

# Annual governance report

Warwick District Council

Audit 2010/11



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## Traffic light explanation

Red  Amber  Green 

# Key messages

**This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

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

## Audit opinion and financial statements

- 1 I intend to issue an unqualified opinion on your financial statements.
- 2 My audit of your financial statements went well. Officers prepared the financial statements before the 30 June deadline, and the majority of working papers were available at the start of the audit on 1 August.
- 3 I identified some incorrect prior year figures in the Balance Sheet and Cash Flow Statement.

- 4 Officers agreed to provide greater clarity to the Comprehensive Income and Expenditure Statement (CIES) by showing the exceptional item individually, rather than including it within the Housing Revenue Account line.

## Value for money

- 5 I intend to issue an unqualified value for money conclusion stating the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

# Before I complete my audit

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## I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

### Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

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

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## I ask you to confirm to me

### I ask the audit committee to:

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2); and
  - approve the letter of representation, provided alongside this report, on behalf of the Council before I issue my opinion and conclusion.
-

# Financial statements

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

## **Opinion on the financial statements**

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

## **Amendments to the financial statements**

**7** As 2010/11 is the first year of International Financial Reporting Standards (IFRS) the prior year figures for 2009/10 had to be restated, as well as the Balance Sheet at 1 April 2009. I audited these restatements and agreed the figures with officers before the 2010/11 financial statements were prepared. However, I identified that some of the previously audited figures had not been brought forward correctly when preparing the 2010/11 statements:

- The 1 April 2009 Balance Sheet showed Long Term Debtors overstated by £39,000, Cash overstated by £383,000 and Short Term Debtors understated by £528,000. The net effect of these was that Net Assets / Total Reserves were understated by £106,000. This was reflected in Useable Reserves being understated by £106,000.
- The 31 March 2010 Balance Sheet showed a misclassification between Short Term and Long Term Debtors of £50,000. Net Assets / Total Reserves were unchanged.
- The 2009/10 Cash Flow Statement included four figures that did not agree with the previously audited restated Statement. These netted off so that the overall effect was that Cash and cash equivalents at the end of the reporting period was unchanged.

**8** The financial statements presented for audit included a reduction in the value of council houses of £94,659,000. This was caused by the reduction in the percentage applied to open market value to reflect the economic cost to the Council of providing council housing at less than market rents. This percentage is set by the Communities Department and changed from 49% to 34%. Officers included the reduction in the Housing Revenue Account expenditure line in the Comprehensive Income and Expenditure Statement (CIES). This is allowed by the accounting code but including this disproportionately large amount in the normal housing line could distort the accounts. Officers therefore agreed to improve the transparency of the accounts by showing this as a separate line within the CIES. The total expenditure did not change.

**9** Following audit work undertaken on the Pension Fund, I identified that the proportion of assets attributable to the Council is understated by £442,000 (0.59%). This is because the actuary valued the assets using the actual return on assets to December 2010 and then estimated the return on assets for January to March 2011. Officers have included an additional disclosure note to reflect this. Officers had correctly reflected information

provided to 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.

**10** I identified some material misstatements in Note 18 - Financial Instruments. Officers had incorrectly included council tax and NNDR debtors and creditors in the note. The accounting guidance is that these should be excluded from this note as they are created by statute. As a result, the 2009/10 figure for current debtor loans and receivables was overstated by £4,693,000 and the 2010/11 figure overstated by £3,349,000. The 2009/10 creditor figure was overstated by £940,000 and the 2010/11 figure overstated by £644,000.

**11** I also identified some material adjustments to Note 13 – Property, Plant and Equipment. None of the values as at 31 March 2011 changed, but the detailed analysis to arrive at them did. This is because accounting convention is that when assets are revalued the accumulated depreciation to that point is removed and the new value used as a starting point. This had been overlooked, but has now been amended by officers:

- Total cost or valuation at 1 April 2010 and the accumulated depreciation at 1 April 2010 both decreased by £61,666,000. The Net Book Value was unchanged at £392,761,000.
- Total cost or valuation at 31 March 2011 and accumulated depreciation at 31 March 2011 both decreased by £66,562,000. The Net Book Value was unchanged at £284,481,000.

