

Annual Governance Report

September 2007



Annual Governance Report

Test Valley Borough 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.
- 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, 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 to the Authority

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 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, the General Purposes Committee, 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 General Purposes Committee on 26 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, 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 last year. 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 on 26 September 2007. A draft report is attached at Appendix 4.
- 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 Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. We propose issuing an unqualified conclusion on the use of resources on 26 September 2007. A draft report is attached at Appendix 4.
- 9 Overall the accounts were prepared to a good standard, but aspects of capital accounting in particular need to be improved, and this is due to be tackled over the next year.

Audit status

- 10 At the date of issue of this report our detailed audit is substantially complete.
- 11 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

- 12 Our work on the financial statements is substantially complete and the audit report will be issued shortly.

Representations from management

- 13 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.
- 14 Auditors 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.
- 15 A final draft of the letter of representation has been attached as Appendix 5.

Unadjusted misstatements

- 16 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. A summary of unadjusted misstatements is attached at Appendix 6 for the information of members.
- 17 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 not.

Adjustments to the financial statements

- 18 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 7 but we provide an analysis of the most significant items below for your attention.

Table 1 Significant adjusted misstatements

Details of material and significant adjustments made to financial statements

Issue	Value of misstatement £ 000	Increase /Decrease in net expenditure £ 000
Housing Benefit overpayments debtor was overstated	417	417
Wheeled bins, provided as part of ABC, to be properly recognised in asset register	622	Nil impact
Movement between the Fixed Asset Restatement Account and the Capital Financing account	2,516	Nil impact
Revaluations of operational properties	6,116	Nil Impact

Accounting practices

- 19 We are also required to report to you our view on the qualitative aspects of the Authority's accounting practices and financial reporting and have set out below our observations on key issues affecting the Authority.
- 20 Issues that have been identified as part of the final accounts audit are as follows:
- Capital accounting -. Valuations were found not to have been undertaken on a five yearly cyclical basis in respect of all assets. The Council's operational properties had not been revalued for five years. Valuations have since been undertaken post audit, and the accounts have been amended, increasing operational land and buildings values by £6.1 million.

Recommendation

R1 A cyclical programme of valuations of land and buildings should be put in place to ensure that assets are revalued within five years. For every asset on the asset register, the date of last valuation should be included.

- The council reflects some of its capital programme expenditure as additions within the asset register where assets have been created or enhanced, with the balance being written off to the fixed asset restatement account (FARA). This is not an unusual approach for some less significant items, but has resulted in £14 million of expenditure over the last four years not being added to the asset register.
 - Some of this expenditure related to schemes such as the Romsey Rapids refurbishment (£3 million expenditure in 2005/06) where spending increased the asset value, and should have been reflected as such in asset values. A valuation adjustment plus £4.3 million in the revised accounts has recognised this additional investment forming part of the £6.1m adjustment in Table 1.
 - Wheeled ABC bins (£0.622 million) had also been written off in this way, but have also been now included in the asset register, see Table 1.
 - Other expenditure has been on IT projects and infrastructure (cycleways)
- The impact of writing off assets direct to the FARA is that service revenue accounts are not then charged with depreciation, thus service revenue accounts costs can be understated (but with no impact on Council Tax) . It is noted that this treatment will cease from 1 April 2007, due to changes in the SORP 2007. Completeness of the asset register is a pre-requisite for sound asset management.

<i>Recommendations</i>
<i>R2 Capital expenditure relating to genuine assets that have an asset life of more than a year should be added to tangible fixed assets and depreciated over the useful life of asset, thus charging the appropriate service revenue account.</i>
<i>R3 Ensure completeness of the asset register, a pre-requisite for proper fixed asset accounting and sound asset management.</i>
<i>R4 IT equipment and Infrastructure assets should be included within the asset register for completeness.</i>

- Historically the basis of the depreciation charged in the accounts for buildings has been based on a general asset life of 60 years, and the asset value for land and buildings is based on a historical split of one third land and two thirds buildings. The depreciation charge is thus based on the two thirds buildings element. The valuer should be making an assessment of asset lives and the split between land and buildings value in their valuation report, rather than depreciation being based on this less accurate approach.

Recommendation

R5 The valuer should be determining the life of each asset and the split between land and buildings element, so that depreciation is linked to the buildings and life of asset.

- Depreciation charged in the accounts should be reviewed to ensure that the latest valuation has been taken into account. There were examples of the depreciation charge remaining the same each year, even after a valuation had been completed.

Recommendation

R6 Depreciation charged in the accounts should be reviewed on an asset by asset basis to ensure that the latest valuation has been taken into account.

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.
- 22 The housing benefits overpayments debtor was overstated by £608,000, off set by an over provision of the bad debts provision of £191,000. The net effect was £417,000, as over a three year period journals relating to setting up of debtors were based on cumulative figures, and control mechanisms were not working.

Recommendation

R7 Mechanisms should be put in place to ensure that the housing benefits overpayment debtor is correctly accounted for at the year end.

