



# **Sevenoaks District Council**

## **Report on the 2005/06 audit**

**Presented to the Cabinet on 28 September 2006**

Date of issue: 19 September 2006



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### Status of our reports to the Council

Our reports are prepared in the context of the *Statement of Responsibilities of Auditors and Audited Bodies* issued by the Audit Commission. Reports are prepared by appointed auditors and relationship managers, and addressed to members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

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## 1. Introduction

### Background

This report summarises the conclusions and significant issues arising from the work that we have carried in relation to the 2005/06 audit. The audit was conducted in accordance with the Audit Commission's Code of Audit Practice ("the Code") and the agreed audit plan. Our responsibilities and those of the Council itself are described in more detail in **Appendix A**.

### Purpose of this report

In this report we set out our findings from the 2005/06 audit, namely:

- Our proposed audit opinion on the 2005/06 statement of accounts
- Our views about the qualitative aspects of the Council's accounting practices and financial reporting
- The results of our interim audit of accounting and internal control systems, including details of any specific weaknesses
- Details of any uncorrected items in the statement of accounts
- Our proposed value for money conclusion for 2005/06.

Within this report we have also summarised the results of our audit work previously reported to the Council, specifically:

- The Council's 2006 use of resources assessment
- The results of our audit on the 2005/06 Best Value Performance Plan and 2004/05 Best Value Performance Indicators.

## Scope of the work

The audit plan which we agreed with the Council described the following work which we would do to meet our audit responsibilities:

Code responsibility	Work undertaken:
<p>We are required to audit the financial statements and to give an opinion as to whether:</p> <ul style="list-style-type: none"> <li>• they present fairly the financial position of the Council and its income and expenditure for the year ended 31 March 2006; and</li> <li>• whether they have been prepared in accordance with relevant legislation and applicable accounting standards.</li> </ul>	<ul style="list-style-type: none"> <li>• We assessed the adequacy of the Council's key financial systems that support the transactions and balances in the financial statements. We took into account the work of Internal Audit to ensure that duplication of effort was avoided.</li> <li>• We have performed detailed analytical audit procedures on all material elements of income and expenditure within the accounts.</li> <li>• We have tested selected transactions and balances to source documents.</li> <li>• The accounts have been reviewed to ensure compliance with the guidance set out in CIPFA's Statement of Recommended Practice (SORP) in relation to statutory requirements, accounting standards, accounting presentation and disclosure.</li> </ul>
<p>We are required to review whether the Statement on Internal Control (SIC) has been presented in accordance with relevant requirements and we are required to report if the statement:</p> <ul style="list-style-type: none"> <li>• does not meet these requirements</li> <li>• is misleading; and/or</li> <li>• is inconsistent with, or incomplete in the light of, other information of which we are aware.</li> </ul>	<ul style="list-style-type: none"> <li>• We reviewed the arrangements that the Council had put in place and the evidence gathered to provide sufficient assurance for the Finance Advisory Group to approve the SIC and for the Chief Executive and Council Leader to authorise the SIC.</li> <li>• We reviewed disclosures made in the 2005/06 Statement on Internal Control to assess whether they are consistent with the results of work reported by Internal Audit and our knowledge of the Council.</li> <li>• We ensured that the SIC has been presented in accordance with relevant requirements.</li> <li>• We reviewed Council minutes to identify any inconsistencies.</li> </ul>

Code responsibility:	Work undertaken:
<p>We are required to review whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p>	<ul style="list-style-type: none"> <li>• We undertook a review of the Council’s arrangements in the areas of financial reporting, financial management, financial standing, internal control and value for money using key lines of enquiry (KLOE) developed by the Audit Commission.</li> <li>• We reviewed the Council’s 2005/06 Best Value Performance Plan for compliance with governing legislation in terms of its preparation and publication.</li> <li>• We carried out detailed testing of the systems underpinning the production of the 2004/05 outturn PIs and future years’ targets.</li> <li>• We undertook work beyond the use of resources phase to inform our conclusion (the VFM conclusion) as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Again this work was informed by specified key lines of enquiry and criteria established by the Audit Commission.</li> </ul>

A list of the audit reports issued during the year is shown at **Appendix D** to this report. Our planned audit fee for 2005/06 was £77,927, which was identical to our actual fee for that period; more detail is provided in Section 4 of this document.

