

Annual governance report

Dover District Council

Audit 2011/12



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Key messages

This report summarises the findings from my 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

The financial statements submitted for audit were complete and well prepared. The Council provided a suite of manual and electronic working papers to support the financial statements.

During the audit I identified a few non-trivial errors and uncertainties in the financial statements (see appendices 2 and 3), some of which were material. Management agreed to adjust the financial statements for the majority of the errors I identified (see appendix 2). Management did not agree to amend the financial statements in two areas, as detailed in appendix 3.

My audit work is now substantially complete. As at 17 September 2012 I expect to issue an unqualified audit opinion.

Value for money (VFM)

The Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

My work focused on two areas:

- **Securing financial resilience** - My work this year has confirmed the Council has an effective financial planning framework and sound arrangements for financial governance and financial control.
- **Securing economy, efficiency and effectiveness** - the Council takes a strategic approach to the prioritisation of resources and achievement of cost reductions through improved efficiency and productivity.

Certificate

Work on the Whole of Government accounts is in progress and is due to be completed before I issue the opinion. I am aiming to close the audit at the same time as giving our opinion on the accounts. Therefore, the certificate and opinion will be issued together.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, or any member of the audit team, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2011/12.

I ask the Audit Committee to:

- take note of the adjustments to the financial statements included in this report (appendices 2 and 3)
- approve the letter of representation (appendix 4), on behalf of the Council before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (appendix 6).

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 elected 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

Subject to satisfactory clearance of the outstanding matters listed below, I plan to issue an audit report including an unqualified opinion on the financial statements:

- Receipt of the final version of amended accounts, and my review of these.
- Finalised and agreed letter of representation.

I plan to issue my audit report on the 28th September and request that you date the letter of representation as of this date. Appendix 1 contains a copy of my draft audit report.

My audit seeks to ensure that the accounts are materially correct and present fairly the financial transactions of the Council in 2011/12. I apply a concept of materiality to the audit which is defined at appendix 5. For the 2011/12 accounts I set the materiality level as follows: £1.84 million for the Council. Under International Standards on Auditing I also set a threshold below which I judge any errors to be 'trivial' and do not ask for the accounts to be amended. For 2011/12 the triviality threshold is set at £184,000 for the main statements.

Corrected errors

I identified a number of non-trivial errors which management have agreed to amend in the final draft financial statements. In my opinion, the errors are not indicative of management bias, but they do indicate significant issues in the accuracy of the cashflow statement and the completeness and accuracy of financial instrument disclosures. Other than these two elements, in my view, the identified errors do not require detailed consideration by the Committee. However, for completeness and information, I highlight the amendments in appendix 2.

Uncorrected errors/uncertainties

I identified two errors/uncertainties that management have not adjusted in the revised financial statements. Neither of these errors/uncertainties relate to a loss of assets or cash or impact on the reported financial performance of the Council:

■ Valuation of Council Houses (uncertainty)

In the financial statements the 31 March 2012 value of Council dwellings was estimated based on the annual change in house prices for the year ended 31 December 2011. The purpose of the revaluation is to estimate the existing use value of the assets at year-end, so this estimate should have been based on an index for the year ended 31 March 2012. If the March index had been used instead of the December index the valuation of council dwellings in the financial statements would have been £4.088 million higher.

■ Soft loan creditor balances (uncertainty)

Soft loan creditor liabilities of £3.773 million included in short term creditors could not be reconciled to independent valuation schedules provided by Sector (which indicate a value of £4.101 million). Based on the independent valuations soft loan creditor balances in the financial statements are understated by £328,000

Where I identify errors above my triviality threshold, under auditing standards I must request management to amend the accounts. Where management chooses not to do so, and the Governance Committee agrees, I request a written representation from the Committee as to whether it believes the effects of the uncorrected misstatements are not material individually and in aggregate. Management representations are included in the letter of representation in appendix 4 for Committee approval.

Recommendations

R1 Where interim valuations are used during the accounts production process these should be reviewed when the year end indices become available to identify any material valuation changes which need to be reflected in the financial statements.

