

Annual Governance Report

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Annual Governance Report

East Sussex County Council

Audit 2006/07

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Purpose of this document

- 1 This report provides a summary of the work we have carried out during our audit of the financial statements for the year ended 31 March 2007; the conclusions we have reached and the recommendations we have made.
- 2 This report discharges our audit responsibilities to comply with the requirements of International Standards on Auditing (United Kingdom & Ireland) in particular, ISA (UK&I) - 260 'Communication of Audit Matters to Those Charged with Governance'. We are reporting to the Council's Governance Committee (as those charged with governance) matters relating to the audit of the financial statements and the East Sussex Pension Fund at the time they are considering these. We are also required to communicate to you the Audit Commission's requirements in respect of independence and objectivity, and these are set out at Appendix 2.
- 3 Members of the Governance Committee on 25 September 2007 are invited to:
 - consider the matters raised in this report;
 - consider amending the financial statements for unadjusted misstatements; and
 - approve the representation letter on behalf of the Council before we issue our opinion..
- 4 Our work during the year was performed in line with the plan that we presented to the Council on 11 July 2006. A schedule of the reports issued, having completed specific aspects of our programme, is shown in Appendix 3.

Key messages

5 The key messages are:

- our work on the financial statements is substantially complete. There is a small amount of audit testing to complete on the Pension Fund and we are still awaiting some documents to support items selected for substantive testing in debtors, creditors and assets under construction. Officers are aware of these outstanding items.
- we propose issuing an unqualified audit opinion as part of our auditor's report and certifying the closure of the 2006/07 audit on 28 September 2007 (Appendix 4);
- the accounts were prepared in accordance with the statutory requirements and timetable. They were supported by appropriate working papers in the main. The Council dealt competently with the significant changes in accounting requirements for 2006/07. There was a short delay in supplying us with the accounts and working papers as a result of the Council's internal quality assurance process which identified the need to undertake material amendments to some fixed asset valuations;
- we have two unadjusted misstatements that we invite the Governance Committee to consider amending the accounts for;
- in our view, the Statement on Internal Control (SIC) has been prepared in accordance with proper practice specified by the Chartered Institute of Public Finance and Accountancy (CIPFA) and is consistent with the findings from our audit; and
- our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. We propose issuing an unqualified conclusion on the arrangements on 28 September 2007. Appendix 4 shows the planned wording.

Accounts and Statement on Internal Control

- 6 Our audit of the financial statements for 2006/07 is substantially complete. There is a small amount of audit testing to complete on the Pension Fund and we are still awaiting some documents to support items selected for substantive testing in debtors, creditors and assets under construction. Officers are aware of these outstanding items. We would like to take this opportunity to express our appreciation for the assistance and co-operation that has been afforded to us by the Council during the 2006/07 audit.
- 7 In finalising the audit, auditors are required to obtain written confirmation of certain representations from management and those charged with governance within the Council before an audit report is issued. This includes the acknowledgement of responsibility for the fair presentation of the financial statements in accordance with the applicable financial reporting framework and responsibility for the design and implementation of internal control to prevent and detect error.
- 8 The letter needs to be tailored to specific circumstances for each audited body and auditors also need written representations from management on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist.
- 9 The letter of representation should be considered and agreed formally by 'those charged with governance' which is the Governance Committee. Following agreement of the letter it should be signed by the Deputy Chief Executive & Director of Corporate Resources and sent to us before we sign the auditor's report. A draft letter for the Council to tailor is set out at Appendix 5.

Matters to be reported to the Governance Committee

- 10 ISA 260 specifically requires us to communicate the following matters to those charged with governance:
 - expected modifications to the auditor's report;
 - uncorrected misstatements;
 - adjusted misstatements (to assist you in fulfilling your governance responsibilities, we are required to consider reporting adjusted misstatements to you where these are material);
 - areas for improvement relating to the qualitative aspects of accounting practices and financial reporting;
 - material weaknesses in internal control identified during the audit; and
 - matters specifically required by other auditing standards.

