

AGENDA MANAGEMENT SHEET

Name of Committee **Audit & Standards Committee**

Date of Committee **21 September 2009**

Report Title **External Auditors Annual Governance Report 2008/2009**

Summary A report from the Audit Commission outlining matters arising from their audit of the 2008/2009 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 – circulated for comment
- 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 – 21 September 2009

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 (Audit and Inspection Letter), which will be presented to Audit & Standards Committee later this year. Separate Annual Governance Reports are required this year, for the first time, in respect of the County Council and that of the Warwickshire Pension Fund.
- 1.2 The reports for the County Council and the Warwickshire Pension Fund from the Audit Commission are attached at **Appendix A and Appendix B** respectively and the District Auditor and his Audit Manager will attend the meeting to present the report.

DAVID CLARKE
Strategic Director, Resources

Shire Hall, Warwick
September 2009

Annual Governance Report

Warwickshire County Council

Audit 2008/09

September 2009

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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.
-

Ladies and Gentlemen

2008/09 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2008/09.

A draft of the report was discussed and agreed with the Strategic Director, Resources on 2 September 2009 and has been updated since as issues have been resolved.

The report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report;
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 5).

Yours faithfully

D. Rigg
District Auditor
Date

Key messages

This report summarises the findings from the 2008/09 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 how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.

Financial Statements	Results	Page
Unqualified audit opinion	Yes	7
Financial statements free from error	No	7
Adequate internal control environment	No	8
Use of resources	Results	Page
Use of resources judgements	Yes	12
Arrangements to secure value for money	Yes	12

Audit opinion

- 1 We are planning to give an unqualified audit opinion by the end of September 2009.

Financial statements

- 2 There is one error in the accounts which we wish to bring to your attention. This is in relation to the Firefighters' Pension Fund. As the Pension Fund account is shown as a separate statement within the accounts we have set a different materiality level to the main accounts. This is calculated as 1% of the contributions received, giving a materiality for the Firefighters' Pension Fund account of £28k.
- 3 The error was an expense which was incorrectly classified within Commutations & retirement lump sums, which should have been shown as a Lump sum death benefit. The amount involved was £92k, this error has been adjusted for in the accounts.

Use of resources

Use of resources

- 4 We have included the final use of resources score for the County Council. These scores are for the County Council as a whole and include the impact of the separate use of resources assessment for the fire service. The overall scores have been included here as these are the scores that directly influence our VFM conclusion, which needs to take account of both county functions and the fire service. We will issue separate detailed reports for both the county council and fire service shortly.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It 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.

5 I ask the Audit Committee to:

- consider the matters raised in the report;
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- take note of the VFM Conclusion;
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 5).

Financial statements

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.

Opinion on the financial statements

- 6 The audit is substantially complete. At the time of drafting this report the following work still needs to be completed.
- Fixed Assets.
 - Funds, Balances & Reserves.
 - FRS 17 disclosures.
 - Warwickshire Care Services (transfer of assets to Warwickshire County Council).
- There are also some outstanding queries/information in other areas of the accounts.
- 7 In addition we have also received advice from our technical team that the statutory override provided by Regulation 30 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 may not apply to the new fire pension schemes introduced in 2006. If so, there is no statutory backing for authorities to remove the charges from the General Fund. The Audit Commission is examining the implications of this with CLG and intend to issue further guidance on this issue. We have been advised not to issue an audit opinion until this guidance is available.
- 8 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.
-

Errors in the financial statements

- 9 There is one error in the accounts which we wish to bring to your attention. This is in relation to the Firefighters' Pension Fund. As the Pension Fund account is shown as a separate statement within the accounts we have set a different materiality level to the main accounts. This is calculated as 1% of the contributions received, giving a materiality for the Firefighters' Pension Fund account of £28k.
- 10 The error was an expense which was incorrectly classified within Commutations & retirement lump sums, which should have been shown as a Lump sum death benefit. The amount involved was £92k, this error has been adjusted for in the accounts.
- 11 A similar error also arose in 2007/08 and so we would encourage classification to be checked prior to audit, to avoid the need for material amendments to be made to the accounts in future.
-

Recommendation

R1 Carry out classification checks on the Firefighters' Pension Fund statements prior to audit, to avoid the need for material amendments to be made to the accounts.

