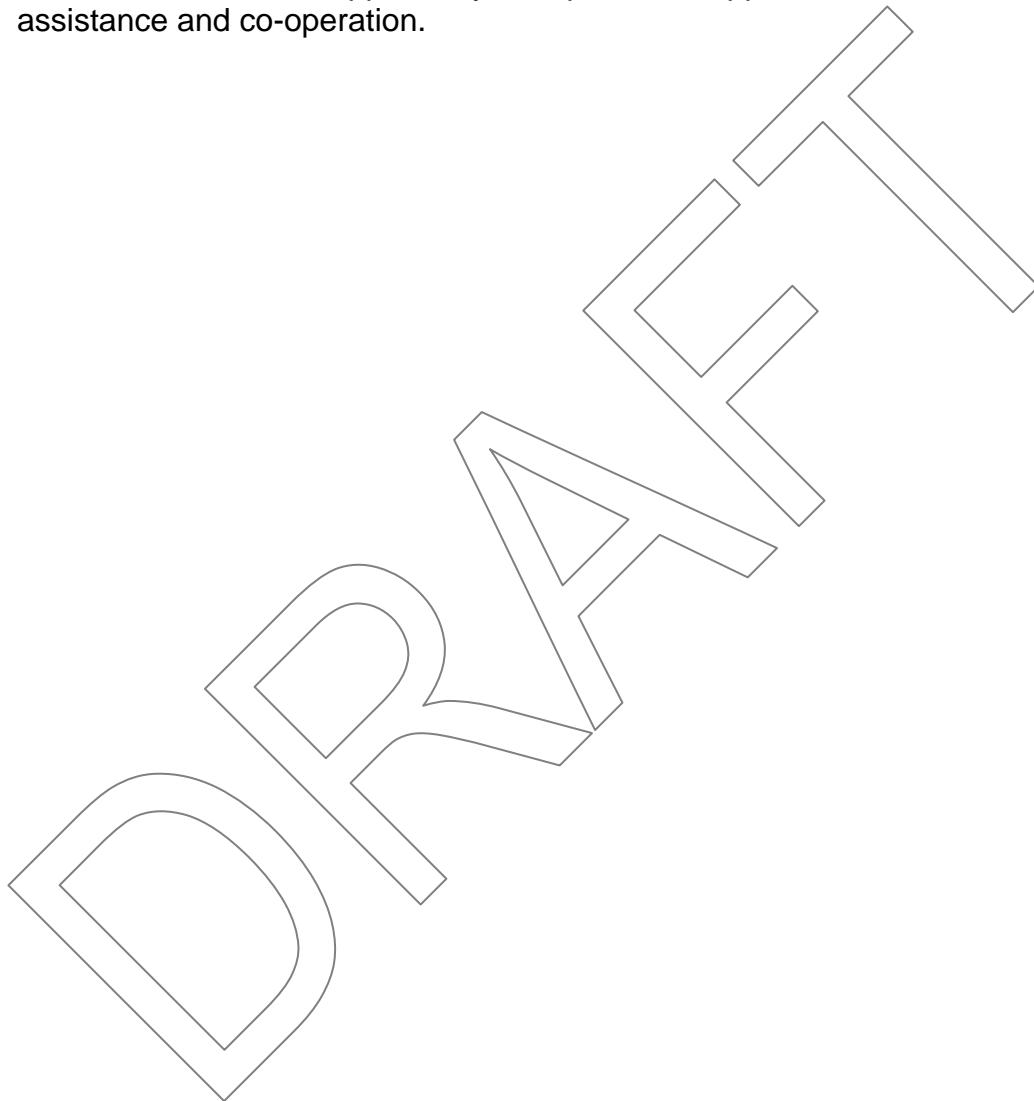
Key messages

- 6 Our work on the financial statements is substantially complete although there are still outstanding issues to be resolved. In particular, our Audit Manager and District Auditor review has yet to be concluded. Should any further matters arise in concluding the outstanding work that need to be reported, we will raise them with The Audit and Governance Committee on the 25 September 2007. We propose issuing an unqualified audit opinion on 25 September 2007 (a draft report is attached at Appendix 4).
- 7 In our view, the Statement on Internal Control (SIC) has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit.
- 8 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is substantially complete. We propose issuing a qualified Value for Money conclusion on 25 September 2007 (a draft report is attached at Appendix 4). The qualification will be issued in relation to arrangements to maintain a sound system of internal control. Particular areas of concern are the lack of assurance framework to support the Statement of Internal control and the lack of procedure notes or manuals for business critical systems.



