

AUDIT COMMITTEE

26 September 2011

ANNUAL GOVERNANCE REPORT 2010/11

REPORT OF HEAD OF FINANCE

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RECENT REFERENCES:

AUD003: Corporate Governance Report and Annual Governance Statement,
29 June 2011

AUD005: Audit Plan 2010/11, 29 June 2011

AUD008: Statement of Accounts 2010/11 (pre-audit), 29 June 2011

EXECUTIVE SUMMARY:

The Audit Commission have now presented the Annual Governance Report which summarises the findings from the audit of the Financial Statements for 2010/11, which is substantially complete, and the results of the External Auditor's work on the Council's arrangements to secure value for money in use of resources.

Subject to the clearance of outstanding matters, the External Auditor plans to issue an unqualified audit opinion on the financial statements and on the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources.

Representatives of the Audit Commission will attend the meeting to present their proposals and provide any points of clarification.

RECOMMENDATION:

That the Audit Committee considers the matters presented in the Report and takes the opportunity to raise any points of clarification or concerns with the External Auditors who will be present at the meeting.

Annual governance report

Winchester City 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

Subject to clearance of outstanding matters I plan to issue an unqualified audit opinion on your financial statements. Your accounts and supporting working papers were well prepared.

Value for money

I intend to issue an unqualified audit opinion on your arrangements to secure economy, efficiency and effectiveness in the use of resources.

As a Council, you:

- prepared your accounts on time and complied with the code of practice on local authority accounting;
- delivered your 2010/11 budget;
- approved a balanced three-year budget to 2013/14 and plan to replenish your reserves in that period;
- successfully extended the contract for the management of the River Park Leisure Centre and Meadowside Leisure Centre;
- put in place a shared IT Service; and
- restructured to improve performance, work towards delivering the Council's corporate vision and deliver planned savings.

It is important that you now:

- Focus on delivering your financial strategy and replenish the reserves that have been utilised;
- Realise the planned benefits from key developments such as the Environmental Services and Housing 'Term Maintenance' contracts; and
- Deliver the improvements planned through the Council's restructuring and joint working with other councils.

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 have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) – Integrity, Objectivity and Independence. There are no threats to my independence, objectivity and integrity. I have not undertaken, or approved from the wider audit practice, any non-audit work for the Council during 2010/11.

I ask you to confirm to me

I ask the Council to:

- Consider the matters presented in this report;
 - approve the letter of representation, provided alongside this report, for the Council before I issue my opinion and conclusion
-

Financial statements

Your financial statements and annual governance statement are important means by which you account for your stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an unqualified opinion on your financial statements. Appendix 1 contains a copy of my draft audit report.

Your financial statements

I am required to report to you those corrections made during my audit to your accounts that are, in my opinion, both important and relevant to your oversight of the financial reporting process.

Officers have agreed to make adjustments for each of the errors and misstatements that have been identified during my audit. I have carefully considered each of the adjustments made to your accounts, only one of which affected the Council's useable reserves. The Council is in correspondence with the Department of Communities and Local Government (DCLG) about a potential liability to pool housing capital receipts, plus interest. It has therefore decided to provide for this potential liability in its 2010/11 financial statements which is estimated to be £1.7m. This provision has reduced the level of capital receipts that are available to the Council to fund future capital schemes.

Appendix 2 sets out details of the more significant corrections made that I judge are relevant to your responsibilities. Other than these, I identified eight other non-trivial errors (greater than my triviality level of £12k for the financial statements and £47k for balance sheet items). None of these affected the Council's net assets, the general fund balance or useable reserves. These errors included more minor omissions, misstatements or typographical errors in the notes to the core statements, and a number of inconsistencies between primary statements and supporting notes. Errors of this type are not unusual within the general accounts production process and in our view should not overly concern those charged with governance in approving the accounts. All of the identified non-trivial errors have now been amended.

A few other minor presentational amendments to text and disclosures were made to ensure your statements fully comply with the code of practice on local authority accounting. These have not been reported to you individually as they have been corrected and, in my view, are not important or relevant to your responsibilities to oversee the financial reporting process.

Specific risks identified by my planning

In planning my audit I identified specific risks and areas of judgement. I reported these to you in June and include below my final conclusions in respect of each of them.