11 The table below identifies how each of the above requirements have been met.

Table 1 ISA 260 requirements

ISA 260 requirement	Where reported
Expected modifications to the auditor's report	None. See proposed unqualified audit report at Appendix 4.
Uncorrected misstatements	See paragraphs 12 and 13. Also see Appendix 6.
Adjusted misstatements	See Appendix 7.
Qualitative aspects of accounting practices and financial reporting	See paragraphs 14 to 16.
Material weaknesses in internal control identified during the audit	None.
<p>Matters specifically required by other auditing standards.</p> <p>Other auditing standards require us to communicate with you in other specific circumstances including:</p> <ul style="list-style-type: none"> • where we suspect or detect fraud; • where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and • non-compliance with legislative or regulatory requirements and related authorities. 	There are no matters to bring to your attention.
Any other matters of governance interest	None.

Unadjusted misstatements

- 12 We are required to report to you all unadjusted misstatements that we have identified during the course of our audit, other than those that are clearly trivial. Our quantitative measure of materiality for the audit was set at £7.2m. We also set a threshold below which we judge any errors to be trivial and do not formally request amendments to the accounts. This threshold was set at £0.5m. We report any unadjusted errors over this threshold.
- 13 We ask you to consider whether the financial statements should be amended for the unadjusted misstatements identified at Appendix 6. Should you choose not to amend the financial statements, in accordance with ISA (UK&I) 260 we request that you extend the representation letter to explain why. We ask that the letter specifically details the misstatement to which the explanation relates.
- Hastings Children's Centre is within assets under construction within the balance sheet and is shown at £1.4m. It should be shown as an operational asset as it is in use. The Centre has yet to be valued so it is not possible to state the value that should be shown: and
 - we identified small number of instances where land assets were revalued in 2006/07 but these had not been actioned resulting in an overstatement of fixed assets on the balance sheet of around £1.4m.

Recommendation
<i>R1 Hastings Children's Centre should be classified as operational asset after valuation in accordance with the appropriate accounting practices.</i>
<i>R2 Fixed assets should be increased by around £1.4m after processing the revaluations not actioned in 2006/07.</i>

Accounting practices

- 14 We are also required to report to you our view on the qualitative aspects of the Council's accounting practices and financial reporting and have set out below our observations on key issues affecting the Council.
- 15 The accounts were prepared in accordance with the statutory requirements and to timetable. They were supported by appropriate working papers in the main. The Council dealt competently with the significant changes in accounting requirements for 2006/07. There was a short delay in supplying us with the accounts and working papers as a result of the Council's internal quality assurance process which identified the need to undertake material amendments to some fixed asset valuations. These are issues assessed under Use of Resources - Financial Reporting 1.

- 16 At audit we concluded that there was a need for improved focus on the fixed asset register to ensure that it was maintained consistently with the Council's accounting policies. The Council needs to ensure that it has sufficient information on its fixed asset register in preparation for new accounting arrangements in 2007/08.

Recommendations

R3 The Council should review the content of its fixed asset register to ensure that the capture of fixed asset information is sufficiently detailed to allow it to comply with future accounting requirements.

Systems of internal control

- 17 As part of our audit, we consider the systems of accounting and financial control and there are no material weaknesses to report to you.
- 18 We do not seek to provide a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made. We have considered only those matters which have come to our attention as a result of the audit procedures we have performed.
- 19 We have also reviewed whether the SIC has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit. There were no matters arising.

Use of resources

Work performed

- 20 The Code requires us to reach a conclusion on whether we are satisfied that the Council has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources – the value for money conclusion. In meeting this responsibility, we review evidence that is relevant to the Council's corporate performance management and financial management arrangements across a range of criteria specified by the Audit Commission. Our work to support our conclusion comprised the following elements:
- a use of resources assessment; and
 - a review of the best value performance plan.
- 21 Details of our conclusion for each of the criteria specified by the Audit Commission are set out in Appendix 8.