Audit status

- 9 At the date of issue of this report our detailed audit is substantially complete although there are still outstanding issues to be resolved. In particular our opinion on the financial statements and the Use of Resources conclusion have yet to be completed as noted in this report.
- 10 The Authority has taken a positive and constructive approach to our audit and we would like to take this opportunity to express our appreciation for the Authority's assistance and co-operation.



Accounts and Statement on Internal Control

- 11 Our work on the financial statements is substantially complete although there are still outstanding issues to be resolved. In particular, our Audit Manager and District Auditor review has yet to be concluded.
- 12 Auditors are required to obtain written confirmation of certain representations from management and those charged with governance before an audit report is issued, such as acknowledgement of responsibility for the fair presentation of the financial statements in accordance with the applicable financial reporting framework and responsibility for the design and implementation of internal control to prevent and detect error.
- 13 The auditor should also obtain written representations from management on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist.
- 14 The final draft of the letter of representation has been attached as Appendix 5.

Unadjusted misstatements

- 15 There are no non-trivial unadjusted misstatements.

Adjustments to the financial statements

- 16 We are also required to bring to your attention misstatements that have already been corrected by management where we consider them relevant to your wider governance responsibilities. These are recorded in full at Appendix 6 but we provide an analysis of the most significant items below for your attention.
- 17 The key amendments to the accounts are summarised below:
 - £1.7m of creditors were originally accounted for as receipts in advance within note 23 to the balance sheet.
 - £2.5m of Non Domestic Rate (NDR) income in advance and £0.6m of council tax income in advance were originally accounted for as creditors within note 23 to the balance sheet.
 - The Statement of Internal Control did not accurately reflect the control weaknesses in key financial systems
 - The Statement of Total Recognised Gains and Losses (STRGL) contained £666k 'other movements' in error. The accounts have been amended in a number of areas shown in appendix 6 and the 'other movements' have been correctly reduced to zero.

R1 Agree to the amendments to the accounts outlined in appendix 6

Accounting practices

- 18 We are also required to report to you our view on the qualitative aspects of the Authority's accounting practices and financial reporting. In general the working papers and response to audit queries were good. However the speed and quality of responses to NDR queries could be improved.

R2 Ensure prompt and accurate responses to audit queries

Systems of internal control

- 19 As part of our audit, we consider the systems of accounting and financial control and report to you any material weaknesses identified. Key concerns are outlined below:

- There is insufficient separation of duties regarding the entry of journals into the main accounting system.
- The format of the bank reconciliation remains inadequate in that it does not include all accounts, those that are included are not all reviewed individually and the reconciliation includes prior year adjustments.

- 20 We have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed.

- 21 We have also reviewed whether the SIC has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit. The assurance framework for production of the Statement of Internal Control was weak relying on a brief commentary from Deputy Directors.

R3 Strengthen controls over journals entries to the accounting system

R4 Ensure that bank reconciliations are:

- Completed individually for every bank account
- Free of long standing reconciling items

R5 Develop a strong annual assurance framework for the Statement of Internal Control

Value for Money Conclusion

Work performed

- 22 The Code requires us to reach a conclusion on whether we are satisfied that the Council has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources – the value for money conclusion. In meeting this responsibility, we review evidence that is relevant to the Council's corporate performance management and financial management arrangements across a range of criteria specified by the Audit Commission. Our work to support our conclusion comprised the following elements:
- use of resources assessment;
 - data quality work; and
 - the best value performance plan.
- 23 Details of our conclusion for each of the criteria specified by the Audit Commission are set out in Appendix 8.
- 24 We are currently expecting to issue a qualified Value For Money Conclusion on 25 September 2007. The basis of the qualification with regards the system of internal control will be explained more fully at the meeting when the outstanding work has been completed.

Data quality work

- 25 We are currently finalising our data-quality review and will report our findings to the relevant officers.

Best value performance plan

1. Our work in respect of the Authority's 2006/07 Best Value Performance Plan (BVPP) was reported in the 2006 annual audit and inspection letter. No recommendations were made to the Audit Commission or the Secretary of State.

