

Annual Governance Report

Dover District Council

Audit 2009/10

September 2010



Contents

Key messages	4
Next steps	6
Financial statements	7
Value for money	10
Glossary	11
Appendix 1 – Independent auditor’s report to Members of Dover District Council	13
Appendix 2 – Amendments to the draft accounts	16
Appendix 3 – Draft letter of representation	18
Appendix 4 – Value for money criteria	21
Appendix 5 – Action plan	22

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

2009/10 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Head of Finance and ICT on 16 September 2010.

My 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 before approving the financial statements (pages 4 to 10
- take note of the adjustments to the financial statements 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

Andy Mack
District Auditor

30 September 2010

Key messages

This report summarises the findings from the 2009/10 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	Results	Page
Unqualified audit opinion	Yes	7
Financial statements free from material error	Yes	7
Adequate internal control environment	Yes	8
Value for money	Results	Page
Adequate arrangements to secure value for money	Yes	10

Audit opinion

- 1 My work on the 2009/10 financial statements is substantially complete. I have set out the outstanding items required to complete the audit in paragraph 9. Subject to the satisfactory completion of my work, I plan to issue an unqualified audit opinion on the financial statements in September 2010.

Financial statements

- 2 The financial statements presented for audit were prepared to a sound standard overall. Not all working papers were available at the start of my audit, but officers responded promptly to provide the necessary information as the audit progressed.
- 3 During my audit I identified some errors and omissions in the draft financial statements which management have subsequently corrected. The more significant of these amendments are detailed in Appendix 2. None of the amendments impact on the Councils overall outturn position or balance sheet, however, there was a material error in the Cash Flow Statement due to a difference in accounting treatment arising from the prior period adjustment made to the Collection Fund.

Value for money

- 4 I intend to issue an unqualified opinion on the arrangements the Council has in place to secure economy, efficiency and effectiveness in the use of resources.

Key messages

Independence

- 5 I can confirm the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

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.

6 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 10);
- take note of the adjustments to the financial statements that 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).

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

- 7** This report outlines the findings of our work on the Council's financial statements for the year ended 31 March 2010.
 - 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.
 - 9** Key areas where work remains outstanding as at 17 September 2010 are;
 - reviewing a draft version of the “Summary of Accounts and Review of the Year” to ensure the content is consistent with the financial statements;
 - checking a final version of the accounts which contains all agreed amendments; and
 - obtaining a signed letter of representation.
 - 10** I expect that I will complete any remaining work to allow the issue of my audit opinion by 30 September 2010. Should any significant issues arise from my remaining work I will bring them to the attention of the Chair of the Audit Committee.
-

Errors in the financial statements

- 11** My audit of the Council's accounts seeks to ensure the accounts are materially correct and present a true and fair view of the financial transactions of the Council in 2009/10.
- 12** I set the materiality level for this audit at £1.7 million. I also set a threshold below which I judge any errors to be 'trivial' and do not seek any amendments to the accounts. I have set the trivial threshold at £17,000.
- 13** I am also required to bring to your attention misstatements that have already been corrected by management where we consider them relevant in helping you to fulfil your governance responsibilities.
- 14** During the audit I identified several errors and omissions in the accounts, all of which have been agreed and adjusted by officers. Appendix 2 details the misstatements that have been corrected. There was one material error following a change in the accounting treatment of Non Domestic Rates, the correction of which did not impact the Council's reported outturn or assets and liabilities at 31 March 2010:

- The Cash Flow Statement included National Non-Domestic Rates collected for and rebated to government. Cash inflow was overstated by £29,755k and cash outflow overstated by £35,120k.
- 15** In addition I identified some improvements in disclosure for the statements and supporting notes. Details of these are also in Appendix 2.
- 16** There were changes in the finance team during the year, with both the Capital Accountant and HRA Accountant leaving the Council in 2009. The remaining finance staff received training to cover these roles and a Capital Accountant contractor provided technical accounting support in producing the financial statements. However, these changes led to some accounting tasks being carried out by staff that were new to the role, resulting in an increased number of errors in the financial statements.

Recommendation

R1 Conduct an early review of work completed by less experienced staff so errors are identified and corrected on a timely basis.

Important weaknesses in internal control

17 I have not identified any important weaknesses in internal control that require reporting to those charges with governance.

Letter of representation

18 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation.

Key areas of judgement and audit risk

19 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. See Table 1 below.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
Icelandic bank investment. Risk relating to the recovery of investments held in Icelandic banks and their valuation in the Council's accounts.	The Council has followed the approach outlined by CIPFA in the update (May 2010) to LAAP Bulletin 82. I have concluded that following amendments agreed with management, the balance included in the accounts is fairly stated.

Accounting practice and financial reporting

20 I consider the non-numeric content of your financial reporting. Table 2 below contains the issues I want to raise with you.

Table 2

Issue or risk	Finding
Accounting for shared service arrangements.	As host of the East Kent Partnership HR service, the Council includes the costs of the entire shared service in its Income and Expenditure account along with income from the other parties for their share of the service. I have considered this accounting treatment and confirm that it complies with SORP.