12 Auditing standards require us to report all adjusted non trivial errors. For Warwickshire County Council the non trivial level has been calculated as £102k, and therefore any errors we find above this need to be included within this report. All errors of this type have been included within Appendix 2, however none are considered of sufficient importance to warrant further explanation here.

Material weaknesses in internal control

13 As reported last year we have reviewed the payroll system in two parts, central processing and those elements relating to the HR service centre. Walkthrough testing for central processing has confirmed that the system and controls are operating as expected. Walkthrough of the HR service centre transactions confirms that controls in relation to starters, leavers and variations are still not operating as expected or designed. An action plan is in place to address these issues, however we are unable to rely on controls testing in this area and have gained assurance using substantive testing.

Recommendation

R2 The authority should review the payroll controls in operation over the HR service centre and gain assurance that they are operating as designed.

Letter of representation

14 Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation I seek to obtain from you.

Key areas of judgement and audit risk

15 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table 1

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
<p>Fire fighter injury award. Up until 31 March 2006, any injury awards were payable (along with other pension scheme benefits) from the authority's Firefighters' Pension Fund. At the end of the financial year 2005/06, the liability for those in receipt of injury awards (£8.58m) was included with the overall pension scheme liability for the Warwickshire Firefighters' pension scheme. New financing arrangements from the Firefighters' Pension Scheme were introduced from 1 April 2006. Under these arrangements, pension scheme benefits are payable from the authority's Firefighters' Pension Fund, but injury awards are now payable by the County Council. For 2008/09 the Government Actuaries Department have assessed the liability for injury awards at 31 March 2009 as £7.9m. The draft accounts do not include this as a liability.</p>	<p>This issue was reported last year and it was agreed that as our technical advice received was not a definitive view an additional disclosure note would be added to the accounts.</p> <p>The accountants have recently presented us with additional evidence that they believe demonstrates that the accounting treatment applied is consistent with that required by the SORP.</p> <p>We are reviewing this information and are currently awaiting further guidance from our technical team.</p>
<p>Disclosure of impact of Atherstone on Stour Fire Investigations</p>	<p>We have discussed the current position with officers. We understand that both the police and HSE investigations are continuing, and the Council has no indication of when these investigations will be completed or findings published. This is currently disclosed in the annual governance statement and we consider this to be appropriate.</p>
<p>Warwickshire Care Services – bringing back into Council ownership</p>	<p>Audit work in this area is currently incomplete.</p>
<p>Single status</p>	<p>We have reviewed the provision within the accounts and consider the treatment reasonable.</p>

Issue or risk	Finding
Impairment The recession has had a negative impact on asset values. There is a risk that the Authority's assets may not have been appropriately impaired and are overvalued.	We have reviewed the management controls around this issue and undertaken detailed testing of the impairment figures. We consider the value used as reasonable.
Budget deficits	We have considered this as part of our UoR work and targeted cut off testing to areas where budget deficits were identified. We have not identified any errors in this area.

Accounting practice and financial reporting

16 I consider the qualitative aspects of your financial reporting. Table 2 contains the issues I want to raise with you.

Table 2

Issue or risk	Finding
Note 23 – Fixed Asset Numbers The narrative note has been revised this year to make it more representative of how various buildings are used. While we have been able to reconstruct the process used, we have been unable to fully reconcile all of the figures in the note.	The audit trail needs to be improved to ensure movements in numbers are easily reconcilable to property records.
Supporting Working papers Generally, the supporting working papers were good, although there are some inconsistencies in quality.	There remains scope to improve the audit trail for the fixed asset working papers. The papers, in particular the reconciliation of the fixed asset register, had obviously been updated/amended since being put on file and did not reflect the disclosures in the financial statements. Also, for some of the notes, a copy of the relevant page from the accounts was all that was provided, by way of support, in the working paper file.

