



# **Sevenoaks District Council**

## **Report on the 2008/09 audit**

**Presented to the Performance and Governance Committee  
on 8 September 2009**

August 2009



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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. Our reports are 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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## SUMMARY

We summarise below the key results from our 2008/09 audit work.

Area	Results	Page
<b>Financial systems</b>	We were able to place reliance on controls in financial systems for the purpose of the audit.	4
<b>Opinion on the financial statements</b>	Unqualified opinion proposed.	6
<b>Qualitative aspects of financial reporting, including adjustments and unadjusted misstatements</b>	Overall, the quality of draft financial statements and supporting working papers was good and the Council has complied with new accounting guidance. We identified a small number of errors in the draft accounts, the majority being trivial. The accounts have been adjusted for a number of fixed assets that had been misclassified between Operational and non-operational assets. This has had no overall impact on the figures in the accounts. Additional disclosures have also been made to the Pensions and Financial Assets notes.	6
<b>Use of resources assessment</b>	We undertook our work between April and August 2009. At the time of drafting this report the Audit Commission has yet to complete its national quality assurance process and assessed scores cannot be made available for publication. We are therefore unable to report the final outcome of our work at this stage. We will, however, report to Members in the autumn.	8
<b>Value for money conclusion</b>	Positive value for money conclusion (i.e. that the Council has adequate arrangements in place to achieve economy, efficiency and effectiveness in its use of resources).	8
<b>Public Interest Reports</b>	None issued in the year.	10

## 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. The Council have determined 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. To date, we have not received any questions or objections from local electors, the period for which commenced on 27 July 2009.

### *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 Council 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 2008/09 audit plan, which we presented to Members in May 2008.

### *Responsibilities of the Council*

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:

- 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 Council's accounting practices and financial reporting
- The results of our work on accounting 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 to Appendix 1).

Within this report in section 3 we also describe audit work covering our other responsibilities:

- The results of our assessment of the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources
- The Use of Resources assessment.

## 2. AUDIT OF THE FINANCIAL STATEMENTS

### *Planning risks*

Generally, we regarded the audit of the Council's financial statements as low risk as our experience is that the Council's finances are well controlled. Nevertheless we highlighted a number of key audit risks affecting our audit plan to management in our report on 3 July 2009. The outcome of audit work around these areas is discussed below.

### *Changes to the SORP*

There were further changes to the Statement of Recommended Practice (SORP) for local authority accounting in 2008/09, notably relating to the treatment of retirement benefits based on updates to the Pensions SORP and valuation of assets. When planning the audit we considered these changes to be a potential source of error.

We critically reviewed the Council's financial statements in light of amendments to the SORP and against the SORP disclosure checklist and are satisfied that the Council has reflected the changes adequately in the financial statements.

### *Impact of the economic downturn*

We considered the effect of the economic downturn on the valuation of assets generally, and especially on the Council's fixed assets, as this posed a risk of material misstatement. We have reviewed the report of the Council's external valuer and considered his conclusion

in light of the evidence available, including the revaluations undertaken as part of the normal rolling programme.

We also reviewed the Council's bad debt provisions. We are satisfied that the Council has considered the impact of the economic downturn on its assets and reflected this in the financial statements.

### *Icelandic bank investment and treasury management*

We identified to management that the carrying value of the £1m invested in an Icelandic bank posed a risk of material misstatement. Owing to the uncertainty about how much authorities would recover from their investments in Icelandic banks, these investments have been subject to impairment reviews according to guidance issued by CIPFA.

We have reviewed the calculation of the impairment in the financial statements and found the impairment calculated by the Council to be in line with the most up-to-date CIPFA guidance.

We have also reviewed the Council's treasury management arrangements as part of our Use of Resources assessment and a separate exercise required by the Audit Commission. We note, in particular, that:

- The Council has an annual investment strategy which prioritises security and liquidity of investments made whilst aiming to achieve the optimum return within these restrictions

- A daily cash flow plan is also prepared in order to ensure the Council meets its cash flow requirements on a daily basis
- The Council identified the risks associated with Icelandic banks, and banks such as Northern Rock, and reflected this in its investment strategy well in advance of the economic downturn and collapse of certain banks in autumn 2008.

