

Annual Governance Report

Warwick District Council

Audit 2009/10

Date

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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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Ladies and Gentlemen

2009/10 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Head of Finance on 15 September 2010 and updated it as issues have been resolved.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 7);
- take note of the adjustments to the financial statements set out in this report (Appendix 2); and
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3).

Yours faithfully

Dave Rigg
District Auditor

16 September 2010

Key messages

This report summarises the findings from the 2009/10 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.

Financial statements	Results	Page
Unqualified audit opinion	Yes	6
Financial statements free from material misstatement	No	6
Adequate internal control environment	Yes	7
Value for money	Results	Page
Adequate arrangements to secure value for money	Yes	9

Audit opinion

- 1 I intend to issue an unqualified opinion on your financial statements.

Financial statements

- 2 My audit of your financial statements went well. The statements were presented for audit before the deadline of 30 June, and were accompanied by comprehensive and well set out working papers. Officers were responsive to questions raised during the audit.
- 3 My audit resulted in a number of amendments to the statements. The main changes to the accounts presented for audit related to movements in the value of fixed assets as a result of ongoing valuations.
- 4 The updated valuations resulted in adjustments totalling £11.2 million. The vast majority of the adjustments were within the Balance Sheet. The adjustments to the Income and Expenditure Account were reversed out so there was no impact on the demand on Council Tax.

Value for money

- 5 I intend to issue an unqualified value for money conclusion stating the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Independence

- 6 The audit was carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It 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.

7 I ask the Finance and Audit Scrutiny Committee to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 7);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2); and
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3).

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.

Opinion on the financial statements

- 8** 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 audit report.

Misstatements in the financial statements

- 9** Following the Statement of Accounts being approved by the Council in June 2010 new external valuations of Council owned property were received from the District Valuer. As a result of these updated valuations there were upward revaluations taken to the Balance Sheet totalling £11.2 million. The vast majority of this increase related to Council houses. The only non Housing Revenue Account asset affected was Victoria Park Pavilion which increased in value by £430,000.
- 10** Various revaluation changes resulted in a net decrease in Net Cost of Services of £66,000. The Surplus for the year increased by the same amount.
- 11** As these assets have not been sold the Council is unable to recognise the gain in the accounts. Therefore, the relevant Tangible Fixed Asset categories have been increased with a corresponding increase in reserves, mainly Revaluation Reserves.
- 12** I identified gains on disposal of fixed assets of £112,000 which had not been properly reflected in the accounts. Of this, £109,000 related to the disposal of three Council houses and £3,000 to General Fund Assets. The effect of these adjustments was to reduce the loss on disposal of fixed assets from £675,000 to £563,000. As this item is reported below Net Cost of Services service expenditure was unaffected. However, the Surplus for the Year as shown on the Income and Expenditure Account increased by £112,000 to £12.176 million.
- 13** I identified non-disclosure of information in the leases note. The Council owns assets which it leases out to third parties. These assets and the income received need to be disclosed separately under lessor accounting requirements. The leases note did not disclose the value of assets leases out of £14.15 million nor the income from those leases of £1.1 million. These items were correctly included in the Balance Sheet and Income and Expenditure Account, so those statements did not change as a result of the additional disclosure.

Letter of representation

14 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation.

Key areas of judgement and audit risk

15 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. I reported these to the Finance and Audit Scrutiny Committee on 25 May. The table below sets out the findings from my audit work in relation to those issues.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
There were uncompleted Land Registrations as at 31 March 2009.	I checked the 2009/10 land registrations with the Land Registry and reconciliation to the Fixed Asset Register, and am satisfied that they are complete.
CIPFA Statement of Recommended Practice (SORP) 2009.	I checked that the accounting treatment and disclosure requirements per SORP 2009 were followed.

Accounting practice and financial reporting

16 I consider the non-numeric content of your financial reporting. I identified several instances where disclosure notes were amended to increase transparency. None of these amendments had any impact on the Income and Expenditure account or Balance Sheet. I have summarised them in Appendix 2.

Value for money

I am required to decide whether the Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. I have based my conclusion on my work on the scored use of resources judgement.

Value for money conclusion

- 17 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 4. I reported my detailed findings to the Finance and Audit Scrutiny Committee in July.
- 18 I intend to issue an unqualified conclusion stating the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft report.

Glossary

Annual governance statement

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

Audit closure certificate

20 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 certificate.

Audit opinion

21 On completion of the audit of the accounts, auditors must give their 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;
 - whether they have been prepared properly, following the relevant accounting rules; and
 - for local probation boards and trusts, on the regularity of their spending and income.
-

Qualified

22 The auditor has some reservations or concerns.

Unqualified

23 The auditor does not have any reservations.

Value for money conclusion

24 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.

Appendix 1 – Independent auditor’s report to Members of Warwick District Council

Opinion on the accounting statements

I have audited the Authority accounting statements and related notes of Warwick District Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of 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 Statement of Movement on the Housing Revenue Account, 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 Warwick District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Responsible Financial Officer and auditor

The Responsible Financial Officer’s responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting 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 accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Foreword and Financial Summary. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting 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 accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, 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 accounting statements and related notes 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 accounting statements and related notes.

Opinion

In my opinion the Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

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 regularly to review the adequacy and effectiveness of these arrangements.

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 for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009,. 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.

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 May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, Warwick District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

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.

Dave Rigg
District Auditor
The Audit Commission
No 2 Friarsgate
1011 Stratford Road
Solihull
West Midlands
B90 4EB
29 September 2010

Appendix 2 – Amendments to the draft accounts

I identified the following misstatements during my audit and managers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Table 2 Accounting entries

		Income and Expenditure Account		Balance sheet	
Adjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Updated valuations	Dr. Statement of Movement on GF balance Cr. Net Cost of Services Dr. Council dwellings Dr. HRA Land & buildings Dr. Other land & buildings Dr. Investment properties Cr. Revaluation Reserve Cr. Capital Adjustment Account	66	66	10,291 587 336 56	11,188 82
Gain on disposal	Dr. Statement of Movement on GF balance Cr. Gain or loss on disposal of fixed assets	112	112		

Table 3 Changes to disclosure notes

Disclosure Note	Nature of adjustment
Pension Fund.	Following audit work undertaken on the Pension Fund, I identified that the proportion of assets attributable to the Council is understated by 0.52 per cent. This is because the actuary valued the assets using the actual return on assets to December 2009 and then estimated the return on assets for January to March 2010. Officers have included an additional disclosure note to reflect this. Officers had correctly reflected information provided to

Disclosure Note	Nature of adjustment
	them by the actuary in the financial statements, and the change in disclosure is a result of actuarial assumptions being different to reality - not anything which officers have done incorrectly.
Housing Revenue Account and Housing Repairs Account disclosure notes.	I identified three amendments in the Housing Revenue Account disclosure note and one in the Housing Repairs Account disclosure note. These did not affect the accounts themselves, but were amended to ensure consistency with the accounts and aid understanding.
Intangible Fixed Assets.	The Intangible Fixed Asset disclosure note was amended to ensure it was consistent with other notes in the financial statements and correctly stated. The Expenditure and Amortised to Revenue figures were both misstated by £56,000. Hence, the balance was unchanged.
Members' Allowances.	The Members' Allowances note did not include allowances for the Chair and Vice Chair totalling £9,000 and Other Allowances totalling £14,000. Whilst these amounts are below the level which I would normally report to you, I am bringing them to your attention because of the sensitivity surrounding them.
Related Party Transactions.	The Related Party Transaction note did not disclose an officer interest in the Brunswick Healthy Living Centre. In 2009/10 the Council and the Centre had transactions totalling £102,000.
Officers' Emoluments.	The Officers' Emoluments note had two officers in the wrong salary band.
Useable Capital Receipts Reserve.	The Useable Capital Receipts Reserve note was amended to include a £30,000 capital receipt and attributable costs in the same amount. The balance on the account was therefore unchanged.
Pension Fund - Post Balance Sheet Events.	An additional note was added to the accounts to reflect the change in Government policy on future pension increases. Annual pension increases are based on a measure of price inflation. In its budget on 22 June 2010 the Government announced a move to using the Consumer Price Index (CPI) as the measure of price inflation for public sector schemes from April 2011. Currently the Retail Price Index (RPI) is the measure used. This change will affect the valuation of pension fund liabilities. A Post Balance Sheet Event note has been added to the notes to the financial statements to explain the impact of this decision and that the financial consequences cannot yet be quantified.
Statement of Total Recognised Gains and Losses	This statement was amended to separate out the effect of the revaluations and grant funding on Revenue Funded from Capital Under Statute. The movement between categories was £604,000, but there was no change to the total figure.

Appendix 3 – Draft letter of representation

To:

Dave Rigg
District Auditor
Audit Commission
No 2 Friarsgate
1011 Stratford Road
Solihull
West Midlands
B90 4EB

Warwick District Council - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Warwick District Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010. All representations cover the Council's accounts included within the financial statements.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which gives a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

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 and Committee meetings, have been made available to you.

Irregularities

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

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

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

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

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For each assumption, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require adjustment to the fair value measurement.

Assets

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

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

Compensating arrangements

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

Contingent liabilities

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

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

Related party transactions

I confirm the completeness of the information disclosed 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.

Post balance sheet events

Since the date of approval of the financial statements by the Council one additional significant post balance sheet event has have occurred which requires additional disclosure in the financial statements.

Annual pension increases are based on a measure of price inflation. In its budget on 22 June 2010 the Government announced a move to using the Consumer Price Index (CPI) as the measure of price inflation for public sector schemes from April 2011. Currently the Retail Price Index (RPI) is the measure used. This change will affect the valuation of pension fund liabilities. The financial impact of this change will be determined by the scheme actuary as part of the next valuation. Our expectation is that liabilities will decrease.

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.

Signed on behalf Warwick District Council

I confirm that the this letter has been discussed and agreed by the Council on

Signed

Name

Position

Date

Appendix 4 – Value for money criteria

KLOE	Met
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural resources	Yes
Strategic asset management	N/A
Workforce	N/A

25 Strategic asset management and Workforce KLOE were not assessed in 2009/10.