R2 For 2012/13 review and reconcile all soft loan debtor and creditor balances in the financial ledger to the supporting valuation schedules provided by Sector.

Working Papers

The Council provided a suite of manual and electronic working papers to support the financial statements. In the majority of cases these working papers confirmed the accuracy of the figures in the financial statements and provided a good audit trail for more detailed testing. However, there were some exceptions, for example soft loans and financial instruments disclosures in note 12 to the financial statements.

Significant and specific risks and my findings

I reported to you in my March 2012 Audit Plan the risks that I identified relevant to my audit of your financial statements. Significant risks are those risks requiring special audit attention in accordance with auditing standards. A specific risk occurs where I identify a specific issue related to a particular item in the financial statements.

In Table 1 below I report to you my findings against each of these risks.

Table 1: **Risks and findings**

Risk	Finding
<p>HRA reform (significant risk)</p> <p>The government has reformed local Council housing finance, adopting a self-financing model from 1 April 2012. Under the model the Council paid a one-off settlement payment to central government on 28 March 2012. The Council's payment was £90.487million. Due to the timing and magnitude of the HRA reform there is risk that the 2011/12 accounting statements will be materially misstated in this respect.</p>	<p>I have evaluated management's oversight of the HRA reforms. The Council negotiated and received PWLB loans to facilitate the payment of the £90.473 million due by the specified deadline.</p> <p>I reviewed the accounting transactions and the completeness and accuracy of the disclosures in the accounting statements. The HRA self financing payment has been correctly shown as an exceptional item on the face of the Comprehensive Income and Expenditure statement and Housing Revenue Account statement. I have agreed the amount of the settlement payment to the DCLG notification.</p> <p>I reviewed the accounting entries relating to the PWLB funding. This loan has been correctly accounted for in the financial statements, after the correction of the classification of the short term element of the loan (noted in appendix 2).</p>
<p>Housing ALMO (significant risk)</p> <p>On 1 April 2011 the Council transferred its housing management services to a joint East Kent Housing ALMO. The ALMO does not have any significant assets, but its financial statements reflect any movements in the pension fund deficit after 1 April 2011. They also include all housing management staff cost expenditure.</p>	<p>I reviewed the Council's proposals not to prepare group financial statements for the ALMO and am satisfied that they are not required. This is because the only material transaction the Council has with the ALMO is the pension liability. The Council has no constructive obligation for this liability as pensions payments are funded by ongoing contributions. There is therefore no liability to be recognised in the Council's financial statements.</p>

Risk

There is a risk the Council's share of the ALMO balance sheet entries and expenditure will not be correctly included in its financial statements. There is a further risk that I cannot obtain sufficient assurance over the ALMO's accounting entries.

Shared service arrangements (specific risk)

The Council actively uses shared services to achieve economies of scale. The implementation of this agenda raises the following risks:

- Potential lack of audit assurance from shared services not managed by the Council.
- Potential lack of audit assurance due to weaknesses in key controls at shared service providers, e.g. payroll where our controls assurance work in 2010/11 identified weaknesses in the operation of key controls.
- Embedded leases not accounted for, e.g. the shared waste contract. The Council's review of the contract last year concluded that there were no embedded leases. The Council needs to revisit its assessment to confirm that this accounting treatment remains appropriate in 2011/12

Heritage Assets (specific risk)

The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets. The Council has to include heritage assets in its accounting statements for the first time in 2011/12. A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Finding

I reviewed the disclosures in the financial statements for the interest in companies and am satisfied that they meet the Code disclosure requirements, are accurate and consistent with the ALMO's draft accounts.

My testing has not identified any significant issues to bring to your attention.

I reviewed the contractual terms of all material shared service arrangements and the key controls over material financial transactions in the Council's financial statements (including controls at both the Council and the shared service provider). I updated my understanding of the material financial systems managed by shared services and completed walkthrough tests to confirm key controls continued to be in operation in 2011/12. My testing has not identified any significant issues to bring to your attention.

I carried out substantive testing of payroll expenditure. I have also carried out sample testing of other shared service expenditure. My sample testing did not identify any errors.

