



Sevenoaks District Council
Report on the 2006/07 audit

August 2007



EXECUTIVE SUMMARY

We summarise below the key results from our 2006/07 audit work.

| Area | Results | Page |
|--|--|------|
| Financial systems | High level controls in place and operating in all key systems. We identified one issue relating to the lack of reconciliations between property and finance records. Risk of material misstatement in the accounts as a result of fraud is low. | 4 |
| Opinion on the Financial Statements | Unqualified opinion proposed. | 5 |
| Qualitative aspects of financial reporting | Overall, quality of draft financial statements and supporting working papers were satisfactory and the Authority has complied with new accounting guidance and 2006 SORP. We identified a number of immaterial errors in the draft accounts. Management have adjusted the accounts for all items except for those of a trivial nature. | 5 |
| Adjustments and unadjusted misstatements | No significant or material unadjusted errors in the accounts anticipated. | 6 |
| Use of resources assessment | This work was completed in February 2007 and has been reported separately. The Authority performed well and achieved an overall score of 4 (on a scale of 1-4 where 4 equates to excellent). | 8 |
| Value for money conclusion | Positive value for money conclusion proposed (i.e. that the Authority has arrangements in place to achieve economy, efficiency and effectiveness in its use of resources). | 8 |
| Public Interest Reports and referrals to the Secretary of State | None issued in the year. | 8 |

1. INTRODUCTION

Background

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. For the Authority we have agreed that those charged with governance are the Performance and Governance Committee.

At the time we are drafting this report our financial statements audit work is substantially complete. We are therefore able to indicate our anticipated audit findings and conclusions to members of the Audit Committee. We fully expect, however, to be able to present the final results of our work at the Performance and Governance meeting on 6 September.

Auditors' responsibilities

Auditors have a number of statutory responsibilities under the Audit Commission Act 1998, including:

- to give an opinion on the financial statements
- to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in the use of resources
- to consider whether to issue a report in the public interest or to refer an unlawful matter to the Secretary of State.

The work that we have undertaken is based on our 2006/07 audit plan.

Responsibilities of the Authority

The published accounts of the Authority 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 Authority to:

- prepare accounts that present fairly its financial position and its expenditure and income
- maintain proper accounting records
- ensure the regularity of transactions, by putting in place systems of internal control to ensure that financial transactions are lawful.

Content of this report

In this report we set out our findings from the audit of the financial statements, including:

- Our proposed audit opinion on the financial statements
- Our views about the qualitative aspects of the Authority'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 adjustments to the accounts and any uncorrected items in the financial statements
- The final draft of the letter of representation (*refer appendix*).

Within this report we have also included an update of recent audit work covering our other responsibilities:

- The results of our review of the Authority's arrangements to achieve economy, efficiency and effectiveness in its Use of Resources
- Confirmed scores from our Use of Resources review (*refer section 3*).

2. OPINION ON THE FINANCIAL STATEMENTS

Planning risks

Our initial audit planning identified the implementation of the requirements of the new Statement of Recommended Practice (SORP) 2006 as the key risk. The main changes required by the SORP is the replacement of the Consolidated Revenue Account (CRA) with an Income and Expenditure accounts; the introduction of a Statement of Total Recognised Gains and Losses (STRGL) and the removal of the requirement to charge service users asset rental charges for the use of fixed assets.

New accounting requirements for 2006/07

Our audit work has confirmed that the Authority has complied with new guidance in accounting for these issues and that the balances as stated in the Authority's accounts are materially correct.

Review of the Authority's Key Financial Systems

In order to arrive at an opinion on the Authority's accounts we assess whether the key financial systems on which the accounts are based are adequate and are operating as prescribed. The Authority has controls in place that enable it to assess during the year itself whether its controls are functioning properly. Of these, the key one is the presence of an effective Internal Audit service.

The Authority's key financial systems are subject to an annual review by Internal Audit and, in undertaking our assessment of the

Authority's key financial systems, we again aimed to place reliance on the work of the Internal Audit department. By undertaking the work in this way, we aim to minimise duplication of the combined Internal and External Audit effort.

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

- Main accounting system
- Payroll
- Income and Debtors
- Purchases and Creditors
- Bank and Cash
- Loans and Investments
- Pensions.

These systems generate material transactions and, as such, have a material impact on the Authority's annual accounts.

For each key system we reviewed the work undertaken by Internal Audit and, where necessary, performed additional testing to cover the entire 2006/07 period in sufficient detail.

Findings from the key financial systems audit

We confirmed that for each system the high level controls were in place and that during the period in question they operated as expected. In these cases we have therefore been able to place reliance on the systems for the purpose of our audit and reduce the amount of testing required during our final audit visit. We identified a number of control weaknesses during our work, including a number that had been identified by internal audit. These weaknesses were reported to management but were not sufficiently significant to prevent us being able to rely on the high level controls for our purposes or to require additional testing during the audit of the financial statements.

The most significant weakness we identified was in relation to fixed assets where we found that there was no formal or regular reconciliation carried out between property and finance records. This leads to the risk that the assets appearing in the financial statements are incomplete. We carried out additional testing in this area as part of our final accounts audit and as a result agreed additional disclosures in the draft accounts.

We concluded that the work of the Internal Audit department was again of a good quality in 2006/07 and that it provided a satisfactory level of assurance to the Authority on the adequacy of internal financial controls.

Risk of material mis-statement from fraud or other irregularity

Under ISAs 240 and 250 we are also required to assess the risk of material mis-statement in the Authority's accounts as a result of fraud or other irregularity.

Based on our work in this area we have concluded that the risk of material mis-statement due to fraud is low. In addition, our work on legality indicated that the Authority has adequate management arrangements to safeguard legality. We therefore considered the risk of material misstatement from this source to be low.

