

Annual governance report

West Lindsey District Council

Audit 2010/11

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

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To Members

2010/11 Annual Governance Report

I am pleased to present the results of my audit work for 2010/11.

I discussed and agreed a draft of my report with the Section 151 Officer on 16 September 2011 and 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 3 to 10);
- note 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).

Yours faithfully

Name Mr Tony Crawley
District Auditor

Date 16 September 2011

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.

Table 1: **Key messages - financial statements**

Financial statements	Results	Page
Unqualified audit opinion	Yes	6-8
Important weaknesses in internal control	No	8

Table 2: **Key messages - value for money**

Value for money		
Proper arrangements to secure value for money	Yes	9

Audit opinion

1 My work on the financial statements is well progressed but at the time of drafting this report, work is still to be completed in respect of material accounting estimates. This work is expected to be completed by late September. I will update Members on progress at the Audit Committee on 26 September.

2 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

Financial statements

3 This has been a challenging year for all councils with the implementation of International Financial Reporting Standards (IFRS). West Lindsey District Council's difficulties in 2009/10 resulted in late accounts, and restating them in IFRS format to provide this year's comparative figures was problematic. We found a number of material errors in the restatement,

which officers amended prior to the production of the 2010/11 financial statements.

4 The 2010/11 financial statements contained a material amendment relating to the presentation of the past pension credit and a material error relating to the incorrect netting off of income within expenditure. There were also a significant number of non-trifling errors. Management agreed to amend all these errors.

Value for money

5 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.

Audit fees

6 There were a number of material errors both in the 2009/10 IFRS restated accounts as well as the 2010/11 financial statements. This meant extra audit work as we had to re-audit the restated 2009/10 figures. Consequently we need to charge an additional audit fee. Nevertheless, in my view there has been a significant improvement compared to last year in difficult circumstances. In addition, despite the challenges, officers responded to our queries in a professional manner. I will discuss these matters with the Section 151 Officer with a view to how the Council can improve further in future years.

Independence

7 I can confirm that I have complied with the Audit Practice Board's ethical standards for auditors, including Ethical Standard 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

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

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.

9 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 10);
- take note of the adjustments to the financial statements which are 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).

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.

Opinion on the financial statements

10 My work on the financial statements is well progressed but at the time of drafting this report, work is still to be completed in respect of material accounting estimates. This work is expected to be completed by late September. I will update Members on progress of this work at the Audit Committee on 26 September.

11 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

Key areas of judgement and audit risk

12 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Table 3: **Key areas of judgement and audit risk**

Issue or risk	Finding
Incorrect implementation of the International Financial Reporting Standards (IFRS). The 2010/11 Financial Statements had to be compiled following these new standards which resulted in changes to accounting policies and subsequent accounting treatments.	We started our review of the Council's restated IFRS 2009/10 statements in the Spring 2011. However we needed to undertake additional testing at our final accounts visit once the Council had re-calculated the IFRS values. There were material errors within the original IFRS calculations and a number of non-trifling errors in the

Issue or risk	Finding
<p>A new general ledger and integrated debtors and creditors system was introduced during 2010/11. In addition the cash receipting system was upgraded. The successful implementation of these new systems were a challenge for the Council, with Officers at the same time undertaking additional work on the 2009/10 financial statements to address the initially poorly produced accounts and implementing the IFRS.</p>	<p>amended IFRS values in the 2009/10 accounts.</p> <p>We undertook testing of the new integrated general ledger, debtors and creditors system as part of our pre-statement audit visit. There are no matters of concern we need to highlight in this report. We reviewed the upgrade to the cash receipting system, and concluded that given there were no changes in the key controls no additional testing was required by us on this system in 2010/11.</p>

Errors in the financial statements

13 I identified a number of errors in the financial statements (other than those of a trivial nature) and reported these to management. Officers will explain these issues and the related amendments in their covering report.

14 Management agreed to adjust the financial statements for these errors. Correction of these errors is important as it ensures your accounts are compliant with the requirements of the CIPFA Code of Practice (The Code).