I reviewed the Council's assessment of embedded leases for all significant contracts last year and agreed with the resulting accounting treatment. The Council has revisited its previous assessment and confirmed that this accounting treatment remains appropriate in 2011/12. I have not identified any significant new contracts which require review this year.

I have reviewed and evaluated the management controls you have in place to recognise and value heritage assets. The Council has sound arrangements for the identification and valuation of heritage assets.

I have carried out procedures to satisfy myself that you have recognised, valued and disclosed material heritage assets correctly in your financial statements. I have reviewed all disclosures related to Heritage assets and am satisfied these accord with FRS 30 and the Code.

Risk

There is a risk that the Council may be unable to identify, value and/or correctly account for its heritage assets in the financial statements.

Related Party Transactions (specific risk)

During our 2010/11 audit we identified material related party transactions which had not been identified and disclosed by the Council. The accounting statements were amended on audit to correct these omissions. If the procedures are unchanged in 2011/12 there is a risk of incomplete disclosures in this year's accounting statements.

Finding

I have sample tested the Heritage assets to gain assurance over their existence, valuation and the Council's ownership. My testing has not identified any significant issues to bring to your attention.

I have reviewed the processes adopted by the Council in 2011/12 to identify all material related party transactions requiring disclosure in the accounting statements. The process adopted is comprehensive.

I sample tested the related party disclosures in the financial statements for accuracy and completeness. My testing identified one omission which has now been added to the disclosure (see appendix 2).

Significant weaknesses in internal control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Council only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have not identified any significant weaknesses in internal control during the audit that are relevant to preparing the financial statements.

However, during the audit we reviewed ICT access controls for key financial systems. We found that network access is removed on departure, but our work identified a few instances where staff access to the financial system (e-fin) was not removed promptly.

Recommendation

R3 Review processes to ensure the timely removal of employee access to e-fin when a member of staff leaves the Council's employment.

I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I recommended a few changes to the draft Annual Governance Statement (AGS) to more clearly highlight any significant governance issues and areas for development. The Council has amended the AGS in response to my comments and final comments from Members.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following.

- Qualitative aspects of your accounting practices (including accounting policies, accounting estimates and financial statement disclosures).
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest

I highlight the following matters:

Table 2: Other matters

Issue	Findings
<p>Code of Practice on Local Authority Accounting 2011/12 disclosure requirements</p> <p>The Code sets out expected best practice for the disclosure of financial transactions in an authority's accounts.</p>	<p>I reviewed the draft financial statements against the requirements of the Code disclosure checklist. I identified several issues where the Council's disclosure in its financial statements were incomplete or did not meet expected best practice. I highlighted these to the Council and the financial statements have been amended to reflect these additional disclosures, for example missing disclosures have been added in the related party note for the White Cliffs Country Tourism Association</p> <p>Significant changes are set out in the bullet points below:</p>
<ul style="list-style-type: none">■ financial instruments	<p>A number of omissions were made in the financial instruments disclosures in note 12 in the draft financial statements:</p>

Issue

Findings

- The Council did not include £2.6 million of soft loan debtors in the financial instruments note.
- The bank overdraft was excluded from financial liabilities.
- Financial assets and long term debtors were incorrectly excluded from this note, resulting in this figure being understated by £3.861 million and £148,000 respectively
- An incorrect basis had been used to calculate creditor financial liabilities at amortised cost, resulting in this figure being overstated by £412,000.

■ Cash flow statement

A number of changes were required to the Cashflow Statement, to correctly exclude capital and interest debtors and creditors. As a result of these changes many of the figures on the cash flow statement have been amended, although the overall total remains unchanged. The non-trivial amendments are detailed in appendix 2.

I identified a few non-trivial casting errors during the audit, these included for example casting errors in the segmental analysis note on page 32 and pensions cost note on page 48

All casting errors have been corrected in the revised financial statements.

Recommendations

R4 For 2012/13 reassess required financial instruments disclosures to ensure these are more clearly reflected in the financial statements and that the correct balances and disclosures are included.

R5 For 2012/13 ensure that capital and interest debtors and creditors are correctly excluded from cash flows in the cash flow statement.

