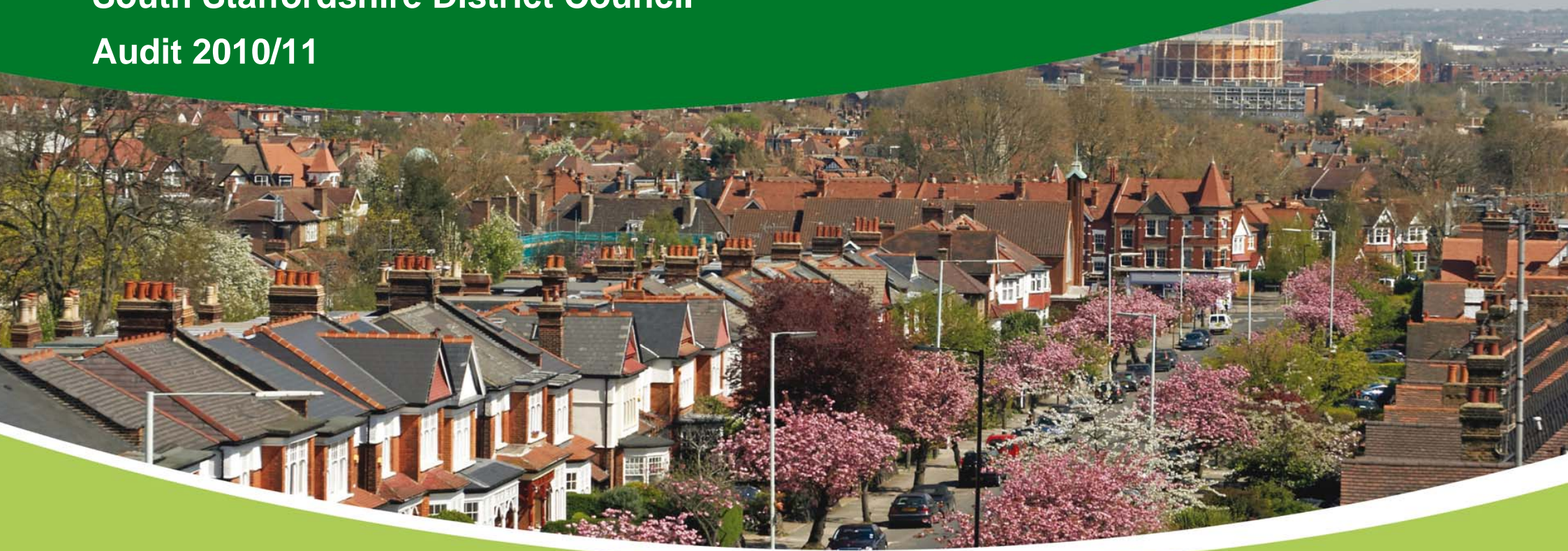


Annual governance report

South Staffordshire District Council

Audit 2010/11



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Traffic light explanation
Red  Amber  Green 

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.

	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

Audit opinion and financial statements

The accounts have been prepared to a good standard and I am proposing to issue an unqualified opinion on the statement of accounts.

I have not identified any material uncorrected errors in the Council's accounts. However, I did identify two non-material areas for which I do not agree with the Council's accounting treatment for 2010/11. These relate to:

- Classification of assets (£469k) which have been treated as Assets Under Construction at 31/3/11 even though they were brought in to use prior to the year end, and
- Provisions for redundancy (£554k) which were made at 31/3/11 even though the final decision in relation to the need to make these provisions was not made until May 2011

The Director of Finance is not proposing to adjust the accounts in relation to these issues as their impact is not material. The Audit Committee need to confirm that they accept the view of the Director of Finance that no adjustments are required, and if so confirm this in the Letter of Representation. However, I will be able to issue an unqualified opinion on the accounts even if adjustments for these issues are not made.

A small number of other amendments have been made to the accounts as a result of the audit. The most significant of these relates to the reclassification of £6m of investments between short term and long term (i.e no overall impact on the total figure for investments held). A number of other amendments to disclosure notes were necessary in order to fully comply with some of the requirements of IFRS implementation.

Value for money

The Council continues to have proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources.

The level of the General Fund Balance has increased from £4.5m to £4.7m which means that the Council is well placed to meet the challenges arising due to decreases in central government funding in future years. It has identified the need to make annual savings of around £2.2m per year from 2012/13 onwards and has started taking action to reduce its costs through actions such as the voluntary redundancy scheme launched in 2010/11.

The Council is making good progress on identifying how these required levels of savings will be achieved and implemented. As at September 2011 it had identified £1.2m of savings from reductions in payroll costs, and was on track to deliver its action plan in relation to identifying remaining savings of £1m.

Before I complete my audit

I confirm to you

My report 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.

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 can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

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

I ask you to confirm to me

I ask the audit committee to:

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
 - consider the unadjusted errors and confirm that no adjustments to the accounts are required (Appendix 3);
 - approve the letter of representation, provided alongside this report, on behalf of the Council before I issue my opinion and conclusion.
-

Financial statements

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 report.

Errors in the financial statements

A number of non-material amendments have been made to the draft financial statements. Details are provided in Appendix 2

I did not identify any material uncorrected errors in the financial statements. However, I did identify non-material errors as set out below. Full details of the impact of these errors is set out in appendix 3.

Assets under Construction

The Authority has included £752k in Assets Under Construction at 31/3/11. Much of this balance (£469k) relates to the new revenue & Benefits systems which were brought in to use prior to 31/3/11.

I do not consider that it is appropriate for assets which were brought in to use prior to 31/3/11 to be included in Assets Under Construction at the year end. However, the view of the Director of Finance is that the project for implementation of these assets had not been fully completed as at 31/3/11, even though they were in use, and so considers that it is appropriate to include them as Assets Under Construction.

