

AGENDA MANAGEMENT SHEET

Name of Committee **Audit & Standards Committee**

Date of Committee **25 September 2007**

Report Title **External Auditors Annual Governance Report 2006/2007**

Summary A report from the Audit Commission outlining matters arising from their audit of the 2006/2007 accounts.

For further information please contact: David Clarke
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Would the recommended decision be contrary to the Budget and Policy Framework? No.

Background papers None

CONSULTATION ALREADY UNDERTAKEN:-

- Other Committees
- Local Member(s)
- Other Elected Members
- Cabinet Member
- Chief Executive
- Legal David Carter – for information
- Finance David Clarke - reporting officer
- Other Chief Officers
- District Councils
- Health Authority
- Police

Other Bodies/Individuals

FINAL DECISION YES

SUGGESTED NEXT STEPS:

Further consideration by this Committee

To Council

To Cabinet

To an O & S Committee

To an Area Committee

Further Consultation

Audit & Standards Committee – 25 September 2007

External Auditors Annual Governance Report

Report of the Strategic Director, Resources

Recommendation

That Members of the Committee note the report and make any comments.

1. Introduction

- 1.1 Our external auditors are required to report to those charged with Governance (i.e. the Audit and Standards Committee) on issues arising from the audit of the financial statements before issuing their final opinion. This report is in addition to the usual Audit Management Letter (Final Accounts Memorandum), which will be presented to Cabinet later this year.
- 1.2 The report from the Audit Commission is attached at **Appendix A** and the District Auditor and his Audit Manager will attend the meeting to present the report.

DAVID CLARKE
Strategic Director, Resources

Shire Hall, Warwick
13th September 2007

Annual Governance Report

September 2007



Annual Governance Report

Warwickshire County Council

Audit 2006/07

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

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 0844 7987070.

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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 Audit and Standards 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 and 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 1.
- 4 This report has been prepared for presentation to the Audit and Standards Committee on 25 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.
- 5 Our work during the year was performed in line with the plan that we presented to you on 5 June 2006. We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 2.

Key messages

- 6 Our work on the financial statements is substantially complete although there are still outstanding issues to be resolved. Should any further matters arise in concluding the outstanding work that need to be reported, we will raise them with the chair of this committee. We propose issuing an unqualified audit opinion on 27 September 2007 (a draft report is attached at Appendix 3).
- 7 In our view, the financial statements of the pension fund do present fairly the financial transactions of the pension fund.
- 8 In our view, the Statement on Internal Control (SIC) has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit.
- 9 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is substantially complete. We propose issuing an unqualified value for money conclusion on 27 September 2007 (a draft report is attached at Appendix 3).

Audit status

- 10 At the date of issue of this report our detailed audit is substantially complete.
- 11 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.

Accounts and Statement on Internal Control

- 12 Our work on the financial statements is substantially complete although there are still outstanding issues to be resolved.
- 13 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 control to prevent and detect error.
- 14 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.
- 15 The final draft of the letter of representation has been attached as Appendix 4.

Unadjusted misstatements

- 16 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. There are no unadjusted misstatements for us to bring to the attention of members.

Adjustments to the financial statements

- 17 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. All of the adjustments relate to the Pension Fund and are recorded in full at Appendix 5. The adjustments relate to the omission of interest on cash deposits and classification errors. There were no significant adjustments for the main audit.

Accounting practices

- 18 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.
- 19 The Council's Statement of Accounts was produced in accordance with the agreed timetable and the standard of working papers supporting the accounts was good. Your accountants worked well with us during the course of the audit and there was generally a prompt response to queries raised.

Systems of internal control

- 20 As part of our audit, we consider the systems of accounting and financial control and report to you any material weaknesses identified.
- 21 Our audit did not identify material weaknesses in internal control that we need to bring to your attention. We have reported in our interim audit memorandum only minor issues to management.
- 22 We have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed.
- 23 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.

Value for money conclusion

Work performed

- 24 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.
- 25 Details of our conclusion for each of the criteria specified by the Audit Commission are set out in Appendix 6.

Use of resources assessment

- 26 Our use of resources assessment is substantially complete. When finalised, we will discuss this with the relevant officers.

Data quality work

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

Best value performance plan

- 28 Our work in respect of the Authority’s 2006/07 Best Value Performance Plan (BVPP) was reported in November 2006. No recommendations were made to the Audit Commission or the Secretary of State.