Other matters arising

- 23 Related party transactions are briefly disclosed in the accounts following the SORP guidance, however, consideration should be given to expanding this note to include relationships and transactions with other relevant bodies in future years

Recommendation

R8 The related party transaction note should be expanded to include transactions between the Council and other bodies, particularly where councillors have recorded an interest.

- 24 Some relatively minor accounts issues have been identified concerning the following:
- un-presented cheques include a number of very old Housing Benefit cheques, valued at £32,000, that are unlikely to be presented. Most are between four and six years old, and procedures should be put in place to write these back.

Recommendation

R9 Procedures should be put in place to write back old Housing Benefit cheques (greater than two years old).

- 25 There were a number of changes required to be made to the supporting notes in the financial statements, including changes to the 2005/06 restatement figures and a revised creditors and provisions note for S106 deposits. These have since been corrected in the redrafted financial statements. Several minor typographical errors were also corrected as part of our review of the financial statements
- 26 As reported before there remains a historical £1.4 million difference between the cumulative capital financing requirement and financed fixed assets. In response, capital receipts to this value were retained in the Capital Financing Account, and are not available to fund capital spending. If the Council required additional capital funds, then an exercise would be required to establish how the difference arose so that these funds were could be made available. There are no other implications as the Council remains debt free.
- 27 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 from this review.

Other reports produced

- 28 During the year, we separately reported to officers on a number of control weaknesses identified at the earlier interim stage of our opinion audit, commenting on matters such as the scope to improve accounts journal authorisation. An action plan was agreed and action taken is to be monitored by the Audit Panel.
- 29 We also conducted an IT risk awareness survey ('your business at risk') to help raise awareness of the risks associated with the increasing use of technology at all Councils and to facilitate positive action to reduce risks. Again, an action plan has been agreed which will be monitored by the Audit Panel.
- 30 Please note that we do not provide a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed matters which have come to our attention as a result of the audit procedures we have performed.

Use of resources

Work performed

- 31 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 comprised the following elements:
- use of resources assessment;
 - data quality work; and
 - the best value performance plan.
- 32 Details of our conclusion for each of the criteria specified by the Audit Commission are set out in Appendix 8.
- 33 Our overall conclusion from the work on the Authority's arrangements was that the Authority had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources in the 2006/07 year.
- 34 We propose issuing an unqualified vfm conclusion and a draft report is attached at Appendix 4.

Use of resources assessment

- 35 We are currently carrying out our 2007 use of resources assessment. We will discuss this in due course with the relevant officers and report on it in our annual audit and inspection letter.

Data quality work

- 36 We are also currently carrying out our data quality review for 2007 and will report our findings to the relevant officers in due course and also report on this in our annual audit and inspection letter.

Best value performance plan

- 37 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

- 38 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 2

Fee estimate	Plan 2006/07	Actual 2006/07
Audit		
Accounts	£58,164	£58,164
Use of resources	£23,746	£23,746
Total audit fee	£81,910	£81,910
Inspection		
Relationship management and Direction of Travel assessment	£5,673	£5,673
Service inspection	£0	£0
Corporate inspection	£0	£0
Total inspection fee	£5,673	£5,673
Total audit and inspection fee	£87,583	£87,583
Certification of claims and returns	£23,000	To complete
Voluntary improvement work	£0	£0

- 39 The analysis above shows that our audit fee has been contained within the totals you have already agreed, but with certification of claims and returns to be completed.

Appendix 1 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation date
8	R1 A cyclical programme of valuations of land and buildings should be put in place to ensure that assets are revalued within five years. For every asset on the asset register, the date of last valuation should be included.	3	Head of Estates	Yes	Will aim to carry out 20% of valuations per year to ensure all valuations are carried out within a five year period.	April 2008
9	R2 Capital expenditure relating to genuine assets that have an asset life of more than a year should be added to tangible fixed assets and depreciated over the useful life of asset, thus charging the appropriate service revenue account.	2	Head of Estates & Head of Finance	Yes	Estates and Finance will work together to ensure that expenditure on the capital programme is reviewed and where the value or life of assets is increased as a result of the expenditure this is reflected in the accounts.	2007/08 accounts.
9	R3 Ensure completeness of the asset register, a pre-requisite for proper fixed asset accounting and sound asset management.	3	Head of Estates	Yes	Agreed.	Immediate.
9	R4 IT equipment and Infrastructure assets should be included within the asset register for completeness.	2	Head of Finance	Yes	Agreed.	2007/08 accounts.
10	R5 The valuer should be determining the life of each asset and the split between land and buildings element, so that depreciation is linked to the buildings and life of asset.	3	Head of Estates	Yes	This will be taken into account as part of the rolling programme of valuations.	April 2008

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Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation date
10	R6 Depreciation charged in the accounts should be reviewed on an asset by asset basis to ensure that the latest valuation has been taken into account.	2	Head of Finance	Yes	This will follow on from the actions agreed in R1, R2 and R5.	2007/08 accounts.
10	R7 Mechanisms should be put in place to ensure that the housing benefits overpayment debtor is correctly accounted for at the year end.	3	Principal Accountant (Services) and Senior Revenues Officer (Financial Revenues; Local Taxation)	Yes	Reconciliations to be carried out by Accountancy and Revenues as part of the year-end procedures to ensure that the debtor is correctly accounted for.	2007/08 accounts.
11	R8 The related party transaction note should be expanded to include transactions between the Council and other bodies, particularly where councillors have recorded an interest.	2	Technical Accountancy Manager	Yes	Consideration will be given as to what should be included within the note and the reasons documented for not including any interests declared.	2007/08 accounts.
11	R9 Procedures should be put in place to write back old Housing Benefit cheques (greater than 2 years old).	2	Head of Finance	Yes	Already implemented.	Immediate.