Key audit risk and our findings

Key audit risk	Finding
<p>1. Transition to International Financial Reporting Standards (IFRS)</p> <p>I planned to:</p> <ul style="list-style-type: none"> ■ review the restated accounts and comparatives for 2009/10 ahead of the year-end, and the revised accounting policies; and ■ pay particular attention to the higher risk areas of Property, Plant and Equipment (especially leases, contracts with embedded leases and component accounting), segmental reporting and accruals for employee benefits. 	<p>My audit work in this area has still to be completed. I will report my findings at the Audit Committee.</p>
<p>2. Financial pressures</p> <p>I considered how the Council is responding to the increasing financial pressures and whether these are unduly influencing the reporting of financial results.</p>	<p>I have found no evidence of undue influence over the reporting of the Council's financial position.</p>
<p>3. New accounting systems</p> <p>We carried out the required work in order to address the increased risk arising from the implementation of new financial systems in October 2010. This included the documentation of the new systems; additional testing of the transfer of data to the new systems and the new arrangements for the production of the accounts from the new financial ledger.</p> <p>My IT risk assessment was completed by a senior IT Risk Assurance Manager because of the increased risk arising from the implementation of new financial systems in 2010/11.</p>	<p>There were no matters that I need to bring to your attention from the work that I completed.</p>

Key audit risk	Finding
<p>4. Capacity within the Finance Section</p> <p>I considered the impact on my audit of the changes in the staffing of the Finance Team and their capacity to deal with the implementation of International Financial Reporting Standards (IFRS) and other competing demands.</p>	<p>Sufficient external support was secured to enable the Finance Section to implement IFRS and prepare the 2010/11 financial statements.</p>
<p>5. Control weaknesses in payroll and accounts payable.</p> <p>I reviewed the Council's progress in making improvements to the payroll and accounts payable systems during 2010/11</p>	<p>I have reported my findings in these areas below.</p>

Significant weaknesses in internal control

I reported to you in June 2011 on my testing strategy for the 2010/11 audit in my detailed audit plan. I have now completed my audit testing and there are two areas that I need to bring to your attention.

Internal control issues and our findings

Description of weakness	Findings	Management action
<p>1. Payroll –internal control</p> <p>I have previously reported that internal control would be improved through the implementation and operation of a payroll control account.</p> <p>There have previously been overpayments of staff salaries, although action was being taken to recover these amounts.</p>	<p>A payroll control account was not introduced in 2010/11, primarily due to the lack of development capacity, although a full payroll validation exercise was carried. It is now planned that this will be introduced in 2011/12.</p> <p>Recovery is progressing in accordance with the agreements and the outstanding amounts are recorded in the debtors system so that ongoing recovery can be monitored.</p>	<p>Ensure that a payroll control account is implemented and operated in 2011/12.</p> <p>Continue to monitor the recovery of overpayments.</p>

Description of weakness	Findings	Management action
<p>2. Separation of duties</p> <p>The lack of separation of duties in the accounts payable system was reported in 2009/10 and the need for an up to date authorised signatories list.</p>	<p>Improvements have been made to the level of internal control in the new accounts payable system, introduced from October 2010.</p> <p>Internal Audit has however identified that three members of Finance Staff had retained full systems access to the accounts payable system, which is a significant weakness in control.</p>	<p>Reduce the number of staff with full access to the accounts payable system to a minimum or introduce compensating controls.</p>

These weaknesses are only those I identified during my audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

Quality of your financial statements

I also consider the non-numeric content of your financial reporting. Your financial statements for 2010/11 were produced in line with agreed timetables. Working papers were once again produced on time and to a good standard to support the entries and disclosures in the accounts.

There are no other matters I need to bring to your attention.

Other matters

Finally, I reviewed your annual governance statement and confirmed that it complies with the code requirements and our knowledge and experience of the Council. There are no other matters I wish to bring 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 considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

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

- the organisation has proper arrangements in place for securing financial resilience (Focus for 2010/11: 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); and
- 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).

My overall conclusion is the Council has proper arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My value for money conclusion

In 2010/11 I identified some significant risks relevant to my value for money conclusion. For each risk, I considered the arrangements put in place by the Council to mitigate the risk. The risks, how I addressed them and my conclusions are set out in the table below.

Risk	How addressed	Conclusion
Financial resilience.	<p>The Council has a track record of strong financial management. It has:</p> <ul style="list-style-type: none"> ■ implemented a robust response to manage the impact of the government's comprehensive spending review, set realistic budgets for the three years 2011/12 to 2013/14 including growth bids and planned savings. The Council is closely monitoring progress against the 2011/12 budget; ■ maintained General Fund and HRA balances at a prudent level, ensuring there are funds to meet unexpected costs, deliver key priorities and provide scope for 'invest to save' schemes. The Council has drawn on its reserves in 2011/12 and has plans to replenish these reserves in 2012/13 and 2013/14; ■ identified savings that have been built into the budgets for 2011/12 and future years, including for example savings from the Environmental Services and Housing Maintenance contracts, the joint IT shared service with Test Valley BC and the organisational restructuring; and ■ the Council's capital programme was under spent by £3.17m (24 per cent) in 2010/11, General Fund (GF) £2.86m and Housing Revenue Account (HRA) £0.31m. The capital programme for 2011/12 to 2013/14 amounts to £34.1m and will be funded from a range of sources, including capital receipts (£1.1m), the disposal of council dwellings (£7.3m) and borrowing (£9.6m). The Council will need to ensure that its capital programme remains realistic, affordable and achievable in the current economic climate. 	<p>Your arrangements to secure financial resilience are well developed but are reliant on the achievement of your planned efficiencies and the recovery of your reserves. This is an aspect of your plans that I will monitor as part of my continuing assessment of your arrangements.</p>