Audit fee update

- 26** We reported our fee proposals as part of the Audit Plan for 2006/07. The table below reports the outturn fee against that plan:

	Plan 2006/07	Actual 2006/07
Financial statements and Statement on Internal Control	£53,000	Note 1
Use of Resources	£34,000	Note 1
Total Audit Fees	£87,500	Note 1
Grants certification work	£27,000	Note 1
Other work	£10,240	£10,240

- 27** The final fees for these elements of the audit are likely to be higher than the planned fees due to:
- Increased work required on key financial systems due to less reliance placed on Internal Audit work than anticipated.
 - Changes of financial system
 - The need to complete more work around concerns over shared service operations
 - The need to complete a full review of the NDR claim due to changes to the control environment.
- The fee will be finalised on completion of the audit.
- 28** The outturn on inspection fees will be reported in the annual audit and inspection letter.

Appendix 1 – Action plan

Page	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation Date
7	<i>R1 Agree the amendments to the financial statements outlined in appendix 6</i>	3				
8	<i>R2 Ensure prompt and accurate responses to audit queries</i>	2				
8	<i>R3 Strengthen controls over journals entries to the accounting system</i>	2				

Page	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation Date
8	<p><i>R4 Ensure that bank reconciliations are:</i></p> <ul style="list-style-type: none"> Completed individually for every bank account Free of long standing reconciling items 	3				
8	<p><i>R5 Develop a strong annual assurance framework for the Statement of Internal Control</i></p>	2				

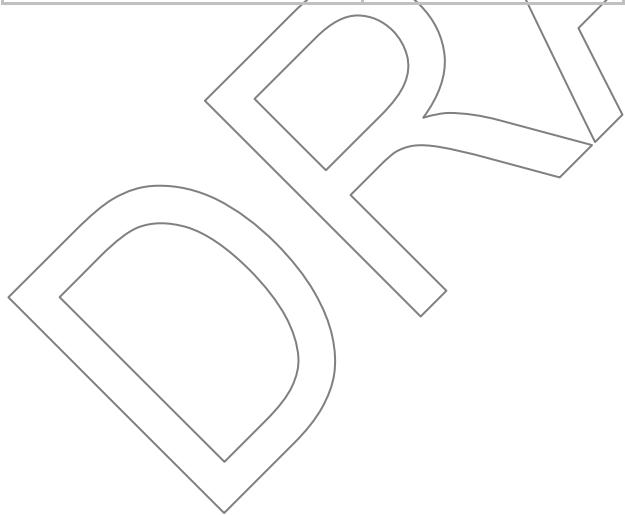
Appendix 2 – The Audit Commission’s requirements in respect of independence and objectivity

- 1** We are required to communicate the following matters to those charged with governance:
 - the principal threats, if any, to objectivity and independence identified by the auditor, including consideration of all relationships between the Authority, directors and the auditor;
 - any safeguards adopted and the reasons why they are considered to be effective;
 - any independent partner review;
 - the overall assessment of threats and safeguards; and
 - information about the general policies and processes for maintaining objectivity and independence.
- 2** We are not aware of any relationships that may affect the independence and objectivity of the audit team and which are required to be disclosed under auditing and ethical standards.



Appendix 3 – Audit reports issued

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit plan	31 March 2006	31 March 2006	The Council
Annual governance report	30 Sept 2007	25 Sept 2007	Audit and Governance Committee
Opinion on financial statements	30 Sept 2007	25 Sept 2007	The Council
Value for Money conclusion	30 Sept 2007	25 Sept 2007	The Council
Final accounts memorandum	End of Oct 2007		Audit and Governance Committee
BVPP report	Dec 2006	Dec 2006	The Council
Securing Improvement	March 2007	July 2007	The Council
Annual audit letter	March 2008		The Council



Appendix 4 – Proposed auditor's report

Independent auditors' report to the Members of Vale of White Horse District Council

Opinion on the financial statements

I have audited the financial statements of Vale of White Horse District Council for the year ended 31 March 2007 under the Audit Commission Act 1998, which comprise the Explanatory Foreword, Income and Expenditure Account, Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Collection Fund and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to 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 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial 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 financial statements present fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007.

I review whether the statement on internal control reflects compliance with CIPFA's guidance 'The statement on internal control in local government: meeting the requirements of the Accounts and Audit Regulations 2003' issued in April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not 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 financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

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 financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, 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 financial statements 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 financial statements.

Opinion

In my opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2007 and its income and expenditure for the year then ended.