Financial statements audit

The Authority approved its draft accounts and submitted them for audit in advance of the 30 June deadline. Our audit started on 2 July and our main audit fieldwork was completed on 20 July. We can confirm that the Authority has prepared its financial statements for 2006/07 in accordance with the requirements of the 2006 SORP.

Proposed Audit Opinion

On the basis of our work so far we propose to issue an unqualified opinion on the financial statements following receipt of a letter of representation from management (*refer appendix*) and formal approval and signing of the financial statements, including the Statement on Internal Control.

Adjusted and unadjusted errors

During the course of our audit fieldwork we identified a number of non-material errors in the draft financial statements. We discussed these with management and, where appropriate, suitable amendments were agreed.

The most significant adjustments made to the draft accounts were:

- a more formal disclosure of the small parcels of amenity land remaining after the housing stock transfer;
- reclassification of IT capital expenditure as intangible fixed assets rather than deferred charges. However it is recognised that the accounting treatment used by the Council was that required by its previous auditors;
- revaluation of a disposed of asset at the point of disposal reducing the profit on disposal. This relates to the restatement of the previous year's accounts as required by the SORP 2006;
- changes to the way in which increases in provisions were disclosed; and
- rewording of some notes to the core statements.

None of the above amendments had any impact on the level of General Fund balances.

Where management does not adjust the accounts for significant misstatements and errors we are required to obtain formal representations from those charged with governance that they are satisfied with management explanations for not adjusting the

accounts. We do not anticipate that there will be any significant or material unadjusted errors in the accounts.

Future developments: International Financial Reporting Standards

The Government's Financial Statement and Budget report, published on 21 March 2007, stated that the accounts of public sector organisations, including local authorities, would be prepared using International Financial Reporting Standards (IFRS) from the first year of the Comprehensive Spending Review period, 2008/09. This reflects Government's desire that financial reports across sectors and globally should be more consistently prepared and easily comparable.

The adoption of IFRS will have significant implications for the way in which authorities prepare their annual financial statements, although these have yet to be worked through in detail.

The impact of the move to IFRS will vary from body to body, depending on materiality and local circumstances. The treatment of leases and private finance initiative (PFI) schemes in particular could have material implications for many bodies.

While the International Accounting Standards Board has issued guidance on accounting for PFI, that guidance only applies to the operators of PFI rather than to the public sector partner. Accordingly, it will be necessary to develop additional guidance for the public sector. Most commentators agree, however, that under international standards most PFI schemes are likely to come on to the balance sheet. Again, the practical financial implications of such a change will need to be thought through.

IFRS will impact on the Authority and we will keep the Authority informed of key developments and their implications.

3. ARRANGEMENTS FOR ECONOMY, EFFICIENCY AND EFFECTIVENESS IN THE USE OF RESOURCES

It is the responsibility of the Authority to put in place arrangements to achieve economy, efficiency and effectiveness in the use of resources. We are required to consider those arrangements and to report on whether we are satisfied that the Authority has put proper arrangements in place.

Authority Use of Resources scores

We completed our second Use of Resources review in February 2007. This involved scoring the Authority's arrangements for:

- Financial Reporting
- Financial Standing
- Financial Management
- Internal Control
- Value for Money.

The Authority was scored at 4 for financial management, financial standing and value for money and 3 for financial reporting and internal control (on a scale of 1 – 4 where 4 equates to excellent or performing strongly). This represents an excellent achievement by Sevenoaks. We are reporting the results of this review separately to the Committee.

VfM audit conclusion

The work we undertake on Use of Resources informs the Value for Money conclusion, which we provide annually in the Authority's financial statements. The VfM conclusion is an assessment of the Authority's arrangements on a range of issues, including:

- Establishment of strategic and operational objectives
- Community engagement and ensuring that services meet the needs of patients and taxpayers
- Monitoring and reviewing of performance
- Risk management
- Financial management
- Standards of conduct.

On the basis of our Use of Resources work we are content that we can issue a positive Value for Money audit conclusion. This will be issued alongside our audit opinion on the financial statements.

4. PUBLIC INTEREST REPORTS AND REFERRALS TO THE SECRETARY OF STATE

No matters have arisen in respect of the 2006/07 audit about which we have issued public interest reports or made referrals to the Secretary of State.

5. AUDIT FEES

A comparison of the planned and actual audit fees for 2006/07 is set out below.

| | Planned | Actual |
|--|----------------|---------------|
| | £ | £ |
| Opinion on the main financial statements and the SIC | 48,600 | 48,600 |
| Use of Resources/Best Value | 18,375 | 18,375 |
| Governance | 15,100 | 15,100 |
| Contribution to Audit Commission | 1,675 | 1,675 |
| Total | 83,750 | 83,750 |

APPENDIX

DRAFT LETTER OF REPRESENTATION

Baker Tilly UK Audit LLP
Lancaster House
7 Elmfield Road
Bromley
BR1 1LT

Date: xx September 2007

Dear Sirs

AUDIT OF FINANCIAL STATEMENTS – 31 MARCH 2007

We confirm, to the best of our knowledge and belief, and having made appropriate enquiries of other directors and officers of the Authority, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2007.

1. We acknowledge as directors 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 Authority have been properly reflected and recorded in the accounting records. All other records and related information and explanations, including minutes of all Board 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 Authority 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 Authority's financial statements communicated by employees, former employees, analysts, regulators or others.
3. There have been no significant or material unadjusted misstatements drawn to our attention by the auditors.
4. 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 (even if nil);
 - 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 Authority;
 - d. all guarantees or warranties or other financial commitments.
- 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 Authority 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.

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.

Yours faithfully

Signed on behalf of Sevenoaks District Council.

xxx
Director of Resources

xxx
Chair of the Performance and Governance Committee