## **2. Audit of the financial statements**

### **Introduction**

The International Standard on Auditing 260 (ISA 260 'Communication of audit matters to those charged with governance') provides standards and guidance governing the communication of audit matters between the auditor and those charged with governance of an entity.

Under this standard we are required to consider audit matters of governance interest that arise from our audit of the financial statements and communicate them with those charged with governance. The Council has determined that for audit purposes those charged with governance are the Overview and Scrutiny Board and Cabinet, although for exceptional matters we report to full Council.

### **Proposed audit opinion**

We have completed our audit of the Council's financial statements for the year ended 31 March 2006. We propose to issue an unqualified opinion on the financial statements following receipt of a letter of representation from management and signing of the financial statements, including the Statement on Internal Control.

### **Qualitative aspects of the Council's accounting practices and financial reporting**

The Council has prepared its financial statements in accordance with the requirements of the 2005 SORP and the Best Value Accounting Code of Practice. We are also content that the Statement on Internal Control complies with the relevant CIPFA guidance and that it is consistent with our knowledge of the Council and the annual review of effectiveness carried out by Internal Audit.

We received draft accounts of good quality, in accordance with the timetable agreed with the Council. The working papers supporting the accounts were available at the start of the audit and were also of good quality. The receipt of working papers in electronic form contributed significantly to the efficient completion of the audit.

The draft financial statements were presented and formally approved at a meeting of the Finance Advisory Group on 28th June 2006, in advance of the 30th June statutory approval deadline for local government bodies.

## **Letter of representation**

In order to obtain sufficient audit evidence for our audit opinion on the financial statements we obtain representations from management on aspects of the accounting records, accounts disclosures and other matters. The draft representation letter that we request management and those charged with governance sign is shown in **Appendix B** to this report.

## **Issues – adjusted and unadjusted**

We found one issue which has been subsequently corrected and incorporated within the revised statement of accounts. This issue related to the classification of investments in the consolidated balance sheet. Although the total value of investments held by the Council had been correctly calculated, these had not been properly disclosed as long and short term investments as required by the SORP. The amendment resulted the reclassification of £8m of the £23.7m current asset investments in the draft accounts as long term investments within long term assets in the consolidated balance sheet. As a result of this reclassification, revisions were also required to the wording of the Investment Note 9 to the consolidated balance sheet, and to the cash flow statement to properly reflect the movement in short term investments during the year.

A number of other changes were made to the draft accounts, largely in relation to the disclosures supporting the main financial statements. These included:

- the addition of a post balance sheet event note to the consolidated balance sheet in relation to the closure of the Sevenoaks Playhouse and,
- the disclosure of an additional £259,000 contingent liability which was identified after the draft accounts were produced.

There are no unadjusted items remaining in the revised statement of accounts.

## **Expected modifications to the Auditor's report**

There are no modifications to the audit report on the financial statements for the year ended 31 March 2006. The draft audit report on the financial statements is shown in **Appendix C**.

## **Financial systems**

In order to arrive at an opinion on the Council's accounts we assess whether the key financial systems on which the accounts are based are adequate and are operating as prescribed. These systems generate material transactions and, as such, have a material impact on the Council's annual accounts.

The following financial systems were identified as being material to the audit opinion on the financial statements:

- Main accounting system
- Payroll
- Cash receipting and banking
- Income and debtors
- Purchases and creditors
- Treasury management
- Council tax and Housing benefits
- Council tax income
- Business rates

For each key system we reviewed the work undertaken by Internal Audit and where necessary reperformed testing to enable us to rely on it. We raised a number of issues in relation to key systems reconciliations that had not been performed on a regular basis during the year. In order to take assurance for the key financial systems we requested that these were performed for year end. Following the receipt and review of these year end reconciliations, we were able to place reliance on the high level system controls for the purpose of our accounts audit, and thereby we were able to reduce on reliance on the detailed sampling of transactions during our final audit visit.