Audit fee update

- 29 We are required to provide an update on audit fees and can report that our actual fees are in line with that set out in the Audit Plan presented to you on 5 June 2006.
- 30 The outturn on grants certification work and inspection fees will be reported in the annual audit and inspection letter.

Appendix 1 – The Audit Commission’s requirements in respect of independence and objectivity

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.

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.

Appendix 2 – Audit reports issued

Planned output	Planned date of final report	Actual date of issue	Addressee
Audit plan		November 2006	Officers Audit and Standards Committee
Interim audit memorandum	September 2007	September 2007	Officers
Annual governance report	September 2007		Officers Audit and Standards Committee
Opinion on financial statements	September 2007		Officers Audit and Standards Committee
Use of resources conclusion	September 2007		Officers Audit and Standards Committee
Final accounts memorandum	October 2007		Officers
BVPP report	December 2006	November 2006	Officers
Data quality report	December 2006	January 2007	Officers
Adult social care performance management Arrangements	February 2007	February 2007	Officers
Community safety	April 2007	January 2007	Officers
Annual audit letter	March 2008		Officers Audit and Standards Committee

Appendix 3 – Proposed auditor’s report

Independent auditor’s report to the Members of Warwickshire County Council

Opinion on the financial statements

I have audited the financial statements, the firefighters’ pension fund accounting statements and the local government pension fund accounts of Warwickshire County Council for the year ended 31 March 2007 under the Audit Commission Act 1998. The financial statements comprise the Strategic Director, Resources’ introduction, Income and Expenditure Account, Statement of the movement on the General Fund balance, Statement of total recognised gains and losses, Balance Sheet, Cash Flow Statement and the related notes. The firefighters’ pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The local government pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The financial statements, the firefighters’ pension fund accounting statements and local government pension fund accounts have been prepared under the accounting policies set out within them.

This report is made solely to Warwickshire 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 Commission.

Respective responsibilities of the Chief Finance Officer and auditor

The Chief Finance Officer’s responsibilities for preparing the financial statements, including the firefighters’ pension fund accounting statements and the local government 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, the firefighters’ pension fund accounting statements and the local government 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;

- the financial transactions of its firefighters’ 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; and
- the financial transactions of its local government 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.

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.

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;

- the firefighters' pension fund accounting statements present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial transactions of the firefighters' 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; and
- the local government 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 local government 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.

David Rigg

Audit Commission
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1011 Stratford Road
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B90 4EB

27 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 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, Warwickshire 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 14 November 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.

David Rigg

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1011 Stratford Road
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27 September 2007

Appendix 4 – Management representation letter

To:

The Audit Commission

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1 Friarsgate
1011 Stratford Road
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Warwickshire 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 Warwickshire County Council, the following representations given to you in connection with your audit of the Council's financial statements, the firefighters' pension fund accounting statements and the local government pension fund accounts 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.

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 members 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.

Law, regulations, contractual arrangements 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.

The body has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Assets

The following have been properly recorded and when appropriate adequately disclosed in the financial statements:

- losses arising from sale and purchase commitments;
- agreements and options to buy back assets previously sold; and
- assets pledged as collateral.

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; or
- 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 of the Council, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

Signed on behalf of Warwickshire County Council

Signed

Name

Position

Date

Appendix 5 – Summary of adjusted misstatements

The following misstatements were identified during the course of our audit and the financial statements have been adjusted by management. We bring them to your attention to assist you in fulfilling your governance responsibilities.

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Pension Fund					
Dr Fixed interest securities Overseas other	Classification error			3100	
Cr Fixed interest securities UK other					3100
Pension Fund					
Dr Managed Funds	Classification error			18900	
Cr Unitised insurance policies					18900
Pension Fund					
Cash	Interest on cash deposits not recognised			800	
Interest on Cash deposits			800		
Net Effect			800	800	

Appendix 6 – Value for money conclusion

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.

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.

Code Criteria	Description	Associated UoR KLoE	VFM conclusion
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	N/A	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.	N/A	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.	N/A	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.	LG DQ KLoEs	Adequate
5	The body has put in place arrangements to maintain a sound system of internal control.	4.2	Adequate

Code Criteria	Description	Associated UoR KLoE	VFM conclusion
6	The body has put in place arrangements to manage its significant business risks.	4.1	Adequate
7	The body has put in place arrangements to manage and improve value for money.	5.2	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.	2.1	Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	3.1	Adequate
10	The body has put in place arrangements for managing performance against budgets.	2.2	Adequate
11	The body has put in place arrangements for the management of its asset base.	2.3	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.	4.3	Adequate