

Annual Governance Report

September 2007



# Annual Governance Report

**East Cambridgeshire District Council**

**Audit 2006/07**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

- Audit in the public sector is underpinned by three fundamental principles:
- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our reports**

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

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

### **Copies of this report**

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 70 70.

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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 Policy and Resources (P&R) Committee.
- 2 In preparing our report, the Code requires us to comply with the requirements of International Standards on Auditing (United Kingdom and 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 Policy and Resources Committee. Members are invited to:
  - consider the matters raised in the report before the audit opinion is issued;
  - approve the representation letter on behalf of the Council 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 we presented to you on 28 June 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. We propose issuing an unqualified audit opinion by 28 September 2007 (a draft report is attached at Appendix 3).
- 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 Council's arrangements to secure economy, efficiency and effectiveness in its use of resources is substantially complete. We propose issuing an unqualified conclusion on the use of resources by 28 September 2007 (a draft report is attached at Appendix 4).

## Audit status

- 9 At the date of issue of this report our detailed audit is substantially complete.
- 10 The Council has taken a positive and constructive approach to our audit and we would like to take this opportunity to express our appreciation to your officers for their assistance and co-operation.

## Accounts and Statement on Internal Control

- 11 Our work on the financial statements is substantially complete.
- 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 We are required to report to you all unadjusted misstatements that we have identified during the course of our audit, other than those that are clearly trivial. There are no unadjusted misstatements for us to bring to the attention of members.

### 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 item below for your attention.
- 17 In order to balance the movement on the Statement of Total Recognised Gains and Losses, the deficit on the Income and Expenditure account had to be adjusted downwards to £844k from £1,223k to reflect fully the gain to the Council of Right-To-Buy clawback receipts. This is then accounted for in the movement on the Statement of Movement on the General Fund Balance. The adjustment has no effect therefore on the balance sheet or the general fund balance.

### Accounting practices

- 18 We are also required to report to you our view on the qualitative aspects of the Council's accounting practices and financial reporting and have set out below our observations on key issues affecting the Council.

- 19 The 2006 Statement of Recommended Practice for Local Authority Accounts (SORP) requires a single set of notes to the primary financial statements to be presented. This year, the Council has continued to present these notes subdivided into their constituent parts, eg a section for income and expenditure account notes, then a section for balance sheet notes etc. Officers have agreed to amend the presentation for 2007/08 onwards.
- 20 Creditors and debtors balances are shown in aggregate on the face of the balance sheet but there are no notes to the accounts analysing these balances. This information would be helpful to a user of the accounts and would comply with SORP best practice; officers have agreed to add these notes for 2007/08 onwards.

<b><i>Recommendations</i></b>
<i>R1 Present a single set of notes to the accounts.</i>
<i>R2 Add notes to the accounts analysing creditors and debtors balances.</i>

## Systems of internal control

- 21 As part of our audit, we consider the systems of accounting and financial control and report to you any material weaknesses identified. Our audit noted that issues have arisen from assimilation of records and information by Anglia Revenues Partnership following the transfer from Capita at 31 March 2007. Resultant audit work has not shown that this is significant to our audit opinion. Our audit did not identify any significant weaknesses in systems of accounting and financial control.
- 22 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.
- 23 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. There are no matters arising.

## Use of resources

### Work performed

- 24 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 included the following elements:
- use of resources assessment;
  - data quality work, and
  - the best value performance plan.
- 25 Details of our conclusion for each of the criteria specified by the Audit Commission are set out in Appendix 7.

### Use of resources assessment

- 26 We are currently finalising our work arising from our use of resources assessment. When completed, we will discuss this with the relevant officers.

### Data quality work

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

### Best value performance plan

- 28 Our work in respect of the Council'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

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

**Table 1**

	<b>Plan 2006/07</b>	<b>Actual 2006/07</b>
Accounts and Statement on Internal Control	£82,117	£82,117
Use of resources	£4,725	£4,725
<b>Total audit fees</b>	<b>£86,842</b>	<b>£86,842</b>
Grants certification work	£15,000	Ongoing work

- 30 The analysis above shows that our audit fee has been contained within the totals you have already agreed. The actual fees for our inspection work will be reported in our Annual Audit and Inspection Letter.