Whole of Government Accounts

Alongside my work on the financial statements, I also need to review and report to the National Audit Office on your Whole of Government Accounts (WGA) return. The extent of my review and the nature of my report are specified by the National Audit Office.

This work is currently in progress and will be completed before I issue my opinion.

Value for money

I am required to conclude whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is my value for money conclusion.

I assess your arrangements against the two criteria specified by the Commission. In my March 2012 Audit Plan I reported to you the significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing the risks I identified.

I intend to issue an unqualified conclusion stating that the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. My draft conclusion is included in Appendix 1.

Table 2: **Value for money conclusion criteria and my findings**

Criteria	Risk	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>Financial climate: The economic downturn adds significant pressure on the financial position and outturn of the Council, e.g. increased demand on services by vulnerable people and reduced Government funding and grant income. Central Government is proposing several significant local government reforms which will impact on the Council's medium term financial plans (MTFP), including the localism of support for council tax benefits and the local collection of business rates.</p>	<p>My work this year has confirmed that the Council has an effective financial planning framework and sound arrangements for financial governance and financial control.</p> <p>The Council demonstrates a good understanding of the significant and rapidly changing financial management challenges and risks facing the organisation and is taking appropriate action to secure a stable financial position.</p> <p>Medium term financial planning and annual budgeting reflect the Council's strategic objectives and priorities. The Council has developed detailed savings plans for 12/13. These plans are based on service priorities. Progress on delivery of savings is closely monitored and where an assumption is found to be unrealistic, this is adjusted accordingly.</p> <p>As part of my audit I have considered the Council's response to the risks associated with the government reforms, for example the HRA self re-</p>

Criteria	Risk	Findings
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2011/12:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>		<p>financing, the localisation of council tax benefit and business rate reforms. The financial implications of these have been evaluated.</p> <p>The Local Government Finance Bill 2011 introduces the localisation of council tax benefit from April 2013. This change requires councils to devise their own scheme of support for low income taxpayers. The Department for Communities and Local Government has also reduced the level of grant for the previous council tax benefit to 90% meaning that councils will have to identify ways to fund this gap. All local authorities in Kent have been working collectively on this issue and in May 2012 through the Kent Forum (comprising the leaders of councils in Kent and their officer advisors) proposals for a common schemes of council tax benefit within Kent and risk sharing arrangements were agreed.</p> <p>The Council has continued to operate within its budget. The 2011/12 outturn was £155,000 better than the approved budget deficit of £122,000, with a £33,000 increase in the general fund balance.</p> <p>The Council takes a strategic approach to the prioritisation of resources and achievement of cost reductions through improved efficiency and productivity.</p> <p>The Council has in place strong leadership and the capacity to deliver the scale of the spending reductions required of it. The Council has a good record of delivering its budget and has successfully sustained adequate levels of balances and reserves despite funding reductions. It is adopting a strategic approach to identifying cost reductions and challenging spending and investment decisions.</p> <p>The Council continues to investigate opportunities for service efficiencies. Examples of this include the participation in shared service arrangements with the other East Kent District Councils and the set up of the East Kent Housing ALMO.</p>

Fees

I reported my planned audit fee in the March Audit Plan.

I will complete the audit within the planned fee.

Table 3: Fees

	Original scale fee 2011/12 (£)	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	117,800	117,800	117,800
Claims and returns		41,500	41,500 ⁱ
Non-audit work		0	0
Total		159,300	159,300

ⁱ This is an estimated fee, based on last year's fee. Work on the Housing Benefit grant claim is still ongoing and therefore it is not possible to give a more accurate figure at present.

Appendix 1 – Draft independent auditor’s report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF DOVER DISTRICT COUNCIL

Opinion on the Council financial statements

I have audited the financial statements of Dover District Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Dover District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Resources and auditor

As explained more fully in the Statement of the Director of Finance’s Responsibilities, the Director of Finance, Housing and Community is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Dover District Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

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

Respective responsibilities of the Council and the auditor

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

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Dover District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

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

Darren Wells
District Auditor
Audit Commission,

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

Date:

Appendix 2 – Corrected errors

I identified the following non-trivial errors (over £184,000) during the audit which management have amended in the revised financial statements.