Risk	How addressed	Conclusion
Economy, efficiency and effectiveness	<p>The Council has taken action to prioritise resources and focus on its key corporate aims. For example it has:</p> <ul style="list-style-type: none"> ■ procured contracts for two major services. Environmental services which were procured jointly with East Hants District council (£3m pa), and Housing Maintenance (£2.4m pa). The realisation of benefits through these contracts while ensuring quality of service delivery will be a key challenge for the Council; ■ implemented a shared Information Management and Technology service (IM&T) with Test Valley BC to build on the strengths of the two services and establish a shared 'Help Desk'. Planned savings across councils are expected to be £140k in the first two years; ■ extended the contract for the management of River Park Leisure Centre and Meadowside Leisure Centre, saving the expense of retendering and securing investment from its private sector partner; and ■ restructured to improve performance through the delivery of services, listening to the community, efficiency, respecting the environment and aiming to be an employer of choice. 	<p>Your arrangements to challenge your use of resources to set priorities and deliver effective, economic and efficient services continue to be sound.</p> <p>My continuing audit work for 2011/12 will consider the progress that you make in managing your services through the contracts that have been awarded and through working with both public and private sector partners.</p>

Appendix 1 – Draft Audit Report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WINCHESTER CITY COUNCIL

Opinion on the Authority accounting statements

I have audited the accounting statements of Winchester City Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Winchester City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Head of Finance and Auditor

As explained more fully in the Statement of the Head of Finance Responsibilities, the Head of Finance is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Winchester City Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion, the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011. I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Winchester City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the accounts of Winchester City Council in accordance with the requirements of the Audit Commission Act 1998 and the code of Audit Practice issued by the Audit Commission.

Patrick Jarvis
Officer of the Audit Commission
Collins House
Bishopstoke Road
Eastleigh
Hampshire
SO50 6AD

September 2011

Appendix 2 – Amendments made to your 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.

Adjusted misstatement	Nature of adjustment	Comprehensive income and expenditure statement		Balance Sheet	
		Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
<p>Provision – Pooling of housing capital receipts</p> <p>The Council is in correspondence with the Department of Communities and Local Government (DCLG) about a potential liability to pool housing capital receipts, plus interest. It has therefore decided to provide for this potential liability in its 2010/11 financial statements.</p>	<p>A provision has been made from useable capital receipts reserve:</p> <p>Dr Useable capital receipts</p> <p>Dr CIES re interest</p> <p>Cr Provisions</p> <p>NB: This will also impact on the Movement in Reserves Statement (MIRS), cash flow statement and note 39 'contingent liabilities'.</p>	79		1,635	1,714

Debtors and Creditors	Reversal of the duplicated adjustment				
The restatement of the balance sheet at 1 April 2009 has identified that an adjustment in respect of NNDR (£1,467k) and Inland Revenue NI (£41k) had been made twice. This has now been corrected.	Dr Creditors			1,508	
	Cr Debtors				1,508
Adjustment between accounting basis and funding basis under regulations	<ul style="list-style-type: none"> ■ The movement in market value of investment properties was shown as Cr (£651k) rather than Dr £651kdr ■ The impact of capital grants and contributions was misstated as Dr £277k rather than Cr (£277k). 	N/A	N/A	N/A	N/A
The disclosure note in respect of 2009/10 movements in useable reserves has been corrected because two of the transactions were misstated.		N/A	N/A	N/A	N/A
Events after the balance sheet date – note	These significant contracts that have been awarded by the Council in 2011/12 were not disclosed.	N/A	N/A	N/A	N/A
The Council has disclosed an additional event after the balance sheet date in respect of the Housing Term Maintenance contracts and the Environmental Services contract that commence in August and October 2011 respectively.					
Financial Instruments – note 15	Additional disclosures have been made	N/A	N/A	N/A	N/A
Cash and bank and short term creditors were not included in the financial instruments disclosure note.	Cash and Bank £6,077k (2010/11), £4,357k (2009/10 restated) and £3,159k (2009/10)				
	Creditors (£6,292k) (2010/11), (£7,685k) (2009/10 restated), (£9,854k) (2009/10).	N/A	N/A	N/A	N/A

**National Non-Domestic Rates (NNDR) –
Note C2 to the Collection Fund**

The rateable value of business properties was misstated, although gross income from NNDR was correctly disclosed.

The small business rateable value has been corrected to £6,512,740 rather than £2,612,740.

N/A

N/A

N/A

N/A

Appendix 3 – Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality and significance

The 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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0844 798 7070

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