Use of resources

Recommendations

- R3** Working papers for fixed assets should be improved so that they clearly show how they support the figures in the financial statements.
- R4** All notes to the financial statements should have supporting working papers included on the file presented for audit.

Use of resources

I am required to consider how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and give a scored use of resources judgement.

I am also required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 17** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 18** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 19** The Council's use of resources theme scores are shown in Table 3 below. The key findings and conclusions for the three themes are summarised in Appendix 4.

Table 3 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	3
Managing resources	2

Value for money conclusion

- 20** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out in Appendix 4.

Use of resources

- 21 I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my draft report.

Appendix 1 – Independent auditor’s report to Members of Warwickshire County Council

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

Opinion on the accounting statements

I have audited the Authority accounting statements, the firefighters’ pension fund accounting statements, and related notes of Warwickshire County Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the 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 accounting statements and the firefighters’ pension fund 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 Warwickshire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Responsible Financial Officer and auditor

The Responsible Financial Officer’s responsibilities for preparing the financial statements, including the firefighters’ pension fund accounting statements and local government pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the Authority accounting statements and the firefighters’ pension fund accounting statements and related notes 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 Authority accounting statements and the firefighters’ pension fund accounting statements present fairly, in accordance with relevant

Appendix 5 – Action Plan

legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008:

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

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE 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 governance statement covers all risks and controls. Neither am I 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 Authority accounting statements, firefighters' pension fund accounting statements and related notes and consider whether it is consistent with the audited Authority accounting statements, firefighters' pension fund accounting statements and related notes. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority accounting statements, firefighters' pension fund accounting statements and related notes. 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 Authority accounting statements, firefighters' pension fund accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority accounting statements, firefighters' pension fund accounting statements and related notes, 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 Authority accounting statements, firefighters' pension fund accounting statements and related notes 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 Authority accounting statements, firefighters' pension fund accounting statements and related notes.

Opinion

In my opinion:

- the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended; and
- the firefighters' pension fund accounting statements present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the firefighters' pension fund during the year ended 31 March 2009 and the amount and disposition of the fund's assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Opinion on the pension fund accounts

I have audited the pension fund accounts for the year ended 31 March 2009 under the Audit Commission Act 1998. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Warwickshire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Responsible Financial Officer and auditor

The *Responsible Financial Officer's* responsibilities for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the pension fund accounts and related notes 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 pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the 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.

Appendix 5 – Action Plan

I read other information published with the pension fund accounts and related notes and consider whether it is consistent with the audited pension fund accounts. This other information comprises the Explanatory Foreword published in the financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounts and related notes. 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 pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounts and related notes, 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 pension fund accounts and related notes 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 pension fund accounts and related notes.

Opinion

In my opinion the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund's assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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 regularly to review the adequacy and effectiveness of these arrangements.

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 and fire and rescue 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.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities and fire and rescue authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, 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 2009.

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.

[Name]

(Officer of the Audit Commission)

[Address]

Appendix 2 – Adjusted amendments to the accounts

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

Table 4

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Firefighters' Pension Fund	£92k expenses incorrectly classified as Commutations & retirement lump sums. These should be shown as Lump sum death benefits. This is a material adjustment as materiality for this statement is £28k.	92 Lump sum death benefits	92 Commutations & retirement lump sums		
Earmarked reserves Note 36	Transfer from Service Savings account to create a specific Fire earmarked reserve of £264k. No change required to the overall total in the accounts.			N/A	N/A

Appendix 4 – Use of resources key findings and conclusions

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Insurance Fund Note 36	Transfer from the Liability fund to the All Risks fund of £656k. No change required to the overall total in the accounts.			N/A	N/A
Debtors Note 42	Classification error between Trade debtors (invoiced income system) and Other trade debtors and prepayments of £2.3m. Trade debtors have been overstated by £2.3m and Other trade debtors and prepayments have been understated by the same amount.			2,300 Other trade debtors & prepayments	2,300 Trade debtors

Appendix 5 – Action Plan

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Capital Receipts Reserve Note 36	£125k has been received as a deposit for the sale of the North Leamington school site. However, until the sale is contractually complete, this should not be treated as a useable capital receipt. For prudence, it should be treated as a receipt in advance.			125 Capital Receipts Reserve	125 Receipts in advance

Appendix 3 – Draft letter of representation

Draft management representation letter

To: Dave Rigg
Appointed Auditor
Audit Commission
2nd Floor
1 Friarsgate
1011 Stratford Road
Solihull
West Midlands
B90 4EB

Warwickshire County Council - Audit for the period ended 31 March 2009

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 for the period ended 31 March 2009. All representations cover the Council's and Pension Fund accounts included within the financial statements.