## **Risk of material misstatement from fraud or other irregularity**

Under the International Standards on Auditing 240 and 250 we are required to assess the risk of material misstatement arising from fraud or other irregularity. We have assessed the risk of material misstatement due to fraud and have concluded that the risk of material misstatement from this source is low. In addition, our work on legality indicated that the Council has satisfactory management arrangements to safeguard legality, and we therefore considered the risk of misstatement from this source to be low.

## **Other significant matters**

There are no other matters of governance interest that we wish to draw to your attention. In particular, we can confirm that at the time of writing this report we have received no questions or objections in respect of items in your accounts. Additionally we have not identified any issues that might require us to report in the public interest or exercise any other special powers.

## **New financial reporting requirements**

The findings from our audit of the Council's financial statements for the year ended 31 March 2006 are detailed in the following paragraphs. In addition we identified a small number of new audit and disclosure requirements during the planning process, and discussed these with the Council's finance team. For completeness these are noted below:

### *New guidance on accounting for pension benefits*

This relates to changes to LGPS benefits affecting the FRS 17 data, and also clarification around the discount rate to be used in the calculation of the pension interest cost.

### *New guidance on capital accounting*

This concerns clarification around 'Adjustment A' in relation to the calculation of the capital financing requirement. As the Council is debt free this issue was not relevant.

### *Whole of government accounts (WGA)*

For 2005/06 the Council will need to produce an auditable dry run submission of WGA data for the Treasury. This should draw upon the audited Statement of Accounts for 2005/06. The return is subject to our separate audit and once audited will be submitted to government by us in early October 2006.

### *Amendments to the Accounts and Audit Regulations*

There are a number of minor changes to these regulations; the most significant being the requirement for the SIC, and annual report of internal audit to be considered and approved separately from the accounts.

We are satisfied that the Council has dealt properly with the above changes.

### 3. Work in relation to Use of Resources

#### Use of Resources

Our work on the Use of Resources comprises our assessments on the themes of Financial Reporting, Financial Management, Financial Standing, Internal Control and Value for Money. This work was carried out in the period January/February 2006 and a detailed report containing our findings and conclusions was presented to Members in March 2006. Our findings from this work are summarised below. The description of performance at each level of score is as follows:

Score	Description
1	Below minimum requirements - inadequate performance
2	At minimum requirements - adequate performance
3	Consistently above minimum requirements - performing well
4	Well above minimum requirements - performing strongly

The me	Key Line of Enquiry	Score	Key Improvement Opportunities
<b>Financial Reporting</b>	1.1 The Council produces annual accounts in accordance with statutory requirements etc.	2	<ul style="list-style-type: none"> <li>▪ The Council needs to improve its accounts preparation procedures to ensure that the 2005/06 accounts comply with all relevant accounting and reporting standards and policies to the extent that the accounts presented for audit contain only a small number of non-trivial errors.</li> <li>▪ The Council needs to demonstrate that it is considering the needs of a range of stakeholders in making its decision whether to publish an annual report.</li> <li>▪ The Council should publish summary financial information that meets the needs of a range of stakeholders.</li> </ul>
	1.2 The Council promotes external accountability.	2	