Use of resources assessment

- 22 The assessment was reported by the Audit Commission in May 2007 and details were included in our Annual Audit and Inspection Letter issued in June 2007.

Best value performance plan

- 23 Our work in respect of the Council's 2006/07 Best Value Performance Plan (BVPP) was reported in December 2006 and no recommendations were made to the Audit Commission or the Secretary of State.

Audit fee update

- 24 We reported our fee proposals as part of the Audit Plan for 2006/07. The table below reports the estimated outturn fee against that plan:

	Plan 2006/07	Estimate 2006/07
Financial statements and Statement on Internal Control	£110,000	110,000
Use of Resources	£55,000	55,000
Total Audit Fees	£165,000	165,000

- 25 The analysis above suggests that our audit fee has been contained within the totals you have already agreed.
- 26 The outturn on inspection fees will be reported in the Annual Audit and Inspection Letter 2008.

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Appendix 1 – Action plan

Page	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation Date
	R1 Hastings Children's Centre should be classified as operational asset after valuation in accordance with the appropriate accounting practices.	2				
	R2 Fixed assets should be increased by around £1.4m after processing the revaluations not actioned in 2006/07.	2				
	R3 The Council should review the content of its fixed asset register to ensure that the capture of fixed asset information is sufficiently detailed to allow it to comply with future accounting requirements.	2				

Appendix 2 – The Audit Commission’s requirements in respect of independence and objectivity

- 1 We are required to communicate the following matters to those charged with governance:
 - the principal threats, if any, to objectivity and independence identified by the auditor, including consideration of all relationships between the Council, directors and the auditor;
 - any safeguards adopted and the reasons why they are considered to be effective;
 - any independent partner review;
 - the overall assessment of threats and safeguards; and
 - information about the general policies and processes for maintaining objectivity and independence.
- 2 We are not aware of any relationships that may affect the independence and objectivity of the audit team and which are required to be disclosed under auditing and ethical standards.

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Appendix 3 – Audit reports issued

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit plan	10 May 2006	10 May 2006	East Sussex County Council
Annual governance report	14 September 2007	14 September 2007	Governance Committee
Opinion on financial statements	28 September 2007		East Sussex County Council
Use of resources conclusion	28 September 2007		East Sussex County Council
Final accounts memorandum	26 October 2007		Deputy Chief Executive & Director of Corporate Resources
BVPP report	26 October 2007		East Sussex County Council
Annual audit letter	31 March 2008		East Sussex County Council

Appendix 4 – Proposed auditor's report

Independent auditor's report to the Members of East Sussex County Council

Opinion on the financial statements

I have audited the financial statements and pension fund accounts of East Sussex County Council for the year ended 2006/07 under the Audit Commission Act 1998. The financial statements comprise the Explanatory Foreword, Income and Expenditure Account, Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statementⁱ and the related notes. The pension fund accounts comprise the Fund Account, the Net Assets Statement, and the related notes. The financial statements and pension fund accounts have been prepared under the accounting policies set out within them.

This report is made solely to East Sussex County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commissionⁱⁱ.

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements, including the pension fund accounts, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements and the pension fund accounts present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006:

the financial position of the Authority and its income and expenditure for the year;
and

ⁱ
ⁱⁱ

the financial transactions of its pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I review whether the statement on internal control reflects compliance with CIPFA's guidance 'The statement on internal control in local government: meeting the requirements of the Accounts and Audit Regulations 2003' issued in April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only [the East Sussex County Council/Pension Fund Annual Report]¹. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial 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 financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

¹

Opinion

In my opinion:

The financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority as at 31 March 2007 and its income and expenditure for the year then ended; and

The pension fund accounts present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial transactions of the Pension Fund during the year ended 31 March 2007, and the amount and disposition of the fund's assets and liabilities as at 31 March 2007, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Darren Wells
Audit Commission
16 South Park
Sevenoaks
Kent TN13 1AN

DATE

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

Authority's responsibilities

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

Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the Authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor's responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the Authority's best value performance plan and issue a report:

certifying that I have done so;

stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and

where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, East Sussex County Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2007.