Compliance with the statutory authorities

I acknowledge 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: A Statement of Recommended Practice which present fairly the financial position and financial performance of the County Council and for making accurate representations to you.

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 Warwickshire County Council Committee meetings have been made available to you.

Irregularities

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

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; and
- 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.

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.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements.

Assets

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

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

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in Note X to the financial statements we have no other lines of credit arrangements.

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[.]; and
- no financial guarantees have been given to third parties.]

Related party transactions

I confirm the completeness of the information disclosed 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

Post balance sheet events

Since the date of approval of the financial statements by the Council, 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 Warwickshire County Council

I confirm that the this letter has been discussed and agreed by the Audit Committee on [date]

Signed

Name

Position

Date

Appendix 4 – Use of resources key findings and conclusions

The following tables summarise the key finding and conclusions for each of the three use of resources themes.

Table 5 **Managing finances**

Theme score	3
Key findings and conclusions	
The Council can demonstrate that financial planning is contributing to better outcomes in priority areas. There has been a continued shift to invest in priority areas, most significantly adult social care. Overall the Council is a low spending authority and has a good track record of managing spending within its available resources. WCC has a good understanding of costs and unit costs and how these compare. The Council has an excellent track record of identifying scope for making efficiencies and delivering against its efficiency targets. Financial reporting is good with information being acted on to deliver outcomes. Public facing reporting is considered, with particular emphasis on the statement of accounts.	
KLOE 1.1 (financial planning)	
Score	3
VFM criterion met	Yes
KLOE 1.2 (understanding costs and achieving efficiencies)	
Score	2
VFM criterion met	Yes

Appendix 4 – Use of resources key findings and conclusions

KLOE 1.3 (financial reporting)	
Score	3
VFM criterion met	Yes

Table 6 Governing the business

Theme score	3
Key findings and conclusions	
<p>The Council is low spending with high quality services. VFM reviews were targeted and have resulted in differential efficiency targets for the 2nd year based on intelligence developed through the reviews. Finding £13m efficiencies for 2009/10 has been achieved through having a better understanding of relative VFM and clarity over priorities and narrowing the gaps. The council secures good quality data, however arrangements for ensuring data quality from third parties is still developing. The results of the corporate governance audit support the conclusion that staff and members exhibit high standards of personal conduct. There are various training opportunities for members, feedback is gathered from this training and acted on to improve future events. The Council has controls in place to ensure compliance with the Council's risk management policy and processes. In Economy and Environment effective risk management enabled the Council to assess the impact of recession early with its partners involve in the Camp Hill regeneration project. As a result the project is still moving forward. The Council is aiming to create a zero tolerance culture towards fraud and corruption. This is promoted in all associated documents and via media streams to staff, members and the public. There is evidence that the audit committee provides effective challenge in terms of examining the results of audit reports and taking action where further work or improvements are required.</p>	
KLOE 2.1 (commissioning and procurement)	
Score	3
VFM criterion met	Yes

Appendix 5 – Action Plan

KLOE 2.2 (data quality and use of information) Score VFM criterion met	2 Yes
KLOE 2.3 (good governance) Score VFM criterion met	3 Yes
KLOE 2.4 (risk management and internal control) Score VFM criterion met	3 Yes

