

# Annual governance report

Sevenoaks 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

Subject to receipt of a letter of representation and closing checks I am pleased to report that I intend to issue an unqualified audit opinion on the 2010/11 financial statements.

The preparation of this year's accounts was significantly more complex than in previous years due to the impact of International Financial Reporting Standards (IFRS). This has required significant work from both officers and my team to ensure that final version of the statements complies with the new reporting requirements. A number of technical accounting adjustments have been made between the draft accounts presented for audit and the final version and I have highlighted the key adjustments in this report. None of these adjustments has impacted on the overall reported general fund balance.

I am grateful to the Deputy Chief Executive and Director of Corporate Resources and his team for the help and support which they have shown throughout the audit.

## Value for money

I intend to issue an unqualified value for money conclusion:

The Council continues to demonstrate strong governance, a highly effective financial planning framework and very good financial management. It took early action to address financial pressures and has strong arrangements in place to secure financial resilience.

- The Council takes a strategic approach to prioritisation of resources and achievement of cost reductions through improved efficiency and productivity. It has embraced partnership working and moves rapidly to adopt new joint arrangements working with staff and empowering decision making. The Council has proper arrangements in place for challenging how it achieves economy, efficiency and effectiveness.

# 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 Performance and Governance 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 (Appendix 3), on behalf of the Council before I issue my opinion and conclusion.
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# Financial statements

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**Subject to satisfactory completion of the remainder of my audit work, I plan to issue an unqualified opinion on the financial statements.**

## **Opinion on the financial statements**

My work on the financial statements is now substantially complete. I anticipate issuing my audit opinion in advance of 30 September 2011.

I propose to issue an unqualified audit opinion on the Council's 2010/11 financial statements. A draft auditor's report containing my proposed opinion is at Appendix 1.

This is the first year the Council has been required to prepare financial statements under International Financial Reporting Standards (IFRS). Preparing IFRS accounts has involved a significant amount of work for the Council's finance team, including:

- review of transactions to identify the appropriate accounting treatment under the new framework;
- restatement of the Council's balance sheets at 1 April 2009 and 1 April 2010; and
- work to produce a number of new disclosure notes.

By working closely with your officers during this transition we are satisfied that the first year IFRS accounts presented for approval have been prepared to a high standard. Several technical accounting adjustments have been made between the draft accounts and the final accounts and officers have worked constructively with us during our audit. Officers have amended the accounts accordingly – Appendix 2 provides a summary of these changes.

There are no uncorrected misstatements that we need to report to you and there is no action you need to take.

# Financial statements

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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. I reported these risk areas to the Performance and Governance Committee in March 2011 setting out the work I proposed to carry out.

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## Key audit risk and our findings

Key audit risk	Finding
<p><b>1. IFRS</b></p> <p>We will monitor the Council's progress in introducing IFRS including management controls. We will undertake specific work to review the restated balance from 2009/10 and to review the treatment of complex transactions such as leases. We will assess your progress during the year and report back findings to the Performance and Governance Committee.</p>	<ul style="list-style-type: none"><li>■ The Council prepared well for IFRS implementation, reporting regular progress to the Finance Advisory Group. We carried out early work to review the restated 2009/10 balance sheet and the main areas of adjustments such as leases. We discussed the accounting treatment of a number areas with officers which have resulted in changes to:</li><li>■ the recognition of short term investments as cash equivalents;</li><li>■ the treatment of grants where there are conditions attached; and</li><li>■ the categorisation of property between Property Plant and Equipment and investment property.</li></ul>

**Key audit risk**

**Finding**

**2. Shared Revenues and Benefits service**

The Council entered into a shared service arrangement with Dartford Borough Council for the provision of Revenues and Benefits services from December 2010. We updated our systems documentation and carried out controls testing.

The Revenues and Benefits Partnership involved major changes to staff roles and reporting lines, IT systems and work locations. The changes were implemented within a very short timescale. We obtained satisfactory assurance over controls within the system. This was a pleasing result as at the time staff were dealing with an increase in benefits caseload since January 2011 in addition to implementing the change.

**3. Changed auditing standards**

The Clarified ISA's enhance audit requirements in some areas related to the Council's accounts production processes:

- Year-end adjustment journals.
- Identification of potential related parties.
- The basis on which accounting estimates such as provisions are prepared.

The clarified ISA's have required us to undertake more detailed audit work in a number of areas.

- The accounts production process including year-end journals has been much more complex than previously due to the volume of adjustments between the previous and current accounting regimes. A number of audit changes have been made to ensure consistency of reported figures across and between the different statements, expanded notes and narrative disclosures.
- The Council has procedures in place to identify members' interests and obtain declarations of related party transactions. Although two related party returns were not received from former members, the Council has been able to demonstrate that no interests exist for those members, which would need to be reported. However, a change to the accounts was made to report the Council's loan to Senico as a related party transaction, demonstrating transparency.
- Accounting estimates including provisions require management to apply reasonable judgement to circumstances where there is uncertainty about a particular outcome (probable/possible/remote). The Council has material levels of provisions. We found that it had exercised judgements consistently with previous years and no amendment was required. However, as time continues to elapse it will need to revisit this area and consider the uncertainty surrounding the outcome.