# Financial statements

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

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

## Key audit risk and our findings

Key audit risk	Finding
<p><b>1. IFRS restatement</b></p> <p>2010/11 is the first year of IFRS compliant accounts for local authorities. This also required the restatement of the 2009/10 accounts.</p>	<p>The Audit Commission provided a workshop for your lead officers on 8 February 2011. I also:</p> <ul style="list-style-type: none"><li>■ liaised with relevant finance staff to discuss key decisions that result in significant changes in advance;</li><li>■ audited the changes to the 2009/10 financial statements before the main 2010/11 audit; and</li><li>■ focused my work on the 2010/11 financial statements on the changes resulting from IFRS implementation.</li></ul> <p>As part of my audit of the 2009/10 restated financial statements I identified several areas where further changes were required to fully comply with IFRS requirements. The 2010/11 statements included some incorrect restated figures, and these were amended.</p>
<p><b>2. Council house valuation</b></p> <p>During the 2009/10 audit there were significant changes to the value of council houses in the financial statements</p>	<p>Officers obtained valuations earlier this year so that up to date valuations were included in the accounts presented for audit. I audited these figures to ensure they</p>

**Key audit risk**

approved by Council as a result of revised figures from the District Valuer.

**3. Quality review of draft accounts**

In 2009/10 we reported several other changes to the accounts arising from our audit work. While these were of comparatively low value, they did result in additional work for both officers and auditors.

**Finding**

had been correctly applied.

The statements presented for audit contained several errors which may have been avoided by more robust review. However, given the size and complexity of the statements, it is almost inevitable that some errors will be missed.



# Financial statements

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## Quality of your financial statements

**12** I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. The IFRS financial statements are lengthy and complex. It is almost inevitable that some errors will creep in. I have reported the most significant ones to you and have summarised all the errors in a separate document for officers. None of the errors which I have excluded from this report had any impact on the overall financial performance or balance sheet position.

**13** Some of the errors identified could be avoided by building in time for finance officers not directly involved in the accounts preparation process to review the statements prior to presentation for audit.

### Recommendation

**R1** Further improve the quality of the financial statements presented for audit by ensuring there is sufficient time for a finance officer not directly involved in the accounts preparation process to review the statements before the 30 June submission deadline.

## 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. I have provided suggested wording alongside this report.

# Value for money

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**I am required to conclude whether the Council put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.**

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

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

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## Value for money criteria and our findings

Criterion	Findings
<p><b>1. Financial resilience</b></p> <p><b>The organisation has proper arrangements in place to secure financial resilience.</b></p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The Council enjoys a strong financial position. The 2010/11 Balance Sheet shows investment properties of £10.4 million and investments and short-term deposits of £33.0 million. The Council has no debt, yet still has its housing stock.</p> <p>Officers have produced different sets of scenario analysis throughout the last 12 months. Each forecast an increasingly worse financial settlement from central government. The final prediction was extremely accurate, and this meant there was no requirement for extra revision to service provision or savings.</p> <p>Assumptions made in developing the Medium Term Financial Strategy (MTFS) are reasonable. The assumptions and figures have been regularly and clearly reported to Members. In July officers presented the latest MTFP, which forecast to 2016/17. The total saving requirement is now £2.7 million. Officers have also reported progress against delivery of the budget regularly throughout the year, highlighting both favourable and</p>

unfavourable variances.

Some of the savings assumptions were too optimistic. For example, assuming housing and council tax benefit demand would fall and renting out part of Riverside House. This has forced some revision to the MTFs. However, other areas have delivered the savings forecast, and work continues on lean systems and smarter ways of working and deploying people. Strengthening the procurement team should help with delivery, and this will be a key area for the Council in meeting the forecast financial position over the next few years.

The £1.1 million underspend against forecast for 2009/10 enabled officers to examine the service budgets in more detail. Budgets from 2011/12 were reduced by £500,000 recurrently. Reserves for specific projects have also been increased, further strengthening the financial position in the event of difficult times in the future.

The strong financial position and wide-ranging savings plans mean the Council has proper arrangements in place for securing financial resilience. The Council has robust arrangements to manage effectively financial risks and opportunities, and to secure a stable financial position for the future.

## 2. Securing economy efficiency and effectiveness

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

Focus for 2010/11:

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

The Council has identified a wide range of projects and initiatives to achieve the savings required. The Fit for the Future programme is the overarching change programme which pulls all the initiatives together. The vision is for a Council that is able to deliver the breadth and quality of services currently provided, but at lower cost. Some of the initiatives are particularly challenging. For example, trying to put staff into generic job groups so they can be used where needed rather than working in specific service areas. The Council is also undertaking lean systems reviews to try to remove unnecessary processes and therefore to reduce workload and save money while improving the service to customers.