Value for money

I am required to decide whether the Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion. I have based my conclusion on my work on the scored use of resources judgement.

Value for money conclusion

- 21** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 5.
- 22** 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 my draft report.

Glossary

Annual governance statement

- 23** Governance is about how local government bodies ensure they are doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. It comprises the systems, processes, culture and values by which the body is directed and controlled and through which they are accountable to and engage with their communities.
- 24** The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code. It also includes how it has monitored the effectiveness of its governance arrangements in the year and any planned changes.

Audit closure certificate

- 25** A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

Audit opinion

- 26** On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:
- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
 - whether they were prepared properly, following the relevant accounting rules. income.

Qualified

- 27** The auditor has some reservations or concerns.

Unqualified

- 28** The auditor does not have any reservations.

Material

29 Information is material if its omission or misstatement could influence the decisions of users of the financial statements.

Value for money conclusion

30 The auditor’s conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Appendix 1 – Independent auditor’s report to Members of Dover District Council

Opinion on the accounting statements

I have audited the Authority accounting statements and related notes of Dover District Council for the year ended 31 March 2010 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, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Dover District 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 published by the Audit Commission in April 2008.

Respective responsibilities of the Head of Finance and ICT and auditor

The Head of Finance and ICT is responsible for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority and its income and expenditure for the 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 accounting 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 accounting statements, and consider whether it is consistent with the audited accounting statements. 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 accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the 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 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 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 accounting statements and related notes.

Opinion

In my opinion the Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

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.

Appendix 1 – Independent auditor’s report to Members of Dover District Council

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 for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. 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 specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance. I am satisfied that, in all significant respects, Dover District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

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.

Andy Mack
District Auditor

Audit Commission
16 South Park
Sevenoaks
Kent TN13 1AN

30 June 2010

Appendix 2 – Amendments to the draft accounts

I identified the following misstatements during my audit and managers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Table 3

Adjusted misstatements	Nature of adjustment
Cash Flow Statement	Cash inflow was overstated by £29,755k and cash outflow overstated by £35,120k regarding National Non-Domestic Rates collected for and rebated to government.
Balance Sheet	Icelandic deposits were mis-categorised - long-term investments understated by £765k and short-term investments overstated by the same amount.
Balance Sheet	Error in valuation of deposits - short-term investments were understated by £85k.
Other disclosure items and notes to the Core Financial Statements	<p>Amendments have been made to improve various disclosures in the financial statements as follows:</p> <ul style="list-style-type: none"> • Amendment to asset and liabilities figures stated in the Explanatory Forward, see page 10. • Correction to accounting policies reference to 2008 SORP instead of 2009 SORP, see page 13. • Incorrect disclosure of shared service partnership costs (amended from £1.19m to £1.33m) and income (amended from £0.94m to £1.04m), see note 2. • Correction to disclosure of senior officer's pension contributions, see note 9. • Fixed assets note amended to clarify car parks owned by DDC and those not owned, but managed by the Council, see note 20. • Disclosures under fair value for assets and liabilities carried at amortised cost were

Appendix 2 – Amendments to the draft accounts

	<p>incomplete when considered against SORP Guidance as they did not include relevant debtors and creditors, see note 41.</p> <ul style="list-style-type: none">• Clarification of impairment to Icelandic deposits in the year (amended from £376k to £169k), see note 44.• Change to wording of Reserves note to clarify movement in the Special Projects Reserve, see note 45.• Removal of note on LAA Grant.
--	---

Appendix 3 – Draft letter of representation

To: Andy Mack
Appointed Auditor
16 South Park
Sevenoaks
Kent
TN13 1AN

Dover District Council: Audit for the year ended 31 March 2010

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 regarding your audit of the Council's financial statements for the year ended 31 March 2010.

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 give a true and fair view of the financial position and financial performance of the 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 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;

Appendix 3 – Draft letter of representation

- 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.

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. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

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.

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, other than those already disclosed in the financial statements.

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

Pension Provision

There are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements.

Post balance sheet events

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

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements. It is the Council's current intention to hold those assets classified as long term investments on the balance sheet to the date of maturity.

The Annual Governance Report and this letter were considered by Members at the Audit Committee on 30 September 2010.

Signed on behalf of Dover District Council

.....

Name: Mike Davis

Position: Head of Finance and ICT

Date: 30 September 2010

Appendix 4 – Value for money criteria

KLOE	Met
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural resources	Yes

Appendix 5 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Governance Report 2009/10 - Recommendations						
9	R1 - Conduct an early review of work completed by less experienced staff so errors are identified and corrected on a timely basis.	3	Helen Lamb Head of Finance	Yes	<p>The vacant Capital & Treasury post has now been recruited and it is planned to retain staff in their current roles for the foreseeable future if no further retention issues are experienced. This will allow additional experience to be gained by the team and earlier completion of work and preparation of papers should be achieved.</p> <p>Greater opportunity to review workings across the team would therefore become possible and will be incorporated into the closing timetable and processes.</p>	16 Sept 2010

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.

Copies of this report

If you require further copies of this report, or a copy in large print, Braille, audio or in a language other than English, please call 0844 798 7070.

© Audit Commission 2010

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

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

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk
