

Annual governance report

Sevenoaks District Council

Audit 2011/12



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Key messages

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

Financial statements

My audit is now substantially complete. I expect to issue an unqualified audit opinion after the Performance and Governance Committee on 18 September 2012.

The Council produced a draft set of accounts by the 30 June 2012 deadline which were of a sound standard overall. The accounts were supported by good quality working papers and officers were prompt and helpful in responding to queries from the audit team. A number of amendments have been made as a result of the audit

Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. I have considered your arrangements to:

- secure financial resilience; and
- secure economy, efficiency and effectiveness.

The Council continues to have strong arrangements in place to ensure value for money. This includes high quality financial monitoring and robust medium term financial planning which is underpinned by high quality strategic leadership at both Member and senior officer level.

Certificate

I plan to issue my certificate by 30 September 2012.

Before I give my opinion and conclusion

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

Independence

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

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

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2010/12.

I ask the Performance and Governance Committee to:

- take note of the adjustments to the financial statements included in this report (appendix 2);
- approve the letter of representation (appendix 3), on behalf of the Authority before I issue my opinion and conclusion.

Financial statements

The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

Subject to final audit closing procedures, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Amendments

My audit identified some presentational and typographical areas for improvement. I have discussed these with management and agreed amendments as appropriate. This has also included amendments in relation to:

- reclassification of Council Tax Benefits income and expenditure as shown in the income and expenditure account;
- upgrading a contingent liability to a provision for potential costs associated with Municipal Mutual Insurance Limited (MMI) claims of £221,000 where the latest information from MMI suggests the scheme of arrangement is more likely to be called upon ;and
- the accounting treatment of Council tax refunds where the refund extends back, to beyond the period covered by the current Academy system.

I have set out further details on these in Appendix 2.

Officers have previously reported to Cabinet in July that they have also made two adjustments to the financial statements in respect of:

- the need to include disclosure of Heritage Assets, which is a new requirement for 2011/12 ; and
- a text disclosure error in relation to the level of surplus for the year transferred to the Budget Stabilisation reserve.

Significant risks and my findings

I reported to you in my March 2012 Audit Plan the significant risk that relevant to my audit. I report to you my findings below:

Table 1: **Table 1.Risks and findings**

Risk	Finding
<p>Valuation of property, plant and equipment (PPE)</p> <p>The Authority is required to value most types of PPE at fair value (except for infrastructure, community assets and assets under construction which are valued at historic cost). Accounting for PPE crosses over many areas within the financial statements and the values at Sevenoaks are significant, (£19m valuation at 31/3/2011). Because the accounting is complex and includes material estimations, there is potential for material error.</p>	<p>The Authority carries PPE in the balance sheet at fair value. For freehold and leasehold properties (the majority of the Council's property holding) fair value is determined in accordance with Royal Institute of Chartered Surveyors' RICS valuation principles for particular asset types:</p> <ul style="list-style-type: none"> ■ Existing Use Value (operational assets); ■ Market Value (investment properties) ■ Depreciated Replacement Cost (specialist assets with no market) <p>The Authority uses independent valuations provided by its external valuers to inform it of current valuations; a rolling programme of valuations is carried out to ensure that whole portfolio is revalued every five years.</p> <p>All estimates carry with them a degree of uncertainty. In the case of valuation of PPE, this is minimised by using suitably qualified independent valuers and the application of appropriate valuation principles.</p> <p>The risk of error at the Council is further minimised by officers closely scrutinising the output from the valuer and questioning any unusual trends or items. In respect of the 2011/12 valuation exercise officers identified a number of anomalies including:</p> <ul style="list-style-type: none"> ■ an unusual downward revaluation movement of £1.2m to an investment property; ■ inconsistency in the description of property (operational/ investment) ■ a discrepancy between electronic and hard copy versions of the valuation report. <p>I am satisfied that these items have been appropriately addressed between the Council and the valuer.</p>

Significant weaknesses in internal control

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

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

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

Other matters

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

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

I have no additional matters to report.

Whole of Government Accounts

Alongside my work on the financial statements, I have also reviewed and reported to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report were specified by the National Audit Office. Subject to the final completion of my audit testing, I have no matters to report.

Value for money

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

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

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

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

Criteria	Findings
1. Financial resilience The organisation has proper arrangements in place to secure financial resilience. Focus for 2011/12: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	<p>The quality of financial governance and leadership within an organisation is critical in meeting the financial management challenges and for securing financial resilience. Although good basic systems, controls and processes are important, it is the overall financial culture that makes the difference. Sevenoaks District Council has a strong culture of financial leadership provided by experienced and knowledgeable officers who have been able to respond to the scale of financial challenges arising from cuts in government funding.</p> <p>The Authority's financial planning and modelling extends over the long term, which allows it to take decisions in a planned way, allowing for the lead-in time that is necessary in implementing organisational change.</p> <p>Tight financial control is maintained over revenue budgets; over successive years the annual out turn has achieved a surplus. For 2011/12 the authority achieved a</p>

Criteria	Findings
	surplus of £518,000, which has been transferred into the 'Budget Stabilisation' Reserve. The year end balance on this of £2.8 million, along with that of the more strategic 'Financial Plan' reserve allows the Authority to manage transition budget pressures and invest in projects to deliver longer term efficiencies, service improvements and reduce the extent to which the Authority's budget is reliant on income from reserves.
2. Securing economy efficiency and effectiveness <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2011/12:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>The Council has continued to implement the savings programme it started previously. During 2011/12 the Council delivered a number of important savings actions. It has :</p> <ul style="list-style-type: none"> ■ completed a review of staff pay and conditions; ■ implemented a more streamlined senior management structure; ■ developed property sharing arrangements with Moat Housing and Kent Police to improve under utilised office space, maintain services and generate income; and ■ implement shared environmental health services with Dartford Borough Council. <p>This activity has been delivered against a new corporate vision and priorities set by the Leader.</p>

In my March 2012 Audit Plan I reported to you the significant risk that was relevant to my conclusion. I have set out below the findings of my work.

Table 3: **Significant risk**

Risk	Finding	Impact on VFM conclusion
The external financial environment continues to be a very challenging one for all local authorities. The need to maximise the efficient use of resources cuts across all of the Council's operations and is reflected	<p>The Council recognised the significance of the financial challenges it faced and started its 2011/12 budget setting process two months earlier than usual. From this a ten year budget and four year savings plan were developed.</p> <p>A similar approach was adopted for the 2012/13</p>	I intend to issue an unqualified vfm conclusion. The council is taking a reasonable and prudent approach to manage future spending downwards to within the level of its projected income.

Risk	Finding	Impact on VFM conclusion
<p>in the Council's risk register along with associated actions and controls to mitigate the risks.</p>	<p>budget, with members being informed of the future financial prospects and risk assessment of the budget at an early stage.</p> <p>The current outlook remains very challenging with increased uncertainty over the level of future income. Further reductions in government grant appear likely, which will continue to challenge the Council. In particular there are uncertainties surrounding the impact of the Local Government resources review and the local retention of business rates by the Council. In response the Council has established a cabinet portfolio for Economic Development and Partnerships as business development in the area is highly important to future levels of grant income.</p>	

Fees

I reported my planned audit fee in the March 2012 Audit Plan.

I will complete the audit within the planned fee.

Table 4: **Fees**

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	94,402	94,402
Claims and returns	25,000	25,000
Non-audit work	0	0
Total	119,402	119,402

Appendix 1 – Draft independent auditor's report

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

Opinion on the Authority financial statements

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

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

Respective responsibilities of the Director of Resources (Deputy Chief Executive) and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting

policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Resources (Deputy Chief Executive); and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

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

Opinion on other matters

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

Matters on which I report by exception

I report to you if:

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

I have nothing to report in these respects

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

Respective responsibilities of the Authority and the auditor

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 to review regularly the adequacy and effectiveness of these arrangements.

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

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

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

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

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

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

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

Conclusion

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

Certificate

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

Andy Mack

District Auditor

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

18 September 2012

Appendix 2 – Amendments

I have discussed the following issues with management during my audit and management have amended the financial statements as a result.

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of issue	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Classification: Council Tax benefit	The Council receives Council Tax benefit grant from the Department for Work and Pensions (DWP) in relation to Council tax benefit granted to taxpayers. Both the grant received from the DWP (income) and the benefit granted to council tax payers (expenditure) was incorrectly classified in the accounts against Housing Services rather than Central Services to the public (as required by the Chartered Institute of Public Finance and Accountancy). This has therefore resulted in a movement within the service lines of the CIES. There is no overall impact on the reported financial performance for the Council.	£7,200	£7,200		
Contingent Liabilities and Provisions	The Council has included a contingent liability in respect of Municipal Mutual Insurance Limited (MMI) claims of	£221			£221

		Statement of comprehensive income and expenditure	Balance sheet
	£221,000. Based on information provided in MMI's latest accounts, at the end of June, and the outcome of a recent Supreme Court Judgement, it is our view that a provision is now required in respect of MMI		
		Collection Fund	Balance sheet
Council tax refunds (banding appeals) extending back to prior to the current Academy System	Although refunds have been properly accounted for in individual taxpayers personal accounts, the process requires manual intervention to deal with the pre-Academy element of a refund. The day to day automated posting between Academy and the ledger has not dealt with these postings and as a result, £484,000 of these transactions needed to be posted through the ledger.	£484	£484

Appendix 3 – Draft letter of management representation

Sevenoaks District Council Audit of Accounts for the year ended 31 March 2012

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

Compliance with the statutory authorities

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

Supporting records

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

Irregularities

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

I also confirm that I have disclosed:

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

Law, regulations, contractual arrangements and codes of practice

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

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

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

Accounting estimates including fair values

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

For property valuations accounting estimate, I confirm:

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the method;
- the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Authority, where relevant to the accounting estimates and disclosures;
- the disclosures relating to the accounting estimate are complete and appropriate under the Code; and
- that no subsequent event requires the Authority to adjust the accounting estimate and related disclosures included in the financial statements.

Related party transactions

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

Subsequent events

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

Signed on behalf of Sevenoaks District Council

I confirm that the this letter has been discussed and agreed by the Performance and Governance Committee on 18 September 2012

Signed

Name

Position

Date

Appendix 4 – Glossary

Annual Audit Letter

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

Annual Governance Report

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

Annual Governance Statement

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

Audit of the accounts

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

Audited body

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

Auditing Practices Board (APB)

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

Auditing standards

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

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

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

Commission (the)

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

Ethical Standards

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

Financial statements

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

Group accounts

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

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

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement

within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

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

Significance

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

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

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

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