Item of account	Nature of error	Amendment value
Explanatory foreword	The funding from other reserves disclosed in the explanatory foreword was incorrectly stated at £337,000.	The disclosure in the explanatory foreword has been amended to £94,000 in line with the funding shown in note 10.
Balance sheet and note 12	The LTA loan and all new PWLB loans were included within long term borrowings in note 12 and the balance sheet. The element of these loans which is repayable within one year should have been included in current liabilities.	The balance sheet and note 12 disclosures have been amended to transfer £921,000 to current liabilities for the amounts repayable within one year.
Cash Flow Statement	<p>I identified the following non-trivial analysis errors in the cash flow statement:</p> <p>1) The self financing determination was incorrectly included in the non cash transactions section and the movements in long term debtors.</p> <p>2) Purchases of property, plant and equipment of £6.551 million included capital accruals movements which should have been excluded.</p> <p>3) Purchases and proceeds from sale of investments were disclosed net in the statement</p>	<p>1) The non cash entry has been deleted and the debtors movement adjusted by the £90.473 million.</p> <p>2) PPE purchases and creditor movements have been adjusted for £454,000 of capital accruals.</p> <p>3) Purchases and sales proceeds have now been disclosed net at £8.5 million and £8.837 million respectively. The comparatives have also been amended to show the net figures.</p>

Note 4 Property, plant and equipment	In the 2010/11 property, plant and equipment note restatements for assets transferred to the new heritage asset category were adjusted for in the transfers line instead of the 1 April 2010 lines	Transfers in note 4 for 2010/11 have been reduced by £265,000 and cost values at 1 April 2010 have been amended by the same amount.
Note 12 Short term investments and cash equivalents	I identified inconsistencies between the investment and cash equivalent disclosures in note 12 and the relevant balances on the balance sheet	The disclosures in note 12 have been amended to be consistent with the figures on the balance sheet (see table 2).
Note 12 – Financial Instruments	Some debtors/creditors were incorrectly included or excluded as financial instruments. Some financial instruments were not categorised in line with code requirements	Note 12 has been revised in line with IAS 32 and Code of practice guidance through the correction of the debtor and creditor figures and the inclusion of the long term debtors for soft loans (see table 2).
Note 20 Cash and cash equivalents	The bank overdraft was included in the cash equivalents total in note 20, so the total in the note did not agree to the cash equivalents figure on the balance sheet	The bank overdraft of £1.334 million has been disclosed separately in note 20 so the figures agree to the balance sheet disclosures.
Note 23 Capital grants unapplied	The capital grants unapplied note included contributions in 2011/12 that had been applied in year in error	Contributions received and applied in note 23 have been reduced by £479,000 to exclude those received and applied in year.

Appendix 3 – Uncorrected errors/uncertainties

I identified the following errors/uncertainties during the audit which management have not addressed in the revised financial statements.

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of uncertainty	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Council dwellings within property plant and equipment (note 4)	<p>The year-end value of Council dwellings (within property plant and equipment) was estimated at 5 April 2012 using the Dover House Price Index published by the BBC. This estimate was based on the annual change in house prices for the year ended 31 December 2011 (-2.1%), which was the latest index available at that date.</p> <p>The purpose of the revaluation is to estimate the existing use value of the property plant and equipment asset at 31 March 2012. This estimate should therefore be based on an index for the year ended 31 March 2012. The equivalent Dover Price Index for the year ended 31 March 2012 was +0.5%. If this index had been used the valuation of council dwellings in the financial statements would have been £4.088 million higher.</p>		local housing services 4,088	PPE 4,088	
		HRA impairments in movements in reserve statement 4,088			capital adjustment account 4,088

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of uncertainty	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Soft loan creditors within government department short term creditors (note 21)	<p>£3.773 million of liabilities for soft loans are included in government department liabilities within short term creditors on the balance sheet. This liability could not be reconciled to supporting working papers produced by the council (which showed a balance of £4,257 million), or independent valuation schedules provided by Sector (which indicate a value of £4.101 million). Management have been unable to explain the reason for the differences, but have agreed to investigate this fully in 2012/13.</p> <p>Based on the independent valuations soft loan creditor balances in the financial statements are understated by £328,000.</p>				Short term creditors 328