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

Table 3

Planned output	Planned issue date	Actual issue date	Comment
Audit and Inspection Plan	April 2006	April 2006	
Interim audit memorandum	June 2007	June 2007	
'Your business at risk' survey outcomes	July 2007	July 2007	
Audit Memorandum and report on financial statements to those charged with governance (ISA 260)	September 2007	September 2007	
Opinion on financial statements	September 2007	September 2007	
VFM conclusion	September 2007	September 2007	
Data quality audit memorandum	October 2007		To follow
Use of resources assessment	December 2007		To follow
BVPP opinion	December 2007		To follow
Annual audit and inspection letter (including direction of travel assessment)	March 2008		To follow

Appendix 4 – Proposed auditor’s report

Independent auditor’s report to the Members of Test Valley Borough Council

Opinion on the financial statements

I have audited the financial statements of Test Valley Borough Council 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 Collection Fund and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Test Valley Borough 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

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 as at 31 March 2007 and its income and expenditure for the year then ended.

Martin Robinson

District Auditor

Audit Commission
Southern House
Sparrowgrove
Otterbourne
Winchester
Hampshire
SO21 2RU

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, Test Valley Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2007

Martin Robinson

District Auditor

Audit Commission
Southern House
Sparrowgrove
Otterbourne
Winchester
Hampshire
SO21 2RU

September 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 in December 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.

Martin Robinson

District Auditor

Audit Commission
Southern House
Sparrowgrove
Otterbourne
Winchester
Hampshire
SO21 2RU

September 2007

Appendix 5 – Management representation letter

To: Martin Robinson

District Auditor
Audit Commission
North Wing
Southern House
Sparrowgrove
Otterbourne
Winchester
Hampshire
SO21 2RU

Test Valley BC - 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 Test Valley Borough 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 presents fairly and for making accurate representations to you.
- I acknowledge my responsibilities under the relevant statutory authorities to prepare the Council's accounts in accordance with proper practices as defined in relevant legislation or guidance.
- 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.
- Sufficient controls have been established, and have operated, to identify, classify and record correctly transactions processed via the Council's bank account.

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; and,
- 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 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;
- 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

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 Test Valley Borough Council

Signed:

Name: Councillor I R Carr

Chair of the General Purposes Committee

Signed

Name: William Fullbrook

Position: Head of Finance

Date: 26 September 2007

Appendix 6 – Summary of unadjusted misstatements

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.

		Income and Expenditure Account		Balance Sheet	
Unadjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Under accrued instalment due on Southern Water (SW) drainage scheme	Under-accrued liability to SW made annually one year in arrears. This year accounting policy note (accruals) now amended and long term liability note also now included in accounts				
Dr Culture, Environment, and Planning		293			
Cr Creditors					293
Unidentified receipt not posted at year end	Reduces both debtors and creditors (no other impact)				
Dr Creditors				234	
Cr Debtors					234
Net Effect		293	0	234	527

Appendix 7 – Summary of adjusted misstatements

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	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Adjusted misstatements	Nature of Adjustment				
Housing Benefit overpayments debtor was overstated	To increase service costs/ reduce under spend and reduce debtors				
Dr Housing services		417			
Cr Debtors					417
Wheeled bins, part of ABC, to be recognised in fixed asset register	Wheeled bins to be recognised as an asset of the Council				
Dr Equipment				622	
Cr FARA					622
Revaluations of operational properties	Five yearly valuations had not been completed, subsequently carried out post audit				
Dr Land and Buildings				6,116	
Cr FARA					6,116

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Movement between the Fixed Asset Restatement Account and the Capital Financing account	Correction of accounting entries				
Dr FARA				2,516	
Cr Capital Financing Account					2,516
Net Effect		417	0	9,254	9,671

Appendix 8 – Value for money conclusion

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.

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.

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

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Code Criteria	Description	Associated UoR KLoE	UoR Score	VFM Conclusion
5	The body has put in place arrangements to maintain a sound system of internal control.	4.2	3	Adequate
6	The body has put in place arrangements to manage its significant business risks.	4.1	2	Adequate
7	The body has put in place arrangements to manage and improve value for money.	5.2	3	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	3	Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	3.1	3	Adequate
10	The body has put in place arrangements for managing performance against budgets.	2.2	3	Adequate
11	The body has put in place arrangements for the management of its asset base.	2.3	2	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	4	Adequate