# Financial statements

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## Significant weaknesses in internal control

I consider any weaknesses I identified during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

There are no matters I wish to bring to your attention.

## Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

There are no matters I wish to bring to your attention.

## Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. A draft letter is provided in Appendix 3.



# 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><b>Sevenoaks District Council has strong financial governance. Financial planning is robust and forward looking. With these sound arrangements for financial control it is well-placed to maintain a secure and stable financial position.</b></p> <p>The Council has an established financial planning process with a 10 year budget. This allowed it to identify the budget gap and conduct early modelling over a range of scenarios. The Council's 2011/12 budget was the earliest within Kent.</p>

Criterion	Findings
	<p>The Council's financial systems and processes are effective. The financial position is monitored closely, variances are investigated and action is taken where necessary. The Council's overall financial out turn for 2010/11 was a net surplus of £419,000. Service expenditure was managed within budget, there was a small under spend of £146,000 on a net service expenditure budget of £16,724,000. This is less than 1 per cent. Given the challenging economic environment and the impact on fluctuations on the Council's income and service pressures this is an impressive result. The Council has reviewed the level of reserves it holds, £14 million is earmarked for future spending including £2.3 million to provide budget stabilisation by managing future spending and income fluctuations. The general fund balance continues to be in line with plans at £3.7 million.</p>
<p><b>2. Securing economy efficiency and effectiveness</b>  <b>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</b></p> <p>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.</p>	<p><b>The Council takes a strategic approach to prioritising resources, improving efficiency and productivity. It challenges how services are provided and secures new ways of doing things.</b></p> <p>The Council has a strong track record of delivering high quality, efficient, value for money services. Services are constantly challenged on an ongoing basis to improve. It has a strong culture where officers at all levels are empowered to take ownership of decisions that shape service delivery. A culture which emphasises embracing change and continuous improvement has been developed. The Council is also not afraid to take difficult decisions where necessary, for example the transfer of the minibus service to the voluntary sector.</p> <p>Efficiencies are also being gained by sharing services with neighbouring authorities; a partnership with Dartford BC has been quickly formed to provide a joint Revenues and Benefits service with anticipated annual savings approaching £250,000 for Sevenoaks. Other partnerships exist for Licensing, Internal Audit and Anti Fraud and more are planned.</p>

# Appendix 1 – Draft audit report

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

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

I have audited the accounting statements of Sevenoaks 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 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 Sevenoaks 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 Deputy Chief Executive and Director of Corporate Resources and auditor**

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

### **Scope of the audit of the financial statements**

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

## **Opinion on accounting statements**

In my opinion the accounting statements:

- give a true and fair view of the state of Sevenoaks 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, Sevenoaks 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 Sevenoaks District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Andy Mack

Officer of the Audit Commission

Audit Commission, Millbank Tower, Millbank, London SW1P 4HQ

September 2011



# Appendix 2 – Amendments to the draft financial statements

The following material amendments have been made to the financial statements as a result of my audit. I bring them to your attention to aid you in fulfilling your governance responsibilities. There is no impact on the amount the Council has available to spend (the bottom line) from these technical accounting adjustments.

Adjusted misstatement	Nature of adjustment	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Presentation of a prior period adjustment in relation to revised 2006 valuations of certain properties. Incorrect valuation indices had been applied by the Council's valuer at the time.	The correction has been recognised as a prior period adjustment rather than as an in year valuation change.	n/a	n/a		
	Capital adjustment account Property Plant and Equipment			2,169	2,169
Categorisation of investments between long and short term.	Investments less than 12 months categorised as short term.				
	Short term investments			13,257	

**Comprehensive income and  
 expenditure statement**

**Balance sheet**

Long term investments

13,257

In addition, a number of non material adjustments have been made to correct inconsistencies in the disclosure of certain capital related items between prime statements and notes. Due to the nature of the statements and the extensive cross referencing of the same items within the statements, this has resulted in a large number of individual changes. However, these are not material and the effect of the changes made is largely nullified by compensating adjustments, so there is no effect on the general fund balance.

# Appendix 3 – Draft Letter of Representation

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To: Andy Mack  
Appointed Auditor  
Audit Commission  
1<sup>st</sup> Floor Millbank Tower  
Millbank  
London  
SW1P 4HQ

## **Sevenoaks District Council - Audit for the year ended 31 March 2011**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors and officers of Sevenoaks District Council the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011.

### *Compliance with the statutory authorities*

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

### *Supporting records*

All relevant information and access to persons within the entity has 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 financial statements.

### *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 that 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 Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

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 Sevenoaks District Council 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 requirement of the framework.

### *Subsequent events*

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of Sevenoaks District Council

.....

Dr Pav Ramewal  
Deputy Chief Executive and Director of Corporate Resources

Date

I confirm that this letter has been discussed and agreed by the Performance and Governance Committee on 27 September 2011.

Signed

.....

(Chair)

Date



# Appendix 4 – 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.

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**0844 798 7070**

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