Table 7 Managing resources

Theme score	2
Key findings and conclusions	
<p>The Council developed a climate change strategy in 2006 which it includes information about its total energy use and resultant CO2 emissions and the amount of CO2 from staff travel. The Council is not able to produce baseline data yet for a number of targets relating to environmental sustainability. The Council is establishing systems to manage its environmental performance. 6 directorates have achieved ISO 14001 environmental management and a number of schools have signed up to the eco schools initiative. The Council has lots of individual projects which reduces its impact on the environment. The Council is reducing the amount of waste sent to landfill and with partners is increasing recycling rates in the county. The council has worked effectively with partners to reduce disruption of services through flooding. The Council has an established strategic approach to asset management. It links asset management with other policies to provide clear direction for development, acquisition and disposal of assets. Asset management is enabling the delivery of corporate priorities. The council has good property information and performance data to enable it to deliver VFM. The Council has undertaken a series of area property reviews to enable assets in an area to be assessed and rationalised across organisations including the third sector. The recession has meant that there can be little progress with implementing proposals in the short/medium term.</p>	
KLOE 3.1 (use of natural resources)	
Score	2
VFM criterion met	Yes
KLOE 3.2 (strategic asset management)	
Score	2
VFM criterion met	Yes

Appendix 5 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Governance Report 2008/09 – Recommendations						
7	R1 Carry out classification checks on the Firefighters' Pension Fund statements prior to audit, to avoid the need for material amendments to be made to the accounts.	3				
7	R2 The authority should review the payroll controls in operation over the HR service centre and gain assurance that they are operating as designed.	3				
10	R3 Working papers for fixed assets should be improved so that they clearly show how they support the figures in the financial statements.	2				
10	R4 All notes to the financial statements should have supporting working papers included on the file presented for audit.	2				

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Annual Governance Report

Warwickshire Pension Fund

Audit 2008/09

September 2009

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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 and 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.
-

Ladies and Gentlemen

2008/09 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2008/09.

A draft of the report was discussed and agreed with the Strategic Director, Resources on 2 September 2009 and has been updated since as issues have been resolved.

The report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report; and
- approve the letter of representation on behalf of the Council before I issue my opinion (Appendix 2).

Yours faithfully

Name

District Auditor

Date

Key messages

This report summarises the findings from the 2008/09 audit which is substantially complete. It includes the messages arising from my audit of your financial statements.

Financial Statements	Results	Page
Unqualified audit opinion	Yes	6
Financial statements free from material error	Yes	6
Adequate internal control environment	Yes	6

Audit opinion

- 1 We intent to issue an unqualified audit opinion on the financial statements of the pension fund.

Financial statements

- 2 We have not identified any issues to report to those charged with governance in relation to the financial statements of the pension fund.

Audit Fees

- 3 There has been no change to the audit fee previously agreed with the committee for the 2008/09 accounts.

Next steps

Next steps

This report identifies the key messages that you should consider before I issue my opinion on the pension fund's accounts, which forms part of my report on the Council's financial statements. It 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.

4 I ask the Audit Committee to:

- consider the matters raised in the report; and
- approve the letter of representation on behalf of the Council before I issue my opinion (Appendix 2).

Financial statements

The Pension Fund's accounts are important means by which the Fund accounts for its stewardship of pension funds. The Council has a final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements.

Opinion on the financial statements

5 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report on the Council's financial statements that includes an unqualified opinion on the Pension Fund's accounts. Appendix 1 contains a copy of my draft audit report which includes the entire opinion for Warwickshire County Council, incorporating the opinion for the pension fund accounts.

Errors in the financial statements

6 We have not identified any errors in the financial statements that require reporting.

Material weaknesses in internal control

7 We have not identified any material weaknesses in internal control.

Letter of representation

8 Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 2 contains the draft letter of representation I seek to obtain from you.

Key areas of judgement and audit risk

9 In planning the audit specific risks were identified and areas of judgement were considered as part of the audit. The findings are set out in Table 1.

Financial statements

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
Valuations and Impairment– Impact of recession on value of investments	We have received external verifications for all investments and considered the management arrangements surrounding the valuation of these assets.
Pension fund – changes to employee contribution rates	We have considered the management controls in this area and placed reliance on a combination of controls and substantive testing in this area.