Theme	Key Line of Enquiry	Score	Key Improvement Opportunities
<b>Financial Management</b>	2.1 The Council's Medium Term Financial Strategy, budgets and capital strategy are soundly based and designed to deliver its strategic priorities.	<b>3</b>	<p>The Council could further enhance its financial planning by:</p> <ul style="list-style-type: none"> <li>▪ modelling balance sheets and resource requirements over a minimum of three years within its medium term financial strategy.</li> <li>▪ introducing arrangements that will enable it to demonstrate how its financial plans and strategies have contributed to the achievement of corporate objectives.</li> </ul> <p>The Executive should receive accrued financial monitoring reports at appropriate key points during the year, including significant revenue accounts items and balances.</p> <p>The Council could improve its asset management by:</p> <ul style="list-style-type: none"> <li>▪ developing local performance measures in relation to its assets that evaluate asset use in relation to corporate objectives.</li> <li>▪ using performance measures and benchmarking to describe and evaluate how the asset base contributes to the achievement of corporate and service objectives, including improvement priorities.</li> <li>▪ putting in place processes for reporting the results of performance measurement and benchmarking to stakeholders, where relevant.</li> <li>▪ developing an approach for the coordination of asset management information and its integration with relevant organisational financial information.</li> </ul>
	2.2 The Council manages performance against budgets.	<b>3</b>	
	2.3 The Council manages its asset base.	<b>3</b>	

Theme	Key Line of Enquiry	Score	Key Improvement Opportunities
<b>Financial Standing</b>	3.1 The Council manages its spending within the available resources.	<b>3</b>	
<b>Internal Control</b>	4.1 The Council manages its significant business risks.	<b>2</b>	<ul style="list-style-type: none"> <li>▪ The Council needs to ensure that all staff and members receive risk management training.</li> <li>▪ The Council should also demonstrate greater understanding of partnership risks and introduce arrangements to provide assurance about the management of those risks.</li> <li>▪ The Council needs to put in place an assurance framework that maps its strategic objectives to risks, controls and assurances.</li> <li>▪ The Council needs to demonstrate a strong counter fraud culture across all departments (not just Internal Audit and Housing Benefits). All staff should have clearly acknowledged and accepted their responsibility to prevent and detect fraud and corruption.</li> <li>▪ The risk of corruption should be specifically included in the strategic risk register.</li> </ul>
	4.2 The Council has arrangements in place to maintain a sound system of internal control.	<b>2</b>	
	4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	<b>3</b>	

Theme	Key Line of Enquiry	Score	Key Improvement Opportunities
Value for Money	5.1 The Council currently achieves good value for money	3	<ul style="list-style-type: none"> <li>▪ The Council needs to continue to develop an embedded VFM challenge culture and the process of actively monitoring performance. This needs to include more regular involvement from members.</li> <li>▪ VFM challenge process needs to be linked with more widespread benchmarking aimed at service performance and the greater utilisation of the VFM Portfolio Holder in monitoring quality of service.</li> <li>▪ The Council needs to improve the capital monitoring process to ensure members are actively monitoring and challenging projects, both on cost and time.</li> </ul>
	5.2 The Council manages and improves value for money	3	<ul style="list-style-type: none"> <li>▪ The Council needs to actively look at all areas of performance, beyond just lower performing areas. This should include regular benchmarking of more services and the use of more ambitious targets.</li> <li>▪ Service plans will need to incorporate more robust acknowledgement of VFM and efficiency targets.</li> <li>▪ Procurement strategy needs to have a more focussed action plan and timescales. It needs to measure impact and act as a driver for procurement.</li> </ul>

Overall, the Council scored 3 (on a scale of 1 to 4, where 4 is excellent) for its Use of Resources assessment, indicating that it is performing well and consistently above minimum requirements. However, there are a number of areas in which we identified improvement opportunities and these have been accepted by officers and form the basis of an action plan. We will assist officers in addressing these improvement areas and we will report back to Members during 2006/07 audit on progress made.

### **Best Value Performance Plan (BVPP) 2005/06**

We commended the Council on its rigorous approach to the preparation and presentation of the performance indicator information. We concluded that the Council's 2005/06 BVPP, published by the end of June 2005 deadline, complied with the governing legislation in all significant respects.

We raised one recommendation in our audit report issued on 26 October 2005. To comply with the statutory guidance, the BVPP should refer to the Council's arrangements for compliance with the Code of Practice on Workforce Matters. This statement had not been produced as part of the 2005/06 BVPP. We will shortly commence our audit of the 2006/07 BVPP and 2005/06 outturn PIs, and will report back to Members once this work is complete.