We have not identified any weaknesses in these arrangements which we would like to report to Members.

### *Review of the Council's key 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. The Council has controls in place that enable it to assess during the year whether its controls are functioning properly. Of these, the key one is the presence of an effective Internal Audit service.

The Council's key financial systems are subject to an annual review by Internal Audit and, in undertaking our assessment of the Council'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
- Treasury Management
- Council Tax
- NNDR.

These systems generate material transactions and, as such, have a material impact on the Council'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 2008/09 period in sufficient detail.

We confirmed that for each system the relevant high level controls were in place and that during 2008/09 they operated as expected. The only exception to this was the financial ledger system, in which the majority of journals prepared were not independently authorised. However, due to their nature officers perceive this to be low risk.

We therefore undertook additional work, which involved a review of journal entries, and did not identify misuse of them. 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 also concluded that the work of internal audit was again of a good quality in 2008/09 and that it provided assurance to the Council on the adequacy of internal financial controls.

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

Under ISAs 240 and 250 we are required to assess the risk of material mis-statement in the Council'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 Council has proper management arrangements to safeguard legality. We therefore considered the risk of material misstatement from this source to be low.

#### ***Financial statements audit***

The Council approved its draft accounts and submitted them for audit in advance of the 30 June deadline. We can confirm that the Council has prepared its financial statements for 2008/09 in accordance with the requirements of the SORP.

#### ***Proposed audit opinion***

On the basis of our work to date we propose to issue an unqualified opinion on the financial statements following receipt of a letter of representation from management (a draft of which is in Appendix 1) and formal approval and signing of the financial statements. Our proposed audit opinion is included in Appendix 2.

#### ***Adjusted and unadjusted errors***

During the course of the audit we identified a small number of errors in the draft financial statements. No material errors were identified. A small number of assets had been misclassified between Operational and Non-operational assets. The Council has now reclassified these in the accounts.

We identified a small number of misstatements which we considered to be trivial in size and therefore agreed with the Council that no adjustment to the accounts was necessary.

#### ***Future developments: International Financial Reporting Standards***

From 2010/11 the Statements of Accounts of public sector organisations will be prepared under an International Financial Reporting Standards (IFRS) based Code of Practice on Local Authority Accounting. This is part of a wider public-sector move to international standards.

The 2010/11 accounts prepared under IFRS will need to include comparative information, also under IFRS, for the 2009/10 year. Local Authorities therefore need to start planning for this change in 2009 and we will work with the Council as it responds to the new requirements.

### 3. USE OF RESOURCES

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

#### *Use of resources*

We have completed the annual use of resources assessment for 2009. The assessment involved scoring, on a scale of 1 – 4 where 4 equates to performing strongly, the Council's arrangements in three main themes:

Managing Finances

Governing the Business

Managing Resources.

The assessment, which is more demanding than under the previous Use of Resources framework, has differed from the previous use of resources framework insofar as:

- It has focused more heavily on the outcomes for local people and evidence that local people and/or other organisations recognise these outcomes. It is less focused on processes
- It has included focus on wider resource issues such as workforce planning
- It is more strategic and less detailed

- There are no criteria for Level 4. This means that the onus has been on authorities to demonstrate that their performance is clearly above level 3 and combines the following features:
  - real innovation, that others would recognise as such, and/or best practice
  - strong outcomes for the community
  - performance well above adequate levels across all areas covered by the KLOE
  - achievement of excellent value for money.
- Auditors are required to submit Knowledge Capture forms where strong performance or innovation is identified.
- The results of the Use of Resources work will feed into the Audit Commission's *Organisational Assessment* of the Council and into its area based assessment.

The key lines of enquiry under each theme are set out in Appendix 3.

#### *Current position*

The assessment is currently subject to the Audit Commission's national quality assurance process, which means that we are currently unable to disclose our proposed Use of Resources scores.

In summary, however:

- We have identified strengths in each of the main themes

- We have not identified any areas of weaknesses which we would like to draw to Members' attention.
- We have submitted Knowledge Capture forms to the Audit Commission in respect of certain key lines of enquiry. If these are accepted as demonstrating excellent performance, the Audit Commission plans to publish them.