## Appendix 1 – Action plan

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Page	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated implementation date
8	Present a single set of notes to the accounts.	2	Principal Accountant	Yes	To be implemented for 2007/08 financial statements	June 2008
8	Add notes to the accounts analysing creditors and debtors balances.	2	Principal Accountant	Yes	To be implemented for 2007/08 financial statements	June 2008

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

- 33 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 Council, 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.
- 34 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

<b>Planned output</b>	<b>Planned date of issue</b>	<b>Actual date of issue</b>	<b>Addressee</b>
Audit plan	June 2006	June 2006	P&R Committee
Annual governance report	September 2007	September 2007	Council
Opinion on financial statements	September 2007	September 2007	Council
Use of resources conclusion	September 2007	September 2007	Council
Final accounts memorandum	October 2007		Management
BVPP report	November 2006	27 November 2006	Council
Annual audit letter	March 2008		Council

## Appendix 4 – Proposed auditor’s report

### Independent auditor’s report to the Members of East Cambridgeshire District Council

#### Opinion on the financial statements

I have audited the financial statements of East Cambridgeshire District Council and its Group for the year ended 31 March 2007 under the Audit Commission Act 1998, which comprise the 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, the Group Accounts and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to East Cambridgeshire 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 2006.

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 2006, the financial position of the Authority and its Group as at 31 March 2007 and its income and expenditure for the year then ended.

Andy Perrin  
District Auditor  
Audit Commission  
1st Floor, Sheffield House  
Lytton Way off Gates Way  
Stevenage, Herts, SG1 3HB

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, East Cambridgeshire District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 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 on 27 November 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.

Andy Perrin  
District Auditor  
Audit Commission  
1st Floor, Sheffield House  
Lytton Way off Gates Way  
Stevenage, Herts, SG1 3HB  
September 2007

## Appendix 5 – Management representation letter

Mr A Perrin  
District Auditor  
The Audit Commission  
1st and 2nd Floors, Sheffield House  
Lytton Way  
Stevenage  
Herts  
SG1 3HG

### **East Cambridgeshire District Council - Audit for the year ended 31 March 2007**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of East Cambridgeshire 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 2007.

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements which present fairly and for making accurate representations to you.

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

### **Supporting records**

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

### **Related party transactions**

I confirm the completeness of the information provided regarding the identification of related parties.

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

## **Contingent liabilities**

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

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

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

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

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

## **Assets**

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

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

## **Irregularities**

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

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

### **Post balance sheet events**

Since the date of approval of the financial statements by members of the Council, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

### **Compensating arrangements**

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

Signed on behalf of East Cambridgeshire District Council

Signed

Name

Position

Date

## Appendix 6 – Summary of adjusted misstatements

- 35 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.

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Description of misstatement					
Dr Income and Expenditure Account  Cr Statement of Total Movement on Reserves note a	In order to balance the movement on the Statement of Total Recognised Gains and Losses, the deficit on the Income and Expenditure account had to be adjusted downwards from £1,223k to £884k to reflect the gain to the Council of Right-To-Buy Clawback receipts.  This is then adjusted via the movement on the Statement of Movement on the General Fund Balance - no effect on the balance sheet or general fund balance.	379	379		

## Appendix 7 – Value for money conclusion

- 36 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.
- 37 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.

Code criteria	Description	VFM conclusion
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	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.	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.	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.	Adequate
5	The body has put in place arrangements to maintain a sound system of internal control.	Adequate
6	The body has put in place arrangements to manage its significant business risks.	Adequate
7	The body has put in place arrangements to manage and improve value for money.	Adequate

<b>Code criteria</b>	<b>Description</b>	<b>VFM conclusion</b>
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.	Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	Adequate
10	The body has put in place arrangements for managing performance against budgets.	Adequate
11	The body has put in place arrangements for the management of its asset base.	Adequate
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	Adequate