

# Annual governance report

Warwick District Council

Audit 2011/12



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# Key messages

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**This report summarises the findings from the 2011/12 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**

I expect to issue an unqualified audit opinion. My audit of your financial statements went well. Officers prepared the financial statements before the 30 June deadline, and these were supported by good working papers.

No adjustments were made to any of your primary statements. Officers have adjusted the disclosure notes for one material change and several immaterial misstatements. However, there is one item which, after consideration, officers are not proposing to adjust in 2011/12.

If you agree with officers and decide not to adjust for this, please set out your reasons in the letter of representation.

## **Value for money (VFM)**

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

# Before I give my opinion and conclusion

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**My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit 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 am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2011/12.

## **I ask the Finance and Audit Scrutiny Committee to:**

- take note of the uncorrected adjustment to the financial statements included in this report (appendix 2); and
- approve the letter of representation (appendix 3), including confirming officers' decision not to amend for the uncorrected adjustments, on behalf of the Authority before I issue my opinion and conclusion.

# Financial statements

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**The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As elected 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 audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

## Uncorrected errors

Under auditing standards I am required to bring to the attention of the Finance and Audit Scrutiny Committee any misstatements, including omissions or other errors in presentation or disclosure, other than those that are clearly trifling, identified during my normal audit work for which no adjustment has been made in the financial statements. There is one such item that I wish to bring to your attention.

The financial statements include capital expenditure of £236,000 on disabled adaptations in council houses where the work had not started at 31 March 2012. Officers agree with me that this expenditure should not be recognised in 2011/12, but have decided not to adjust the statements because it is not significant in terms of the Council's overall finances and financial position, with the works being financed from a specific reserve. Officers have also noted that there is limited time and staff availability before the completion of the audit, and that this would require quite a few adjustments to the statements. I would therefore ask you to consider whether adjustment for this issue is appropriate. If you decide not to adjust, please tell me why in the representation letter.

## Corrected errors

Officers agreed to amend Note 37 – Capital Expenditure and Capital Financing as the closing Capital Financing Requirement (CFR) did not include the HRA debt. The Closing CFR was therefore amended from (£1,697,000) to £134,460,000. Officers also agreed to amend the financial statements for a small number of immaterial errors and various text disclosure changes. None of these changes affected any of the primary statements.

## Significant risks and my findings

I reported to you in my March Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In Table 1 I report to you my findings against each of these risks.

Table 1: **Risks and findings**

Risk	Finding
<p><b>Heritage Assets</b></p> <p>The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets. A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.</p> <p>The risk is that not all relevant items are identified and those that are have not been valued as required.</p>	<p>I evaluated the management controls you have in place to recognise and value heritage assets. I also tested that the Authority has accounted for heritage assets in accordance with FRS 30 and the Code and the financial statements are fairly stated.</p> <p>I concluded that Heritage Assets are fairly stated.</p>
<p><b>HRA reform</b></p> <p>The government plans to reform local authority housing finance by adopting a self-financing model from 1 April 2012. For Warwick District Council this will be through a one-off settlement payment to central government on or before 28 March 2012. To finance this payment borrowing will be taken out.</p> <p>Due to the complexity, magnitude and timing of the HRA reform there is a risk that the financial statements will be materially misstated.</p>	<p>I reviewed management oversight of HRA reforms and transactions required by the Authority. I also conducted tests of detail on the settlement payment and PWLB receipt.</p> <p>I identified one change to a disclosure note as set out above under “Corrected errors”. Once this had been amended I concluded that the HRA reform transactions have been accounted for properly and that the disclosures are fairly stated.</p>
<p><b>Pension Fund triennial review</b></p> <p>The 2011/12 financial statements will need to reflect any changes arising from the actuarial triennial review. These changes may well be material and can be complex.</p>	<p>I evaluated the management controls you have in place to ensure any changes are appropriately reflected in the financial statements. I tested individual disclosures back to the actuarial report.</p> <p>I concluded that the Pension Fund disclosures are fairly stated.</p>

## Significant weaknesses in internal control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I did not identify any weaknesses in internal control during the audit that are relevant to preparing the financial statements.

## Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

I have no matters I wish to report.

## Whole of Government Accounts

Alongside my work on the financial statements, I also review and report to the National Audit Office on your Whole of Government Accounts return. As at 13 September I have not completed the procedures specified by the National Audit Office. I expect to complete my report by 30 September.

# Value for money

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

I assess your arrangements against the two criteria specified by the Commission. In my March Audit Plan I reported to you that there were no significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria.