Some of the savings forecast required assumptions about the external environment. For example, benefits savings of £35,000 in May 2010 assumed decreased workload. The decrease has not happened. Agile working savings of £93,000 assumed that part of Riverside House would be leased out, creating extra income. Marketing began in May 2010, but no tenant has been found. The projected income has now been removed from the MTFs. Early forecasts for procurement savings in the MTFs in May 2010 were £600,000

## Criterion

## Findings

over the next couple of years. The forecast is now £150,000 a year for 2010/11 to 2012/13. To February 2011, £107,000 had been achieved. Given the economic situation, it was too optimistic to assume that benefits workload would decrease and that new tenants would be found for office accommodation.

There have also been some successes. For example, savings on insurance premiums of £25,000 achieved through early negotiations with suppliers and extending contracts, as forecast. The Council moved its Planning and Land Charges application off the Oracle database and onto Microsoft SQL Server, so running costs can be reduced. The initial cost was £45,000 but will save £20,000 a year, representing an excellent payback period.

In 2010/11 the Council has moved away from detailed quarterly performance reports. The Fit for the Future programme has seen an enhanced role for the Senior Management Team (SMT). Service areas now report to SMT using an agreed timetable. The reports use external information as well as internal. More emphasis is placed on discussions between Service Area Managers and Portfolio Holders. The new approach is clearly less demanding for officers, but it is unclear that Members are able to identify areas not meeting performance measures and agree corrective action as easily as before.

The Council has also received very positive feedback from residents. A Citizens' Panel survey found that out of 435 responses received, 84% of respondents believe the Council provide good or very good value for the current council tax charged.

# Appendix 1 – Draft audit report

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## **DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WARWICK DISTRICT COUNCIL**

### **Opinion on the Authority accounting statements**

I have audited the accounting statements of Warwick District 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 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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### **Respective responsibilities of the Chief Financial Officer and auditor**

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer 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 Practices 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 Warwick District 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, Warwick District 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 Warwick District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

John Gregory  
District Auditor

The Audit Commission  
No 2 Friarsgate  
1011 Stratford Road  
Solihull  
West Midlands  
B90 4EB

23 September 2011

# Appendix 2 – Amendments to the draft financial statements

I identified the following amendments during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Adjustment	Nature of adjustment	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
1 April 2009 Balance Sheet – restated figures incorrect	Short Term Debtors			528	
	Long Term Debtors				39
	Cash				383
	Useable Reserves				106
31 March 2010 Balance Sheet – restated figures incorrect	Long Term Debtors figure was overstated by £50,000 and Short Debtors understated by £50,000.	N/A	N/A	N/A	N/A
2009/10 Cash Flow Statement restated figures incorrect	Changes to four figures: 1. Adjust net (surplus) or deficit on the provision of services for non cash movements from £8,592,000 to £7,376,000;	N/A	N/A	N/A	N/A



Comprehensive income and  
expenditure statement

Balance sheet

2. Adjust for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities from (£123,000) to (£572,000);
3. Investing Activities from £7,569,000 to £8,852,000; and
4. Cash and Cash equivalents at the beginning of the reporting period from (£8,877,000) to (£8,494,000).

Exceptional Item	Movement of impairment caused by a change in the discount factor from Local Authority Housing to "Exceptional Items" to improve clarity.	94,659			
Local Authority Housing			94,659		
Financial Instruments disclosure note - incorrect inclusion of council tax and NNDR debtors and creditors.	The 2009/10 figure for current debtor loans and receivables was overstated by £4,693,000 and the 2010/11 figure overstated by £3,349,000. The 2009/10 creditor figure was overstated by £940,000 and the 2010/11 figure overstated by £644,000.	N/A	N/A	N/A	N/A
Property, Plant and Equipment note – adjustments to remove accumulated depreciation on revalued assets.	The cost or valuation and accumulated depreciation figures at 1 April 2010 were both reduced by £61,666,000. The cost or valuation and accumulated depreciation figures at 31 March 2011 were both reduced by £66,562,000. Net Book Values were unchanged.	N/A	N/A	N/A	N/A

# Appendix 3 – Glossary

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## 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.

If you require a copy of this document in an alternative format or in a language other than English, please call:  
**0844 798 7070**

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