There is no impact on the overall value of assets held by the Council, only on the classification of these assets between categories. There is also no impact on depreciation charged.

Redundancy provisions

The Council launched a voluntary redundancy scheme in January 2011. By 31 March 2011, a number of staff had confirmed that they would be taking up voluntary redundancy and the Council has correctly included a provision of £315k in the 2010/11 accounts in relation to the costs of redundancy for these staff. Phase 2 of the voluntary redundancy scheme was launched in May 2011 and further staff identified; the Council has included a provision of £554k in the 2010/11 accounts in relation to the costs of redundancy for these Phase 2 staff even though a clear decision around the redundancy for these staff had not been made as at 31 March 2011.

As a result I consider that the £554k costs of redundancy in relation to Phase 2 of the voluntary redundancy scheme should not be included as a provision in the 2010/11 accounts. These costs should instead be charged against the 2011/12 accounts.

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.

In planning my audit I identified specific risks and areas of judgement which I reported to you in June 2011 and that I have considered as part of my audit.

Key audit risk and our findings

Key audit risk	Finding
1. IFRS implementation The Council has had to prepare its 2010/11 accounts to meet IFRS requirements, including restatement of 2009/10 comparatives.	I reviewed the Council's accounts in the light of IFRS requirements and reviewed the restatement of 2009/10 comparatives. No significant issues arose from my review. Some non-material amendments were required to meet IFRS restatement disclosure requirements, these are included in the details of amendments set out in appendix 2.
2. Implementation of new financial systems The Council has implemented new Benefits, council tax and NNDR computer systems part way through the year.	I undertook walkthrough and controls testing of the benefits, council tax and NNDR systems, and substantive testing on figures which impacted on the year end accounts. No issues arose from my work which I need to bring to your attention.
3. Related party transactions Last year, the Council did not correctly account for all of its related parties in its draft accounts.	I reviewed the related party disclosures included in the 2010/11 accounts but did not identify any issues – all appropriate related parties were included.

Financial statements

Significant weaknesses in internal control

I did not identify any significant weaknesses in internal control which I wish to draw to your attention. I am not expressing an opinion on the overall effectiveness of internal control.

Financial statements

Quality of your financial statements

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

There are no issues which I wish to raise with you.

Financial statements

Significant difficulties encountered during the audit

I did not encounter any significant difficulties during the course of the audit which I wish to draw to your attention.

Significant matters that were discussed or subject to correspondence with management

There were no significant matters discussed or subject to correspondence with management which I wish to draw to your attention.

Other significant matters relevant to the reporting process

There are no other significant matters relevant to the reporting process which I wish to draw to your attention.

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements.

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.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for money criteria and our findings

Criterion	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</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>I have reviewed the Council's financial governance, financial planning and financial control arrangements and consider that the Council has robust systems and processes in place to effectively manage financial risks and opportunities, and to secure a stable financial position.</p> <p>As previously reported to the Council by the Director of Finance, reductions in the levels of central government funding have meant a need to deliver savings of around £2.2m per year from 2011/12 onwards, although at £4.7m (increased from £4.5m) the Council's current levels of reserves are sufficient to ensure it can operate effectively until the end of 2012/13. It has already taken action to reduce costs and deliver the levels of savings required to ensure it is in sound financial position for the foreseeable future – the voluntary redundancy scheme set up in 2010/11 represents a key part of this action.</p>

Criterion

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Findings

There is strong leadership from senior management and members on prioritising resources and spending reductions. The Council has the capacity to deliver the scale of the spending reductions required of it.

As at September 2011 the Council had identified £1.2m of savings from reductions in payroll costs, and was on track to deliver its action plan in relation to identifying remaining savings of £1m.

Appendix 1 – Draft audit report

[insert here]

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 aid you in fulfilling your governance responsibilities.

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Disclosure notes	Inclusion of restated 31/3/2009 comparative figures for all balance sheet areas.	n/a	n/a	n/a	n/a
Members allowances	Correction of 2009/10 comparative figure	n/a	n/a	n/a	n/a
Officers remuneration	Two officers originally included in the £60 - £65k banding, amended to the £65 - £70k banding	n/a	n/a	n/a	n/a
Disclosure notes	Additional narrative re: impact of move from RPI to CPI on pensions	n/a	n/a	n/a	n/a
Classification of investments	£6m investments reclassified as long term investments, previously classed as	n/a	n/a	£6,000	£6,000

		Comprehensive income and expenditure statement		Balance sheet	
	short term				
Provisions	£497k provisions classed as short term liabilities, previously classed as long term	n/a	n/a	£497	£497
Disclosure note – interest paid on finance leases	Previous figures – 2010/11 - £49k; 2009/10 - £14k. Amended to – 2010/11 – £21k; 2009/10 - £9k	n/a	n/a	n/a	n/a
Cash flow statement	£112k adjustment between “adjust net surplus or deficit on the provision of services for non cash movement” and “financing activities”	n/a	n/a	n/a	n/a
Collection fund	Correction of bfd and cfd collection fund balance in the Collection Fund note	n/a	n/a	n/a	n/a

Appendix 3 – Unadjusted misstatements to the financial statements

I identified the following misstatements during my audit, [including uncorrected misstatements from earlier years,] but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements.

If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Unadjusted misstatement	Nature of required adjustment	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Classification of Assets Under Construction	Reclassification within the PPE note	0	0	469	469
Redundancy provisions	Reduce provision made in 2010/11 accounts – charge to 2011/12 instead	0	554	554	0

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.
- I find that some spending or income was irregular.

Materiality and significance

The Auditing Practices Board (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.

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- any third party.