### **Value for money (VfM) conclusion**

The VfM conclusion is an overall assessment drawing on the Use of Resources KLOEs, our work on the BVPIs, recent inspection activity carried out by Audit Commission in early 2006. Having made the assessment against the criteria we have concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in the use of its resources for the year ended 31 March 2006. Our proposed opinion is outlined as part of **Appendix C**.

## 4. Audit fee information

The table sets out a comparison between our planned fees as shown in our 2005/2006 audit plan and the 2005/06 outturn. We can confirm that we undertook no work at the Council that did not relate to our *Code* objectives.

<i>Code area</i>	2005/06 planned fees £	2005/06 outturn fees £
Audit of the Accounts	45,000	45,000
BVPP/BVPIs	14,700	14,700
Use of Resources/ Value for Money Conclusion	17,000	17,000
Contribution to the Audit Commission	1,227	1,227
<b>Total</b>	<b>£77,927</b>	<b>£77,927</b>

As shown above, our actual fees were in line with our planned fees for 2005/06.

## Appendix A

### Responsibilities of the auditors and the Council

#### Introduction to responsibilities

Those who are responsible for the conduct of public business and spending public money are accountable for ensuring both that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

In discharging this accountability, public bodies and their management (both members and officers) are responsible for putting in place proper arrangements for the governance of their affairs and the stewardship of the resources at their disposal. They are also required to report on their arrangements in their annual published Statements on Internal Control.

The following paragraphs summarise the responsibilities of auditors and of audited bodies in relation to the responsibilities of auditors described in the Audit Commission's *Code of Audit Practice (the Code)*.

#### Auditing the financial statements

The financial statements, which comprise the published accounts of the Council, are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. It is the responsibility of the Council to:

- put in place systems of internal control to ensure the regularity and lawfulness of transactions;
- maintain proper accounting records; and
- prepare financial statements that present fairly the financial position of the body and its expenditure and income.

The Council is also responsible for preparing and publishing with its financial statements a statement on internal control.

We audit the financial statements and give our opinion, including:

- whether they present fairly the financial position of the Council and its expenditure and income for the year in question; and

- whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards.

In carrying out the audit of the financial statements, we have regard to the concept of materiality and subject to this, we provide reasonable assurance that the financial statements:

- are free from material misstatement, whether caused by fraud or other irregularity or error;
- comply with statutory and other applicable requirements; and
- comply with all relevant requirements for accounting presentation and disclosure.

We examine selected transactions and balances on a test basis and assess the significant estimates and judgments made by the Council in preparing the statements.

We also evaluate significant financial systems, and the associated internal financial controls, for the purpose of giving their opinion on the financial statements. Where we identify any weaknesses in such systems and controls, we draw them to the attention of the Council, but cannot be expected to identify all weaknesses that may exist.

We review whether the statement on internal control has been presented in accordance with relevant requirements and report if it does not meet these requirements or if it is misleading or inconsistent with other information of which we are aware. In doing so we take into account the knowledge of the Council gained through our work in relation to the audit of the financial statements and through our work in relation to the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources. We are not required to consider whether the statement on internal control covers all risks and controls, nor are we required to form an opinion on the effectiveness of the Council's corporate governance procedures or risk and control procedures.

### **Responsibilities in relation to arrangements for securing economy, efficiency and effectiveness in the use of resources**

It is the responsibility of the Council to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them. Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:

- establishing strategic and operational objectives;
- determining policy and making decisions;
- ensuring that services meet the needs of users and taxpayers and for engaging with the wider community;
- ensuring compliance with established policies, procedures, laws and regulations;

- identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working;
- ensuring compliance with the general duty of best value, where applicable;
- managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body;
- monitoring and reviewing performance, including arrangements to ensure data quality; and
- ensuring that the audited body's affairs are managed in accordance with proper standards of financial conduct, and to prevent and detect fraud and corruption.

The Council is responsible for reporting on these arrangements as part of its annual statement on internal control.