15 The corrected items are shown in appendix 2, and the main items are summarised below:

- Expenditure of £1.334m incorrectly netted off income.
- Incorrectly treating an operating lease for Marshalls Sports facilities with Gainsborough Town Council as a disposal of £928,000.
- The past pension credit of £5.755 m as a result of future pension increases being linked to CPI rather than RPI had not been separately identified as exceptional items on the face of the Comprehensive Income and Expenditure Statement (CIES). International Accounting Standards require local authorities to present material exceptional items to be presented separately on the face of the CIES where this is relevant to understanding an authority's financial performance.
- The Capital Adjustment Account understated by £310,000.
- Overstatement of long term liabilities by £467,000.
- Grants of £100,000 incorrectly carried forward into the following year, rather than being recognised in year in the CIES.
- Incorrect entries throughout the Movement in Reserves and Cash-flow statements.

Important weaknesses in internal control

16 We have not identified any important weaknesses in internal control.

Quality of your financial statements

17 I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statement disclosures.

18 Table 4 contains the issues I want to raise with you.

Table 4: **Accounting practices, policies and estimates and financial statement disclosures**

Issue	Finding
Explanatory Foreword	The Explanatory Foreword contained a number of consistency errors with the financial statements which were amended.
Each year the Pension Fund Actuary makes an assessment of the fair value of the Council's share of assets held in the County Pension Fund at 31 March. This assessment is an estimate made at the previous 31 December 2010. The actual value of assets held at 31 March may vary depending upon the performance of the Pension Fund investments over the 3 month period since the estimate was made. This may lead to a material under or overstatement of the Council's liabilities.	The actual value of Pension Fund assets at 31 March 2011 was 0.49% less than the estimated value used by the actuary in his calculations. If this difference is applied to your estimated proportion of the pension funds it equates to an overestimate of £165,047 at the year end. As this is not material it provides assurance that the estimate at the year-end is reasonable and the accounts have not been amended.

Letter of representation

19 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 4 contains the draft letter of representation.

Value for money

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.

20 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission, namely:

- Securing financial resilience- focusing on whether the Authority is managing its financial risks to secure a stable financial position for the foreseeable future. This covers:
 - Financial governance
 - Financial planning
 - Financial control.
- Challenging how the Authority secures economy, efficiency and effectiveness - focusing on whether the Authority is prioritising its resources within tighter budgets and improving productivity and efficiency. This covers:
 - Prioritising resources
 - Improving efficiency and productivity.

21 Last year I assessed that you did not have adequate arrangements in place in relation to governance and its financial reporting. I have considered the actions the Council has taken to address the matters I raised.

22 From the work I have carried out, I have concluded that the Council has proper arrangements in place. My conclusion on the two specified criteria is set out below.

Table 5: **Value for money conclusion criteria**

Criterion	Finding
Securing financial resilience	The Council's 2010/11 outturn was a small underspend compared to budget. The Council approved transfer of £1.9m of unused earmarked reserves back to the General Fund. The Council has set a balanced budget for 2011/12.

Criterion	Finding
	The Medium Financial Strategy has been updated in response to the Comprehensive Spending Review.
Securing economy, efficiency and effectiveness	The Medium Term Financial Strategy 2011/15 sets out how the Council plans to deliver its services despite a reduction in Government funding of 24.7% by 2012/13. This is to be achieved with starting with a savings target of £1.4m in 2011/12.

23 My overall conclusion is subject to any issues which may arise out of the current audit of the financial statements however, at this stage, I expect to issue an unqualified conclusion stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my proposed unqualified report.

Report by exception

24 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 our use of resources.

25 There are no such matters of such significance which I need to refer to in the wording of my formal value for money conclusion. 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 Draft independent auditor's report to Members of West Lindsey District Council

Opinion on the Authority accounting statements

I have audited the accounting statements of West Lindsey 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 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 Section 151 Officer and auditor

As explained more fully in the Statement of the Section 151 Officer's Responsibilities, the Director of Resources 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 West Lindsey 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 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 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, West Lindsey 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 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.

