

# Annual governance report

West Lindsey District Council

Audit 2011/12



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# Key messages

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**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**

I expect to issue an unqualified audit opinion by the statutory deadline of 30 September 2012.

The 2011/12 financial statements were well prepared, with further significant improvements made in the quality of the accounts from the previous year, and this is reflected in the large reduction in the number of errors we identified when carrying out our audit.

## **Value for money (VFM)**

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

I note the Authority's general and earmarked reserves of £12.2m. The reserves are £1.2m greater than agreed in the medium term financial plan in March 2012, due to savings being achieved earlier than expected, new government grants and increased income. I understand from discussions with the Section 151 Officer there are proposals to be presented to committee in the autumn for how this funding will be used for invest to save or regeneration projects.

# Before I give my opinion and conclusion

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**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.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2011/12.

## **I ask the Governance & Audit Committee to:**

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

# Financial statements

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**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 errors & uncertainties**

There is one uncorrected uncertainty I need to bring to your attention, and this is shown in Appendix 2 to this report. It relates to an estimated over accrual of £417,000, a calculation based on an extrapolation of our sample testing of creditors. This is not a material uncertainty, and so does not impact on the opinion I plan to give on the financial statements.

## **Corrected errors**

Officers have corrected all other errors we identified as part of our post-statements audit. As there were no errors above our materiality level and none that we need to bring to your attention, rather than report them here, we have provided the Section 151 Officer with a full breakdown of them.

## **Significant risks and my findings**

I reported to you in my February 2012 Audit Plan that there were no identified significant risks relevant to my audit of your financial statements. This conclusion remains valid following completion of the post statements audit.

## Significant weaknesses 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 am also required to review the Authority's Annual Governance Statement (AGS), which was not produced by 30 June 2012, the statutory deadline for the financial statements to be signed by the S151 officer. It is good practice for the AGS to be considered and commented on by officers and members in advance of the completion of the financial statements, to allow for the two documents to be co-ordinated.

My review of the AGS highlighted that:

- it did not originally fully comply with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework, for instance it did not confirm that the Council and the relevant committee discussed the results of the review of effectiveness of internal control;
- it was not fully consistent with other information that I am aware of from my audit of the financial statements, for instance it did not fully report the findings from the 2011/12 Internal Annual Audit Report; and
- it had a number of errors and inconsistencies within it.

Officers have addressed the issues we highlighted on the Annual Governance Statement the matters above have now been rectified.

## 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.
- Other audit matters of governance interest.

There are no matters I need to report to you regarding qualitative aspects of your accounting practices or other auditing standards.

In relation to other matters of governance interest, I informed the Audit Committee in May 2012 that as a matter of routine, in relation to my responsibilities, I would review the process that resulted in a payment of £27,525 to the former Deputy Chief Executive in relation to his departure. I have completed my review and there are no significant matters of concern to raise with you. Officers have provided the rationale for how the decision

was made, and have explained how they assessed that it provided value for money against alternatives. I am satisfied that they acted reasonably. I have also provided guidance on a methodology that would help provide more structured evidence for future decisions which officers have adopted.

I also reviewed the disclosure of the matter in the financial statements, and found that officers had complied with the new requirements in the Code of Practice.

## **Whole of Government Accounts**

Alongside my work on the financial statements, I also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the NAO. I have not yet completed the procedures specified by the NAO. I expect to complete my report by the end of September 2012.

# 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. I have set out below my conclusion on the two criteria

I intend to issue an unqualified conclusion stating that the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

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

Criteria	Findings
<p><b>1. Financial resilience</b></p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The Authority's 2011/12 underspend was £1.999m more than budget. This was due to a number of reasons, including unbudgeted income from the Government of £527,000 for the new homes bonus, early realisation of savings of £445,000, and £470,000 for additional income generated. It enabled Council to approve the transfer of £2.059 m of unused earmarked reserves back to the General Fund in the year.</p> <p>The Council's General Fund and earmarked reserves balances were £12.2m at the year-end, £1.2m more than anticipated in the Council's medium term financial plan.</p> <p>The Council has set a balanced budget for 2012/13, and can use its relatively strong financial position to help plan for the challenges ahead.</p>
<p><b>2. Securing economy efficiency and effectiveness</b></p> <p>The organisation has proper arrangements for challenging how</p>	<p>The Medium Term Financial Plan 2012/16 sets out how the Council plans to deliver its services despite a reduction in Government funding of 24.7% in</p>



Criteria	Findings
<p>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>2012/13.</p>

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# Fees

## I reported my planned audit fee in the 2011/12 Audit Plan.

I will complete the audit within the planned fee.

Table 2: Fees

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	94,953	94,953
Claims and returns	15,047	15,047
Non-audit work	0	0
<b>Total</b>	<b>110,000</b>	<b>110,000</b>

The Audit Commission has paid a rebate of £7,596 from its reserves, reducing the net amount payable to £87,357 for the audit fees.

# Appendix 1 – Draft independent auditor’s report

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## **Opinion on the Authority financial statements**

I have audited the financial statements of West Lindsey District Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial 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. 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 West Lindsey 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 accounting 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’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 West Lindsey District Council 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 accounting 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.

### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

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, West Lindsey 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 accounts of West Lindsey 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

Date xx September 2012

Mr Tony Crawley District Auditor

Audit Commission, 4<sup>th</sup> Floor, Mill House, Brayford Wharf North, Lincoln, LN1 1YT

# Appendix 2 – Uncorrected errors and uncertainties

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

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error or uncertainty	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Comprehensive Income & Expenditure Account	Our audit testing identified an over accrual which when extrapolated up across the population indicates an estimated over accrual of £417,000:				
Balance Sheet					
Note 18 Creditors	Creditors			417	
	Cost of services-expenditure		417		

# Appendix 3 – Draft letter of management representation

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## **West Lindsey 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 directors of West Lindsey 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 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 misstatements**

The effect of the uncorrected misstatement in the attached schedule is not material to the financial statements.

This misstatement has been discussed with those charged with governance within the Council and the reasons for not correcting this item are as follows.

- reason 1;
- reason 2

### **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.

## **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.

I confirm:

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the method;
- the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Authority, where relevant to the accounting estimates and disclosures;
- the disclosures relating to the accounting estimate are complete and appropriate under the Code; and
- that no subsequent event requires the Authority to adjust the accounting estimate and related disclosures included in the financial statements.

### **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 West Lindsey District Council

I confirm that the this letter has been discussed and agreed by the Governance & Audit Committee on 20 September 2012

Signed

Name

Position

Date

# Appendix 4 – Glossary

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## **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.

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**0844 798 7070**

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