Appendix 4 – Draft letter of management representation

Dover District Council - Audit for the year ended 31 March 2012

To: Darren Wells,
District Auditor,
Audit Commission,
1st Floor,
Millbank Tower,
London,
SW1P 4HQ

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors and officers of Dover District Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statement misstatements detailed in appendix 3 are not material to the financial statements either individually or in aggregate. These misstatements have been discussed with those charged with governance and the reasons for not correcting these items are as follows:

■ Council house valuations

The Council's practice is to use interim valuations as at December, and then review them as at the end of March. The house value indices used for the valuation did show an increase in the period to the end of March, which, if applied, would lead to an overall increase in the value of the Council's housing stock of around £4m.

However, in my judgement, conditions in the current housing market and the low volume of housing sales for the period meant that the indicator was not as robust as I would like and I did not consider this to be a strong basis for increasing the Council's asset values.

In coming to this decision I also took into account the fact that with a housing stock of over 4,400 units, an adjustment in total value of £4m represents circa £900 per unit. I do not consider the valuation to be of such precision that such an adjustment is necessary or meaningful.

I should also point out that the accounting treatment for capital assets in local government means that there would be no overall effect on the outturn for 2011/12 or the Council's financial standing by making such an adjustment, and therefore I do not believe there would be any added value from making the change.

■ Soft loan creditors

The uncertainty regarding soft loan creditors arises from the accounting treatment and reconciliation, and does not reflect concerns over the control of the creditors themselves. I have agreed that further work will be undertaken during the coming year to reconcile the soft loan creditors back to the treatment in the accounts.

Supporting records

I have made available all relevant information and access to persons within the Council for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Council.

Irregularities

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

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Other representations:

- I confirm that the Council owns the heritage assets which have been included in the financial statements for the first time this year.
- I confirm that all contingent liabilities, of which I am aware, have been disclosed in the financial statements.

Related party transactions

I confirm that I have disclosed the identity of the Council's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Dover District Council

I confirm that this letter has been discussed and agreed by the Governance Committee on 27 September 2012.

Signed

Name: Mike Davis

Position: Director of Finance, Housing and Community

Date

Appendix 5 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Council after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion and conclusion.

Annual Governance Statement

The annual report on the Council's systems of internal control that supports the achievement of the Council's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Council is required to prepare, which report the financial performance and financial position of the Council in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of a council and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Council establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Significance

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Council. This term includes the members of the Council and its Governance (Audit) Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Council must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

Appendix 6 – Action plan

Recommendations

Recommendation 1

Where interim valuations are used during the accounts production process these should be reviewed when the year end indices become available to identify any material valuation changes which need to be reflected in the financial statements.

Responsibility	Senior Accountant, HRA and Capital
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Priority	Medium
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Date	30 April 2013
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Comments	This is current practice, but the audit trail needs to be strengthened to evidence this.
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Recommendation 2

For 2012/13 review and reconcile all soft loan debtor and creditor balances in the financial ledger to the supporting valuation schedules provided by Sector.

Responsibility	Senior Accountant, Revenue and Treasury
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Priority	Medium
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Date	31 March 2013
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Comments	
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Recommendation 3

Review processes to ensure the timely removal of employee access to e-fin when a member of staff leaves the Council's employment.

Responsibility	Software Support Officers, East Kent Services
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Priority	Medium
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Date	30 November 2012
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Comments	Network access is removed when staff leave. Processes for e-fin access removal will be reviewed
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Recommendation 4

For 2012/13 reassess required financial instruments disclosures to ensure these are more clearly reflected in the financial statements and that the correct balances and disclosures are included.

Responsibility	Senior Accountant, Revenue and Treasury
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Priority	Medium
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Date	31 March 2013
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Comments	
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Recommendation 5

For 2012/13 ensure that capital and interest debtors and creditors are correctly excluded from cash flows in the cash flow statement.

Responsibility	Financial Services Manager
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Priority	Low
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Date	31 March 2013
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Comments	
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