.....

Mr Tony Crawley

Officer of the Audit Commission

Audit Commission, Rivermead House, 7, Lewis Court, Grove Park, Enderby,
Leicester, LE19, 1SU

Date.....

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 help you in fulfilling your governance responsibilities.

Table 6:

Adjusted mis-statement	Comprehensive income and expenditure statement		Balance sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
Incorrect presentation of past pension cost	5,755	5,755		
Expenditure incorrectly netted off income	1,334	1,334		
Income incorrectly netted off expenditure	65	65		
Overstating debtor and creditor balances in relation to a single grant owing			120	120
Errors in the treatment of disposals within the accounts	750	771	128	107
Incorrect c/f of grants in the balance sheet		100	100	

Adjusted mis-statement	Comprehensive income and expenditure statement		Balance sheet	
Incorrect treatment of disposal of computer as an impairment	16	16		
Incorrect treatment of operating lease as a disposal	928	928	928	928
Long term liabilities overstated			467	467
Errors in the entries for the Capital Adjustment Account			310	310
Incorrect treatment of a revenue creditor as capital creditor			79	79
Errors in the 1.4.09 restated IFRS accounts			425	425
Errors in the 31.3.11 accounts relating to IFRS	2	7	10	5
Cash-Flow	The cash-flow statement and supporting notes required full			

Adjusted mis-statement	Comprehensive income and expenditure statement	Balance sheet
	revision.	
Movement in Reserves Statement	This statement required revision for errors.	

Table 7: **Agreed changes to disclosure and notes to the financial statements**

Note	Nature of adjustment
Note 8 - Supporting note to the Movement in Reserves Statement	There were a number of errors in the compilation of the note to support the movement in reserves statement
Note 12 - Plant, Property & equipment	This note was amended for mis-analysis within this note
Note 14 - Financial Instruments	This note originally incorrectly included debtors and creditor balances not held under contract, the 2009/10 bank overdraft value and interest regarding a finance lease.
Note 22 - Unusable Reserves	There were errors in the entries for the Pension reserve within this note.
Note 26 - Segmental reporting	This note required amendment for errors in presentation.
Note 27 - Members' Allowances	This note was amended to include co-opted members who had originally been excluded in error.
Note 30 - Grant Income	Mis-analysis within this note was corrected
Note 31 - Related Parties	This note was amended for incorrect values for West Lindsey Citizens Advice Bureau and the Central Lincolnshire Joint Strategic Planning Committee.
Note 32 - Capital Expenditure &	Incorrect entries were included in

Note	Nature of adjustment
Capital Financing	the capital financing note.
Note 33 - Leases	The net book value of other land & buildings held under finance leases were overstated by £300,000 in this note. In addition the minimum lease payments for these finance leases were overstated by £134,000.
Note 34 - Impairment Losses	This note was amended to remove reference to a material impairment on a non-current asset, when it was a downward valuation.
Comparative 1.4.2009 supporting notes	The accounts did not include supporting notes at 1.4.2009 where there had been material changes from the reporting under UK GAAP to those reported under IFRS.

Appendix 3 Draft letter of representation

To: Mr Tony Crawley,
District Auditor,
Rivermead House,
7, Lewis Court,
Grove Park,
Leicester,
LE19 1SU

West Lindsey 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 West Lindsey 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 2011. All representations cover the Council's accounts included within the financial statements.

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 West Lindsey District Council, 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 West Lindsey District Council 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 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.

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 process;
the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures;
the completeness and appropriateness under the financial reporting framework; and
if subsequent events [require/do not require] adjustment to accounting estimates and disclosure included within the financial statements.

Related party transactions

I confirm that I have disclosed the identity of West Lindsey 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.

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 West Lindsey District Council

I confirm that the this letter has been discussed and agreed by the Governance & Audit Committee on 26 September 2011

Signed

Name

Position

Date

Signed

Name

Position

Date

Appendix 4 Glossary

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.

Opinion

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 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.