Appendix 1 – Independent auditor’s report to Members of Warwickshire County Council

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

Opinion on the accounting statements

I have audited the Authority accounting statements, the firefighters’ pension fund accounting statements, and related notes of Warwickshire County Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement¹ and the related notes. The firefighters’ pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The accounting statements and the firefighters’ pension fund 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 Warwickshire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Responsible Financial Officer² and auditor

The Responsible Financial Officer’s responsibilities for preparing the financial statements, including the firefighters’ pension fund accounting statements and local government pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the Authority accounting statements and the firefighters’ pension fund accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

¹ The description of the accounting statements should only include those relevant to the local authority’s circumstances.

² This will need to be amended to reflect the local title used.

Appendix 1 – Independent auditor’s report to Members of Warwickshire County Council

I report to you my opinion as to whether the Authority accounting statements and the firefighters’ pension fund accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008:

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

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE 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 governance statement covers all risks and controls. Neither am I 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 Authority accounting statements, firefighters’ pension fund accounting statements and related notes and consider whether it is consistent with the audited Authority accounting statements, firefighters’ pension fund accounting statements and related notes. This other information comprises the Explanatory Foreword³. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority accounting statements, firefighters’ pension fund accounting statements and related notes. 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 Authority accounting statements, firefighters’ pension fund accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority accounting statements, firefighters’ pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

³ The other information that is ‘read’ is the content of the Explanatory Foreword, the printed Annual Report (where one is produced) other than the financial statements. The description of the information that has been read needs to be tailored to reflect local circumstances.

Appendix 1 – Independent auditor’s report to Members of Warwickshire County Council

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 Authority accounting statements, firefighters’ pension fund accounting statements and related notes 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 Authority accounting statements, firefighters’ pension fund accounting statements and related notes.

Opinion

In my opinion:

- The Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended; and
- The firefighters’ pension fund accounting statements present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the firefighters’ pension fund during the year ended 31 March 2009 and the amount and disposition of the fund’s assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Opinion on the pension fund accounts⁴

I have audited the pension fund accounts for the year ended 31 March 2009 under the Audit Commission Act 1998. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Warwickshire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Responsible Financial Officer and auditor

The Responsible Financial Officer’s responsibilities for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the pension fund accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

⁴ If the authority publishes separate accounts in respect of more than one LGPS fund, this section will need to be replicated for each fund with a suitable reference in each to the fund to which the opinion relates.

Appendix 1 – Independent auditor’s report to Members of Warwickshire County Council

I report to you my opinion as to whether the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the 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 read other information published with the pension fund accounts and related notes and consider whether it is consistent with the audited pension fund accounts. This other information comprises the Explanatory Foreword published in the financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounts and related notes. 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 pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounts and related notes, 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 pension fund accounts and related notes 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 pension fund accounts and related notes.

Opinion

In my opinion the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund’s assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Appendix 1 – Independent auditor’s report to Members of Warwickshire County Council

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 regularly to review the adequacy and effectiveness of these arrangements.

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 and fire and rescue 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.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities and fire and rescue authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, I am satisfied that, in all significant respects, (name of body) made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

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.

Name

(Officer of the Audit Commission)

Address

Date

Appendix 2 – Draft letter of representation

To Dave Rigg
Audit Commission
No. 1 Friarsgate
1011 Stratford Road
Solihull
West Midlands
B90 4EB

Warwickshire Pension Fund - Audit for the period ended 31 March 2009

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 pension fund financial statements for the period ended 31 March 2009. All representations cover the accounts for the pension fund financial statements.

Compliance with the statutory authorities

I acknowledge 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: A Statement of Recommended Practice which present fairly the financial position and financial performance of the pension fund and for making accurate representations to you.

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 Pension fund have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

Irregularities

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

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; and
- 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.

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 pension fund.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

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.

Appendix 2 – Draft letter of representation

Related party transactions

I confirm the completeness of the information disclosed 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

Post balance sheet events

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

The pension fund has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Signed on behalf of Warwickshire Pension Fund

I confirm that the this letter has been discussed and agreed by the Audit Committee on date

Signed

Name

Position

Date

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