

Annual Governance Report

Date

Last saved: 18/09/2007 09:54:00

# Annual Governance Report

**Worthing Borough Council**

**Audit 2006/07**

- Audit Commission descriptor to be inserted by Publishing-

Document Control

Author Helen Thompson

Filename WBC - annual governance report for GP committee

### **Status of our reports**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

### **Copies of this report**

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

© Audit Commission 2007

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

# Contents

<b>Purpose of this document</b>	<b>4</b>
<b>Key messages</b>	<b>5</b>
<b>Audit status</b>	<b>6</b>
<b>Accounts and Statement on Internal Control</b>	<b>7</b>
Unadjusted misstatements	7
Adjustments to the financial statements	8
Accounting practices	8
Systems of internal control	9
<b>Use of resources</b>	<b>10</b>
Work performed	10
Use of resources assessment	10
Data quality work	10
Best value performance plan	10
<b>Audit fee update</b>	<b>11</b>
<b>Appendix 1 – Action plan</b>	<b>12</b>
<b>Appendix 2 – The Audit Commission's requirements in respect of independence and objectivity</b>	<b>13</b>
<b>Appendix 3 – Audit reports issued</b>	<b>14</b>
<b>Appendix 4 – Proposed auditor's report</b>	<b>15</b>
<b>Appendix 5 – Management representation letter</b>	<b>19</b>
<b>Appendix 6 – Value for money conclusion</b>	<b>21</b>

## Purpose of this document

- 1 In accordance with the Audit Commission's Code of Audit Practice (the Code), this report provides a summary of the work we have carried out during our 2006/07 audit of accounts, the conclusions we have reached and the recommendations we have made to discharge our statutory audit responsibilities to those charged with governance (in this case the General Purposes Committee) at the time they are considering the financial statements.
- 2 In preparing our report, the Code requires us to comply with the requirements of International Standards on Auditing (United Kingdom & Ireland) – ISA (UK&I) - 260 'Communication of Audit Matters to Those Charged With Governance', by reporting to you matters relating to the audit of the financial statements. Other auditing standards require us to communicate with you in other specific circumstances including:
  - 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.
- 3 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.
- 4 This report has been prepared for presentation to the General Purposes Committee on 27 September 2007. Members are invited to:
  - consider the matters raised in the report before the financial statements are approved;
  - approve the representation letter on behalf of the Authority and those charged with governance before we issue our opinion; and
  - consider amending the financial statements for unadjusted misstatements, significant qualitative aspects of financial reporting and any recommendations for improvement in the action plan.
- 5 Our work during the year was performed in line with the plan that we agreed on 27 March 2006. We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 3.

## Key messages

- 6 Our work on the financial statements is substantially complete although there are still outstanding issues to be resolved. In particular, officers have not yet been able to take account of amendments to the Council's financial statements that will be needed in light of changes to the accounts of Shoreham Airport. We will then need to audit these amendments. The changes to the Council's financial statements will be material. As a result, the General Purposes Committee will need to approve the revised financial statements. Should any further matters arise in concluding the outstanding work that need to be reported, we will raise them with the General Purposes Committee.
- 7 Subject to resolution of this outstanding work we expect to issue an unqualified audit opinion by 28 September 2007. A draft report is attached at the first part of Appendix 4.
- 8 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. We propose issuing an unqualified conclusion on the use of resources on by 28 September 2007 (a draft report is attached at the second part of Appendix 4).

DRAFT

## Audit status

- 9 At the date of issue of this report our detailed audit is substantially complete. As noted above we still have to conclude some aspects of our audit of the financial statements, including the audit of amendments to the accounts in respect of Shoreham Airport.
- 10 The Authority has taken a positive and constructive approach to our audit and we would like to take this opportunity to express our appreciation for the Authority's assistance and co-operation.

DRAFT

## Accounts and Statement on Internal Control

- 11 Our work on the financial statements is substantially complete although there are still outstanding issues to be resolved. In particular, officers have not yet been able to take account of amendments to the Council's financial statements that will be needed in light of changes to the accounts of Shoreham Airport (see paragraphs 16 to 21). These changes are significant and, as a result, the General Purposes Committee will need to approve the revised financial statements.
- 12 Auditors are required to obtain written confirmation of certain representations from management and those charged with governance before an audit report is issued, such as 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 controls to prevent and detect error.
- 13 The auditor should also obtain written representations from management on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist.
- 14 The final draft of the letter of representation has been attached as Appendix 5.