I intend to issue an unqualified conclusion stating that the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

Table 2: **Value for money conclusion criteria and my findings**

Criteria	Findings
<p><b>1. Financial resilience</b></p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</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 is in a very strong financial position given the level of reserves it holds (around £30 million). Before the HRA restructuring it was debt free. However, officers and Members are very keen to produce balanced budgets each year, and to live within their means on a recurring basis.</p> <p>The Medium Term Financial Plan (MTFP) is updated regularly throughout the year. It currently projects the Council's financial position to 2016/17. The MTFP makes various assumptions, particularly on grant income from central government. Over the last few years these forecasts have been very accurate. Members receive quarterly budget reports, incorporating the latest MTFP forecasts. The forecasts are detailed and clearly explain the changes from the previous report. For example, the April 2012 report forecast that, if all the assumptions and predictions were accurate, there would be a budget surplus of £474,000 by 2016/17. Changes between April and July meant the August report forecast a deficit of £275,000 over the same period. This underlines the difficulty of forecasting over a five-year period in an ever-changing environment.</p>



## Criteria

## Findings

### **2. Securing economy efficiency and effectiveness**

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

Focus for 2011/12:

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

The Council also faces serious challenges to maintain the current level of reserves. Total earmarked reserves are forecast to decline from £11.1 million at April 2012 to £4.7 million at April 2017, unless they can be topped up. Approximately £3.8 million is expected from New Homes Bonus over five years. It is expected that much of this will be added to reserves to replace funds.

The challenge is clearly to deliver the required savings, while maintaining service quality. The Fit For the Future (FFF) programme is intended to help achieve the required savings by improving the efficiency of the Council. A series of service area reviews has already delivered some savings. Some FFF projects have already been very successful. For example, the support services review has achieved a total of £168,000 in 2010/11 and 2011/12 out of a target of £240,000 to 2016/17. The training budget has been reviewed and a recurring saving of £54,000 achieved against an initial target of £24,000. Others have been slower. For example, the development services review is forecast to achieve £200,000 by 2016/17, but has so far only delivered £15,000.

Officers acknowledge that projects need to deliver more effectively, and have plans in place to improve this.

There is still a tendency to overestimate the savings that can be achieved in the short term. This resulted in £205,000 FFF savings not being achieved in 2011/12, but carried forward into 2012/13.

Good progress is being made to reduce the ongoing cost of running the Council without adversely affecting performance. In particular, the Combined Waste Contract tendering exercise will result in some improvements to the current service while significantly reducing costs. The service will now collect all plastics, continue with the current “bring sites” and provide a service to schools. Savings are expected to be £1 million in 2013/14 and a further £100,000 in 2014/15 as there is no inflation provision. The £1.1 million should then be an annual saving compared with the MTFP.

# Fees

## I reported my planned audit fee in the March Audit Plan.

I will complete the audit within the planned fee.

Table 3: Fees

	Original scale fee (£)	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	117,661	117,661	117,661
Claims and returns		30,000	30,000
Non-audit work		0	0
<b>Total</b>		<b>147,661</b>	<b>147,661</b>

The Audit Commission has paid a rebate of £9,413 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission for the audit to £108,248.

# Appendix 1 – Draft independent auditor’s report

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## INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF WARWICK DISTRICT COUNCIL

### Opinion on the Authority financial statements

I have audited the financial statements of Warwick District Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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 Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial 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 financial statements sufficient to give reasonable assurance that the financial 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 Chief Financial Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view of the financial position of Warwick District Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

### **Opinion on other matters**

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

### **Matters on which I report by exception**

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

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

### **Respective responsibilities of the Authority and the auditor**

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.

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.

### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

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 2011, 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 2012.

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 2011, 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 ended 31 March 2012.

## **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

26 September 2012

# Appendix 2 – Uncorrected error

I identified the following error during the audit which management have not addressed in the revised financial statements.

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Council house additions and accruals.	Disabled adaptations incorrectly accrued for. Dr. Accruals Cr. Council Dwellings			236	236

# Appendix 3 – Draft letter of management representation

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## Warwick District Council - Audit for the year ended 31 March 2012

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 Authority's financial statements for the year ended 31 March 2012.

### **Compliance with the statutory authorities**

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

### **Uncorrected misstatement**

The effect of the uncorrected financial statements misstatement summarised in appendix 2 of the Annual Governance Report is not material to the financial statements, either individually or in aggregate.

The misstatement has been discussed with those charged with governance within the Council and the reasons for not correcting this item are as follows:

- The item is not significant in terms of the Council's overall finances and financial position with the works being financed from a specific reserve.
- The limited amount of time and staff availability and the amount of adjustments required to correct the matter.

### **Supporting records**

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.



## **Irregularities**

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

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;
- 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; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

## **Law, regulations, contractual arrangements and codes of practice**

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

## **Accounting estimates including fair values**

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

## **Related party transactions**

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

## **Subsequent events**

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf Warwick District Council.

I confirm that this letter has been discussed and agreed by the Finance and Audit Scrutiny Committee on 26 September 2012.

Signed

Name

Position

Date

# Appendix 4 – Glossary

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## **Annual Audit Letter**

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion and conclusion.

## **Annual Governance Statement**

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.

## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

## **Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

**Auditor(s)**

Auditors appointed by the Audit Commission.

**Code (the)**

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

**Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

**Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

**Financial statements**

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

**Group accounts**

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

**Internal control**

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

**Materiality**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement

within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative 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**

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

### **Those charged with governance**

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

### **Whole of Government Accounts**

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

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**0844 798 7070**

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