We have a responsibility to satisfy ourselves that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In meeting this responsibility we should review and, where appropriate, examine evidence that is relevant to the Council's corporate performance management and financial management arrangements, as summarised above, and report on these arrangements. We also have a responsibility to consider, and report on, the Council's compliance with statutory requirements in respect of the preparation and publication of its best value performance plan.

We are responsible for reporting annually our conclusion, having regard to relevant criteria specified by the Audit Commission, as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We report if significant matters have come to our attention that prevent us from concluding that the Council has put in place proper arrangements. However, we are not required to consider whether aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are effective.

In planning our audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, we consider and assess the relevant significant business risks. These are the significant operational and financial risks to the achievement of the Council's statutory functions and objectives, which apply to the Council and are relevant to our responsibilities under the *Code*, and the arrangements it has put in place to manage these risks. Our assessment of what is significant is a matter of professional judgment and includes consideration of both the quantitative and qualitative aspects of the item or subject matter in question.

When assessing risk we consider:

- the relevance and significance of the potential business risks faced by all bodies of a particular type;
- other risks that apply specifically to the Council;
- the Council's own assessment of the risks it faces; and

- the arrangements put in place by the Council to manage and address its risks.

In assessing risks we have regard to:

- evidence gained from previous audit work, including the response of the Council to previous audit work;
- the results of assessments of performance carried out by the Commission;
- the work of other statutory inspectorates; and
- relevant improvement needs, identified in discussion with the Commission or other statutory inspectorates.

Where we rely on the reports of statutory inspectorates as evidence relevant to the Council's corporate performance management and financial management arrangements, the conclusions and judgments in such reports remain the responsibility of the relevant inspectorate or review Council.

In reviewing the Council's arrangements for its use of resources, it is not part of our functions to question the merits of the policies of the Council, but we may examine the arrangements by which policy decisions are reached and consider the effects of the implementation of policy. It is the responsibility of the Council to decide whether and how to implement any recommendations made by us. In making any recommendations; we do not have any role in the decision-making arrangements of the Council.

While we may review the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources, we cannot be relied on to have identified every weakness or every opportunity for improvement. The Council should consider our conclusions and recommendations in their broader operational or other relevant context.

We are not required to report to you on the accuracy of performance information that you publish. Our work is limited to a review of the systems put in place by the Council to collect, record and publish the information, in accordance with guidance issued by the Audit Commission. Nor are we required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by the Council.

Audit work in relation to the Council's arrangements to ensure that its affairs are managed in accordance with proper standards of financial conduct, and to prevent and detect fraud and corruption, does not remove the possibility that breaches of proper standards of financial conduct, or fraud and corruption, have occurred and remained undetected. Nor is it our responsibility to prevent or detect breaches of proper standards of financial conduct, or fraud and corruption, although we are alert to the possibility and will act promptly if grounds for suspicion come to our notice.

## Appendix B

### Letter of Representation

#### TO BE TYPED ON COUNCIL'S LETTERHEAD

Baker Tilly  
Lancaster House  
7 Elmfield Road  
Bromley  
BR1 1LT

Date:

Dear Sirs

#### AUDIT OF FINANCIAL STATEMENTS – 31ST MARCH 2006

We confirm, to the best of our knowledge and belief, and having made appropriate enquiries of other directors and officers of the Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31st March 2006.

1. We acknowledge as Members and as the Corporate Resources Director our responsibility for the financial statements. All the accounting records have been made available to you for the purpose of your audit and all transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information and explanations, including minutes of all Council and sub Committee meetings held between the beginning of the accounting period and the date of this letter, have been made available to you.
2. We confirm that:
  - a. We acknowledge responsibility for the design and implementation of internal control to prevent and detect fraud;
  - b. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
  - c. We have disclosed to you our knowledge of fraud and suspected fraud affecting the Council involving:
    - i. Management;
    - ii. Employees who have significant roles in internal control; and
    - iii. Others where the fraud could have a material effect on the financial statements; and