### Unadjusted misstatements

- 15 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.

### Amendments in respect of Shoreham airport

- 16 Following amendments to the accounts for Shoreham Airport, the financial statements for Worthing Borough are to be amended to reflect properly the transactions in respect of the Council's interest in the airport. These amendments are significant and require the General Purposes Committee to approve the revised accounts.
- 17 Until 30 June 2006, Shoreham Airport was constituted and managed as a joint committee by Brighton and Hove City Council and Worthing Borough Council. These Councils had interests in the assets and liabilities of the Airport of two-thirds and one-third respectively. The Airport's fixed assets (with the exception of the land) and stock balances were sold on 30 June 2006 under a 150 year lease, for £8.5 million.
- 18 Worthing Borough Council's financial statements are required to reflect its one third interest in Shoreham Airport in two ways:
  - in the main accounts the Council's interest in the airport is treated as an investment which is sold during the year; and

- in the group accounts, the accounts for the Council and those for the airport are consolidated to show all the assets, liabilities and transactions for the both the Council and its share of the airport.
- 19 Our audit of the accounts for Shoreham Airport found that the way the sale of fixed assets and stock had been reported did not comply with accounting requirements and significant amendments were required.
- 20 The amendments to the accounts for the airport mean that the Council's accounts need to be restated. The key changes are as follows:
- the exceptional loss on disposal, which was previously disclosed in the main accounts of the Council, is now disclosed in the group accounts; and
  - the Council's share of proceeds from the sale, which had correctly been accounted for as a capital receipt, is now shown explicitly in the main accounts.
- 21 These amendments do not affect the level of reserves held by the Council at 31 March 2007.

### **Other unadjusted misstatements**

- 22 We have also identified some minor errors and presentational issues. Officers have agreed to amend these in the final version of the accounts.

<b><i>Recommendations</i></b>
<i>R1 Revise the accounts for all unadjusted misstatements.</i>
<i>R2 Approve the Council's revised accounts at the General Purposes Committee on 27 September 2007.</i>

## **Adjustments to the financial statements**

- 23 We are also required to bring to your attention misstatements that have already been corrected by management where we consider them relevant to your wider governance responsibilities. There are no such matters we wish to bring to your attention.

## **Accounting practices**

- 24 We are also required to report to you our view on the qualitative aspects of the Authority's accounting practices and financial reporting and have set out below our observations on key issues affecting the Authority.
- 25 The accounts were presented to a high standard and are well supported by working papers. In particular the Council has dealt well with the significant changes in accounting requirements for 2006/07.
- 26 We have identified two areas where the Council is not adhering to its accounting policies and procedures:

- the Council's policy is to account for all items of income and expenditure above £250 in the year in which they arise. We found that some items of expenditure between £250 and £5000 had not been accounted for in 2006/07.
- the Council's policy on revaluation of fixed assets is to carry to a professional valuation for all assets greater than £10,000. In practice some fixed assets (typically furniture and equipment) are valued on the basis of self-certification of officers.

27 We are satisfied that neither of these items will lead to a material misstatement in the accounts.

<b>Recommendations</b>
<i>R3 Review and update the Council's accounting policies for accruing expenditure and revaluing fixed assets to ensure that they meet the needs of the Council.</i>
<i>R4 Communicate updated accounting policies to all staff to ensure that they are complied with.</i>

## Systems of internal control

- 28 As part of our audit, we consider the systems of accounting and financial control and report to you any material weaknesses identified. We do not provide a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but address only those matters which come to our attention as a result of the audit procedures we perform. There are no matters arising that we wish to bring to the attention of members.
- 29 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 are no matters arising.

## Use of resources

### Work performed

- 30 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:
- use of resources assessment;
  - data quality work; and
  - the best value performance plan.
- 31 Details of our conclusion for each of the criteria specified by the Audit Commission are set out in Appendix 8.

### Use of resources assessment

- 32 We are currently finalising our report arising from our use of resources assessment. When finalised, we will discuss this with the relevant officers.

### Data quality work

- 33 We are currently finalising our data quality review and will report our findings to the relevant officers.

### Best value performance plan

- 34 Our work in respect of the Authority's 2006/07 Best Value Performance Plan (BVPP) was reported in the 2006 annual audit and inspection letter. No recommendations were made to the Audit Commission or the Secretary of State.

## Audit fee update

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

	Plan 2006/07	Expected 2006/07
Financial statements and Statement on Internal Control	£52,500	£52,500
Use of Resources	£54,000	£54,000
<b>Total Audit Fees</b>	<b>£106,500</b>	<b>£106,500</b>
Grants certification work	£20,000	£20,000
Inspection	£5,000	£5,000
Whole of government (WGA) returns	noted as not included in fee	£2,150

The analysis above shows that apart from our work on the WGA (which was specifically excluded from the original plan), our work was completed within the agreed fee.

DRAFT

## Appendix 1 – Action plan

Page	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation Date
	R1 Revise the accounts for all unadjusted misstatements including those for Shoreham Airport.	3	Assistant Director (Financial Services)	Y	To be adjusted following receipt of revised accounts.	27 Sep 2007
	R2 Approve the Council's revised accounts at the General Purposes Committee on 27 September 2007	3	General Purposes Committee	Y	To be approved at General Purposes Committee on 27 Sep 2007	27 Sep 2007
	R3 Review and update the Council's accounting policies for accruing expenditure and revaluing fixed assets to ensure that they meet the needs of the Council.	2	Assistant Director (Financial Services)	Y	To be considered as part of the annual closedown plan which will be harmonised with Adur DC as far as possible for 2007/08	31 Mar 2008
	R4 Communicate updated accounting polices to all staff to ensure that they are complied with.	2	Assistant Director (Financial Services)	Y	See R3	31 Mar 2008

## 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 Authority, 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 A member of the audit team suffered an accident whilst working at the Council in October 2005 and in March 2007 commenced legal action against the Council. On 12 March 2007, we wrote to the interim chief executive informing him that until this matter was resolved, this member of the audit team would not work on the Worthing Borough Council audit.
- 3 We are not aware of any other relationships that may affect the independence and objectivity of the audit team and which are required to be disclosed under auditing and ethical standards.

## Appendix 3 – Audit reports issued

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit plan	March 2007	27 March 2007	Members of the Council
Annual governance report	September 2007	27 September 2007	General Purposes Committee
Opinion on financial statements	28 September 2007	on target	Members of the Council
Use of resources conclusion	28 September 2007	on target	Members of the Council
Final accounts memorandum	31 October 2007	on target	Officers
BVPP report	31 December 2006	21 December 2006	Members of the Council
Data quality report	October 2006	October 2006	Officers
Review of ethical governance	to be agreed		Officers
Annual audit letter	31 January 2008	on target	31 January 2008

## Appendix 4 – Proposed auditor's report

### Independent auditor's report to the Members of Worthing Borough Council

#### Opinion on the financial statements

I have audited the financial statements of Worthing Borough Council and its group for the year ended 31st March 2007 under the Audit Commission Act 1998, which 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 Statement, the Collection Fund, the Group Accounts and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Worthing Borough 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 Commission.

#### Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements 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 present fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006.

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 financial report. 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/our opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

### **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 and its Group as at 31st March 2007 and its income and expenditure for the year then ended.

Helen Thompson, District Auditor and Relationship Manager  
Audit Commission, 44-45 West Street, Chichester, West Sussex, PO19 1RP  
September 2007

### **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/our 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, Worthing Borough 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 in 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.

Helen Thompson, District Auditor and Relationship Manager  
Audit Commission, 44-45 West Street, Chichester, West Sussex, PO19 1RP  
September 2007

DRAFT

## Appendix 5 – Management representation letter

To: Helen Thompson, District Auditor and Relationship Manager,  
Audit Commission, 44-45 West Street, Chichester, West Sussex PO19 1RP

September 2007

### **Worthing Borough Council - Audit for the year ended 31st March 2006**

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

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements which give a true and fair view and for making accurate representations to you.

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 Council meetings, have been made available to you.

#### **Impairment of fixed assets**

I am satisfied that a full review of impairment of fixed assets under FRS 11 is not required and that I am not aware of any material issues with regard to impairment of fixed assets.

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

## **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;
- 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 the General Purposes Committee no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

Signed on behalf of Worthing Borough Council

## Appendix 6 – Value for money conclusion

- 4 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.
- 5 The Code criteria are linked to the use of resources assessment (UoR) key lines of enquiry (KLoEs). A score of Level 2 or higher under the KLoEs will result in an assessment that the Authority 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.

<b>Code Criteria</b>	<b>Description</b>	<b>VFM Conclusion</b>
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	Adequate

	soundly based and designed to deliver its strategic priorities.	
9	The body has put in place arrangements to ensure that its spending matches its available resources.	Adequate
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

DRAFT