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

25 September 2007

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 to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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 specified by the Audit Commission for principal local authorities. 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.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the authority's best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

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 December 2006, 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 ending 31 March 2007 except for..... (to be completed and reported to Audit and Governance Committee on 25 September 2007)

Best Value Performance Plan

I issued my statutory report on the audit of the authority's best value performance plan for the financial year 2006/07 in December 2006. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

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

25 September 2007

A large, faint, stylized watermark or background graphic consisting of the letters 'DRAFT' repeated in a slightly offset, overlapping fashion across the page.

Appendix 5 – Management representation letter

Dear Maria

Vale of White Horse District Council:
Audit of 2006/07 Financial Statements – Letter of Representation

Letter of Representation

We confirm to the best of our knowledge and belief, and having made appropriate enquiries of other officers of the Authority, the following representations given to you in connection with your audit for the year ended 31 March 2007.

- the information provided is complete
- there are no significant contingent liabilities other than those disclosed in the notes to the balance sheet
- there are no material events or change in circumstances that indicate a reduction in value of the Authority's fixed assets as defined in the Code of Practice on Local Authority Accounting
- there is no significant pending litigation, proceedings or claims other than those disclosed in the statement of accounts
- there are no significant post balance sheet events which would require adjustment to or disclosure in the statement of accounts other than those already disclosed
- there are no instances of non-compliance with laws or regulations likely to have a significant effect on the finance or operations of the authority
- there are no other material transactions with related parties other than those which have been properly recorded and disclosed
- there are no known significant instances of irregularities, including fraud, other than those already disclosed to the auditor.

Please do not hesitate to contact Steve Bishop if you require further information.

Yours sincerely

Steve Bishop Councillor
Strategic Director
(Chief Finance Officer)

Tony de Vere
Chair of Audit & Governance
Committee

Appendix 6 – Summary of adjusted misstatements

- 1 The following misstatements were identified during the course of our audit and the financial statements have been adjusted by management. We bring them to your attention to assist you in fulfilling your governance responsibilities.

Adjusted misstatements	Nature of Adjustment	Income and Expenditure Account		Balance Sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Creditors originally recorded as income in advance within note 23	Income in advance - note 23			1,735	
	Creditors - note 23			1,735	
	No impact on balance sheet				
income in advance originally recorded as creditors within note 23	Council Tax payers - note 23			594	
	Business rate payers - note 23			2,483	
	Income in advance			3,077	
	No impact on balance sheet				

Adjusted misstatements	Nature of Adjustment	Income and Expenditure Account		Balance Sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Statement of Total Recognised Gains and Losses	Removal of items under 'other movements'	409			
	Various movements to I & E and balance sheet		409		
STRGL 05/6	Removal of items under 'other movements'	445			
	Various movements to I & E and balance sheet		445		

Appendix 6 – Value for money conclusion

- 2 The Audit Commission has published, in accordance with the Code of Audit Practice, 12 criteria on which auditors are required to reach a conclusion on the adequacy of an audited body's arrangements for economy, efficiency and effectiveness in its use of resources.
- 3 The Code criteria are linked to the use of resources assessment (UoR) key lines of enquiry (KLoEs). A score of Level 2 or higher under the KLoEs will result in an assessment that the Authority has adequate arrangements in place for the purposes of the Code criteria. The Code criteria and the linked KLoEs are show in the table below.

Code Criteria	Description	Associated UoR KLoE	UoR Score Dec 2007	VFM Conclusion
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	N/A	N/A	Adequate
2	The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	N/A	N/A	Adequate
3	The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	N/A	N/A	Adequate
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	LG DQ KLoEs	N/A	Adequate
5	The body has put in place arrangements to maintain a sound system of internal control.	4.2	2 / 1*	Not adequate

6	The body has put in place arrangements to manage its significant business risks.	4.1	3	To be confirmed
7	The body has put in place arrangements to manage and improve value for money.	5.2	3	Adequate
8	The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	2.1	3	To be confirmed
9	The body has put in place arrangements to ensure that its spending matches its available resources.	3.1	2	To be confirmed
10	The body has put in place arrangements for managing performance against budgets.	2.2	3	To be confirmed
11	The body has put in place arrangements for the management of its asset base.	2.3	3	To be confirmed
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	4.3	2	To be confirmed

1* It is likely that the full 2006/07 assessment will result in a '1' score