- d. We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.
3. We confirm that full disclosure is made in the financial statements of:
    - a. transactions and balances with related parties including:
      - i. the names of the transacting parties;
      - ii. a description of the relationship between the parties;
      - iii. a description of the transactions;
      - iv. the amounts involved;
      - v. any other elements of the transactions necessary for an understanding of the financial statements;
      - vi. the amounts due to or from related parties at the balance sheet date and provisions for doubtful debts due from such parties at that date; and
      - vii. amounts written off in the period in respect of debts due to or from related parties.
    - b. outstanding capital commitments contracted for at the balance sheet date.
    - c. all contingent liabilities including details of pending litigation and material claims against the Council.
    - d. warranties or other financial commitments
  4. We confirm that we do not provide guarantees.
  5. We have disclosed all events of which we are aware which involve possible non-compliance with those laws and regulations which provide a legal framework within which the Council conducts its business and which are central to its ability to conduct that business. We have also notified you of the actual or contingent consequences which may arise from such non-compliance.
  6. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
  7. There have been no events (other than those already disclosed in the financial statements) since the balance sheet date, which necessitate revision of the figures in the financial statements or inclusion of a note thereto. Should such further material events occur prior to your signature of the audit report we will advise you accordingly.
  8. We are satisfied that the information underlying the valuation of the pension scheme liabilities is consistent with our knowledge of the Council and that the information provided to the scheme actuary to calculate the present value of scheme liabilities is complete and accurate.
  9. We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

The contents of this letter were considered and approved by the Cabinet at its meeting on 28 September 2006.

Yours faithfully

Signed on behalf of Sevenoaks District Council

Dr P Ramewal  
Corporate Resources Director

Councillor P Fleming  
Council Leader

## Appendix C

### Independent Auditor's report to the Members of Sevenoaks District Council

#### Opinion on the financial statements

We have audited the financial statements of Sevenoaks District Council for the year ended 31<sup>st</sup> March 2006 under the Audit Commission Act 1998, which comprise the Consolidated Revenue Account, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Sevenoaks District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

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

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Council Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.

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

We report to you our opinion as to whether the financial statements presents fairly the financial position of the Council in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Council Accounting in the United Kingdom 2005.

We review whether the statement on internal control reflects compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003', published on 2 April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

We read other information published with the financial statements and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

#### *Basis of audit opinion*

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## ***Opinion***

In our opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Council Accounting in the United Kingdom 2005, the financial position of the Council as at 31<sup>st</sup> March 2006 and its income and expenditure for the year then ended.

*Baker Tilly  
Lancaster House  
7 Elmfield Road  
Bromley  
BR1 1LT*

*Date*

## **Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources**

### ***Council's Responsibilities***

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 regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the Council is required to prepare and publish a best value performance plan summarising the Council's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

### ***Auditor's Responsibilities***

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Council for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for other local government bodies. We report if significant matters have come to our attention which prevent us from concluding that the Council has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We are required by section 7 of the Local Government Act 1999 to carry out an audit of the Council's best value performance plan and issue a report:

- certifying that we have done so;
- stating whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

### ***Conclusion***

We have undertaken our audit in accordance with the Code of Audit Practice and we are satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, in all significant respects, Sevenoaks District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006.

### **Best Value Performance Plan**

We issued our statutory report on the audit of the Council's best value performance plan for the financial year 2005/06 on 3 November 2005. We recommended that the plan should be amended for it to be in accordance with statutory requirements, in particular that the Council should publish a statement that certifies its compliance with the Code of Practice on Workforce Matters in Local Authority Service Contracts in 2004/05 or, if not applicable, a note to that effect.

### **Certificate**

We certify that we 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.

*Baker Tilly  
Lancaster House  
7 Elmfield Road  
Bromley  
BR1 1LT*

*Date*

## Appendix D

We issued the following reports relating to our 2005/06 audit:

<b>Subject</b>	<b>Date of issue</b>
Audit & inspection plan	June 2006
BVPP audit report	February 2006
Use of Resources	March 2006
Report on the 2005/06 audit	September 2006