

Annual Governance Report

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Date: September 2007

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# **Annual Governance Report**

**Exeter City Council**

**Audit 2006/07**

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### **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.

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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 Scrutiny Committee - Resources) 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 Scrutiny Committee - Resources on 19 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.
- 5 Our work during the year was performed in line with the plan that we presented to you on 20 September 2006. We issue separate reports during the year as we complete specific aspects of our programme, as listed in Appendix 3.

## Key messages

- 6 Our work on the financial statements is substantially complete.
- 7 We anticipate issuing an unqualified audit opinion by 28 September 2007 (a draft report is attached at Appendix 4).
- 8 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.
- 9 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is in progress but we have completed enough work to allow us to anticipate our 'value for money' conclusion. We propose issuing an unqualified conclusion on the use of resources by 28 September 2007 (a draft report is attached at Appendix 4).
- 10 The only other significant matter reported here for the information of members relates to the actual valuation of pension fund assets which, as last year, varies from the estimate used in the accounts by a material amount.

## Audit status

- 11 At the date of issue of this report our detailed audit is substantially complete.
- 12 Our review of the Whole of Government Accounts consolidation pack will be undertaken once our audit opinion work is complete. We will review this for consistency with the financial statements.
- 13 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

## Letter of representation

- 14 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.
- 15 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.
- 16 A draft letter of representation has been attached as Appendix 5.

## Unadjusted misstatements

- 17 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.
- 18 The Council, in line with other District Councils, used the estimated value of assets at 31 March 2007 provided by the Actuary to compile FRS 17 information in the financial statements (based on actual asset values as at 28 February 2007 projected forward). The actual value of pension fund assets at 31 March 2007 was higher. The Council's share of the difference has been calculated as £274,314.
- 19 We invite you to consider whether the financial statements should be amended for the unadjusted misstatements identified at Appendix 6. Should you choose not to amend the financial statements, in accordance with ISA (UK&I) 260 we request that you extend the representation letter to explain why. We ask that the letter specifically details the misstatements and/or qualitative aspects of reporting to which it relates.

## Adjustments to the financial statements

- 20 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. There are no such adjustments to report.

## Accounting practices

- 21 We are also required to report to you our view on the qualitative aspects of the Authority's accounting practices and financial reporting.
- 22 There are no such issues that we need to bring to your attention.

## Systems of internal control

- 23 As part of our audit, we consider the systems of accounting and financial control and report to you any material weaknesses identified. No material weaknesses have been identified by our work.
- 24 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.
- 25 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

- 26 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 comprises the following elements:
- use of resources assessment;
  - data quality work; and
  - the best value performance plan.
- 27 Details of our conclusion for each of the criteria specified by the Audit Commission are set out in Appendix 8.

### Use of resources assessment

- 28 Our use of resources assessment is in progress. We have, however, done sufficient work to enable us to anticipate giving an unqualified VFM conclusion by 28 September. When finalised, we will discuss our UoR assessment with the relevant officers.

### Data quality work

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

### Best value performance plan

- 30 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

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

	<b>Plan 2006/07 £</b>	<b>Actual 2006/07 £</b>
Financial statements and Statement on Internal Control	56,000	56,000
Use of Resources	25,000	25,000
<b>Total Audit Fees</b>	<b>81,000</b>	<b>81,000</b>

- 32 The analysis above shows that our audit fee has been contained within the totals you have already agreed.
- 33 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
	Governance report for the information of members - No recommendations arising.		N/A			
	Various disclosure/ classification changes have been made in the accounts at audit. Typographical errors have been corrected. The only other errors identified were trivial. Less significant matters arising from the accounts audit will be reported to officers in October 2007	2	Head of Treasury Services			

## **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	May 2006	May 2006	Scrutiny - resources
Interim audit memorandum	June 2007	Combined with final accounts memo	Head of Treasury Services
Annual governance report	September 2007	September 2007	Scrutiny - resources
Opinion on financial statements	September 2007	September 2007	Council
Use of resources conclusion	September 2007	September 2007	Council
Final accounts memorandum	October 2007		Head of Treasury Services
BVPP report	December 2006	December 2006	Chief Executive
Data quality report	November 2007		Chief Executive
Use of Resources assessments	December 2007		Director Corporate Services
Annual audit letter	March 2008		Council

## Appendix 4 – Independent auditor’s report to Exeter City Council

### Opinion on the financial statements

I have audited the financial statements of Exeter City Council and its Group 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 Housing Revenue Account, 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 Exeter City 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 Council 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' published on 2 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 Council’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 Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council’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 Council and its Group as at 31 March 2007 and its income and expenditure for the year then ended.

Peter Lawrence, District Auditor  
The Audit Commission  
Units 3 - 6, Blenheim Court,  
Matford Business Park,  
Lustleigh Close, Exeter,  
EX2 8PW  
[DATE]

## **Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Council’s Responsibilities**

The council 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 council is required to prepare and publish a best value performance plan summarising the council’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 council 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 council has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the council’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 council’s best value performance plan and issue a report:

- certifying that we have done so;
- stating whether we 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 I am satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, in all significant respects, Exeter City 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 council’s best value performance plan for the financial year 2006/07 on 21 December 2006. I did not identify any matters to be reported to the council 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.

Peter Lawrence, District Auditor  
The Audit Commission  
Units 3 - 6, Blenheim Court,  
Matford Business Park,  
Lustleigh Close, Exeter,  
EX2 8PW  
[DATE]

## **Appendix 5 – Draft management representation letter (prior to ISA 260 response)**

Peter Lawrence, District Auditor  
The Audit Commission  
Units 3 - 6, Blenheim Court,  
Matford Business Park,  
Lustleigh Close,  
Exeter,  
EX2 8PW

Dear Peter

### **Exeter City Council - Audit for the year ended 31 March 2006**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Exeter City Council, that the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2007, can be properly provided.

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements which present fairly the financial position of the Council 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 Council 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.

**Exeter City Council**

### **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 that already disclosed in the financial statements; and,
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements;

No financial guarantees have been given to third parties.

### **Law, regulations 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.

### **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.

Signed on behalf of Exeter City Council

Signed.....

Andrew Stark, Head of Treasury Services

Date: .....

## Appendix 6 – Summary of unadjusted misstatements

- 1 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. The items below are brought to your attention to enable you to consider whether the financial statements should be amended for them. If you choose not to amend the financial statements in respect of these items, you should extend the representation letter to explain why.

		Value of misstatement	Impact on pension deficit
Unadjusted misstatements	Nature of Adjustment	£000s	£000s
Value of Pension Fund Assets	<p>The financial statements include FRS 17 pensions information based on the actuary's projected value of pension fund assets at 31 March 2007.</p> <p>The actual value of the assets was higher. If this value is used the net pension deficit is reduced.</p>	£274	£274 reduction

## Appendix 7 – 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. As noted in the main text, UoR work is in progress but sufficient work has been done to enable us to anticipate an unqualified VFM conclusion.

Code Criteria	Description	Associated UoR KLoE	VFM Conclusion
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	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	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	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	Adequate

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5	The body has put in place arrangements to maintain a sound system of internal control.	4.2	Adequate
6	The body has put in place arrangements to manage its significant business risks.	4.1	Adequate
7	The body has put in place arrangements to manage and improve value for money.	5.2	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	Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	3.1	Adequate
10	The body has put in place arrangements for managing performance against budgets.	2.2	Adequate
11	The body has put in place arrangements for the management of its asset base.	2.3	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.	4.3	Adequate