We will report the final assessment and scores to Cabinet on 22 October 2009.

### ***Data quality***

As part of the 2009 Use of Resources work we assessed the Council's arrangements for data quality, covering both the management of data quality and spot checks in particular areas. The Council was found to have robust management arrangements in place to comply fairly with the Audit Commission's data quality criteria.

Based on the sample of Performance Indicators we audited we concluded that the data used is accurate, valid, reliable, timely, relevant and complete.

### ***Value for Money audit conclusion***

The work that we undertake on use of resources informs the value for money (VfM) conclusion which we provide annually in the Council's financial statements. The VfM conclusion is an

assessment of the Council'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 the work we have undertaken we need to confirm whether or not the Council has adequate arrangements to achieve value for money in the use of resources. Our conclusion is that it had such arrangements in place in 2008/09.

**4. PUBLIC INTEREST REPORTS**

No matters have arisen in respect of the 2008/09 audit about which we have issued a public interest report.

**5. AUDIT FEES**

A comparison of the planned and actual audit fees for 2008/09 is set out below.

	<b>Planned</b>	<b>Actual</b>
	£	£
Financial statements	53,350	53,350
Use of Resources	37,000	37,000
Total	<u><b>90,350</b></u>	<u><b>90,350</b></u>

**APPENDIX 1**

**DRAFT LETTER OF REPRESENTATION**

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

Date: xx September 2009

Dear Sirs

**AUDIT OF FINANCIAL STATEMENTS – 31 MARCH 2009**

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 31 March 2009.

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 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 we have taken all the steps that we ought to have taken as directors in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to the auditors. We confirm that, as far as we are aware, there is no relevant audit information of which the auditors are unaware.
3. 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.
4. There have been no misstatements drawn to our attention by the auditors.
  5. 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 Council;
    - d. all guarantees or warranties or other financial commitments
  6. 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.
  7. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
  8. 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

Deputy Chief Executive and Director of Corporate Resources

Chairman of the Performance and Governance Committee

**APPENDIX 2**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
SEVENOAKS DISTRICT COUNCIL**

**Opinion on the financial statements**

We have audited the Authority accounting statements and related notes of Sevenoaks District Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The Authority accounting statements comprise the Authority Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority Balance Sheet, the Authority Statement of Total Recognised Gains and Losses, the Authority Cash Flow Statement, 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 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 Director of Corporate Resources and auditor**

The Director of Corporate Resources' responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

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 Authority accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008 the financial position of the Authority and its income and expenditure for the year.

We review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE 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 governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

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

policies are appropriate to the Authority'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 Authority accounting statements and related notes 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 Authority accounting statements and related notes.

### **Opinion**

In our opinion the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

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

Date:

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

#### ***Authority's Responsibilities***

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

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

We are 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 us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### ***Conclusion***

We have undertaken our 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 February 2009, we are satisfied that, 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 2009.

**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 UK Audit LLP  
Chartered Accountants  
Lancaster House  
7 Elmfield Road  
Bromley  
BR1 1LT

Date:

**APPENDIX 3**

**USE OF RESOURCES KEY LINES OF ENQUIRY**

***Managing Finances – how effectively does the Council manage its finances to deliver value for money?***

- 1.1 Does the organisation plan its finances effectively to deliver its strategic priorities and secure financial health?
- 1.2 Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?
- 1.3 Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?

***Governing the business – how well does the Council govern itself and commission services that provide value for money and deliver better outcomes for local people?***

- 2.1 Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?
- 2.2 Does the organisation produce relevant and reliable data and information to support decision-making and manage performance?
- 2.3 Does the organisation promote and demonstrate the principles and values of good governance?
- 2.4 Does the organisation manage its risks and maintain a sound system of internal control?

***Managing resources – how well does the Council manage its natural resources, physical assets and people to meet current and future needs and deliver value for money?***

- 3.1 Is the organisation making effective use of natural resources?
- 3.2 Does the organisation manage its assets effectively to help deliver its strategic priorities and service needs?
- 3.3 Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic objectives?

Note:

KLOEs 3.1 and 3.2 have not been assessed in 2009. KLOE 3.1 will, however, be assessed in 2010.