Best Value Performance Plan

I issued my statutory report on the audit of the Authority's best value performance plan for the financial year 2006/07 on 22 December 2006. I did not identify any matters to be reported to the Authority and did not make any recommendations on procedures in relation to the plan.

Certificate

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

Darren Wells
Audit Commission
16 South Park
Sevenoaks
Kent TN13 1AN

DATE

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Appendix 5 – Management representation letter

To:

Audit Commission
The Agora
Ellen Street
Hove BN3 3LN

East Sussex County Council - Audit for the year ended 31 March 2007

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of East Sussex County Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2007.

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements which present fairly and for making accurate representations to you.

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows;

- reason 1 etc;

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.

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 member meetings, have been made available to you.

Related party transactions

I confirm the completeness of the information provided regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

Contingent liabilities

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

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- 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.

I have specifically considered the need for a contingent liability arising from the rank to role process and for the following reasons ... have concluded that

Law, regulations and codes of practice

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

Irregularities

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

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; and
- communications from regulatory agencies concerning non-compliance with or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

Post balance sheet events

Since the date of approval of the financial statements by members, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

Signed on behalf of East Sussex County Council

Name

Deputy Chief Executive & Director of Corporate Resources

Date

Appendix 6 – Summary of unadjusted misstatements

We are required to report to you all unadjusted misstatements that we have identified during the course of our audit, other than those that are clearly trivial. The items below are brought to your attention to enable you to consider whether the financial statements should be amended for them. If you choose not to amend the financial statements in respect of these items, you should extend the representation letter to explain why.

Unadjusted misstatements	Nature of Adjustment	Income and Expenditure Account		Balance Sheet	
		Dr £000	Cr £000	Dr £000	Cr £000
Operational assets	Hastings Children's Centre should be classified as operational asset on the balance sheet having come into use in 2006/07 rather than as an asset under construction. As no valuation of the Centre has been undertaken it is not possible to state the impact on the balance sheet. As an asset under construction the Centre is included at £2.1m.	N/a	N/a	See Nature of Adjustment	See Nature of Adjustment
Valuation of fixed assets	Fixed assets shown on the balance sheet should be decreased by around £1.4m as a small number of revaluations of land undertaken by the Council's professional valuers were not actioned in 2006/07.	N/a	N/a	£1.4m estimated	£1.4m estimated
Net Effect		Nil	Nil	£1.4m	£1.4m

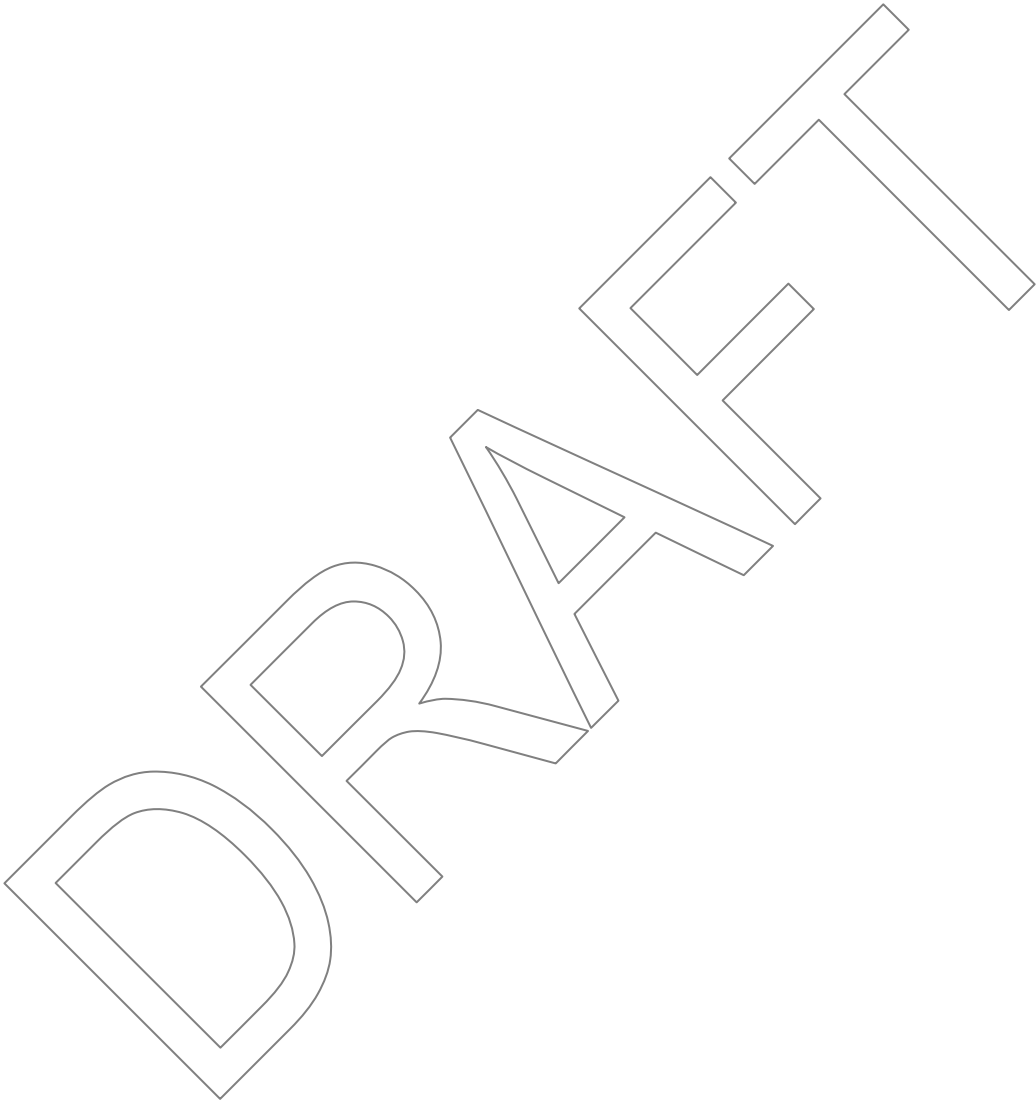
		Income and Expenditure Account		Balance Sheet	
				estimated	estimated

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Appendix 7 - Adjusted misstatements

The schedule below sets out details of one adjusted material misstatement arising from the audit to assist you in fulfilling your governance responsibilities.

Adjusted misstatements	Nature of Adjustment
Classification of investments	Increase of long-term investments by £45m and reduction in short-term investments by £45m.



Appendix 8 – Value for money conclusion

- 3 The Audit Commission has published, in accordance with the Code of Audit Practice, 12 criteria on which auditors are required to reach a conclusion on the adequacy of an audited body's arrangements for economy, efficiency and effectiveness in its use of resources.
- 4 The Code criteria are linked to the use of resources (UoR) assessment key lines of enquiry (KLoEs). A score of Level 2 or higher under the KLoEs will result in an assessment that the Council has adequate arrangements in place for the purposes of the Code criteria. The Code criteria and the linked KLoEs are show in the table below.

Code Criteria	Description	VFM Conclusion
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	Adequate
2	The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	Adequate
3	The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	Adequate
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	Adequate
5	The body has put in place arrangements to maintain a sound system of internal control.	Adequate
6	The body has put in place arrangements to manage its significant business risks.	Adequate
7	The body has put in place arrangements to manage and improve value for money.	Adequate
8	The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	Adequate

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10	The body has put in place arrangements for managing performance against budgets.	Adequate
11	The body has put in place arrangements for the management of its asset base.	Adequate
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	Adequate

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