

# Annual Governance Report

Swale Borough Council

Audit 2009/10

**21 September 2010**

---

# Contents

<b>Key messages</b>	<b>4</b>
<b>Next steps</b>	<b>6</b>
<b>Financial statements</b>	<b>7</b>
<b>Value for money</b>	<b>12</b>
<b>Glossary</b>	<b>13</b>
<b>Appendix 1 – Independent auditor’s report to Members of Swale Borough Council</b>	<b>15</b>
<b>Appendix 2 – Amendments to the draft accounts</b>	<b>18</b>
<b>Appendix 3 – Unadjusted misstatements in the accounts</b>	<b>21</b>
<b>Appendix 4 – Draft letter of representation</b>	<b>22</b>
<b>Appendix 5 – Value for money criteria</b>	<b>26</b>
<b>Appendix 6 – Action plan</b>	<b>27</b>

---

## Status of our reports

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

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

Ladies and Gentlemen

## **2009/10 Annual Governance Report**

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

I discussed and agreed a draft of the report with the Interim Head of Finance and Chief Accountant on 15 September 2010 and updated it as issues have been resolved.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 10);
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors; (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

Yours faithfully

Andy Mack  
District Auditor

21 September 2010

# Key messages

This report summarises the findings from the 2009/10 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

<b>Financial statements</b>	<b>Results</b>	<b>Page</b>
Unqualified audit opinion	Yes	7
Financial statements free from material error	Yes	7
Adequate internal control environment	Yes	8
<b>Value for money</b>	<b>Results</b>	<b>Page</b>
Adequate arrangements to secure value for money	Yes	12

## Audit opinion

- 1 My work on the 2009/10 financial statements is substantially complete. I have set out the outstanding items required to complete the audit in paragraph 10. Subject to the satisfactory completion of my work, I plan to issue an unqualified audit opinion on the financial statements by 30 September 2010. Should any further matters arise in concluding the outstanding work that need to be reported, I will raise them with the Chairman of the Audit Committee.

## Financial statements

- 2 The financial statements submitted for audit were complete and submitted by the deadline of 30 June. The accounts contained two material accounting misstatements, several non-trivial misstatements and some disclosure errors. The Council has amended the material items and the revised accounts will be re-approved by the Committee on 29 September.
- 3 Although my audit did identify two material accounting misstatements, both relate to classification matters which have no impact on the level of the General Fund.
- 4 Last year we noted that a combination of sickness absence and staff turnover within the finance team adversely impacted on the efficiency and quality of arrangements. Whilst this year there were improvements, these factors still meant that there were areas in the closedown process for this year's accounts which did not meet the standards achieved in previous years. Senior officers are currently working hard to strengthen capacity within the finance team by a combination of staff restructuring and use of a secondeed from Kent County Council.

## Key messages

---

### Value for money

- 5 I plan to issue an unqualified value for money conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

---

### Audit fees

- 6 As I have not yet concluded my audit I am unable to confirm the final fee to be charged. Should there be any changes to my planned fee I will report on these in my annual audit letter.

---

### Independence

- 7 I can confirm that there were no relationships giving rise to a threat to independence, objectivity and integrity.

---

# Next steps

**This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.**

---

**8** I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 10);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified that management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

# Financial statements

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

---

## Opinion on the financial statements

- 9 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.
  - 10 The key outstanding matters at the time of writing this report are:
    - detailed review and agreement of amendments to the financial statements;
    - receipt of a signed letter of representation; and
    - closing audit procedures, including a final review of any events after the balance sheet date.
  - 11 I will report to you the outcome of the above matters at the Audit Committee meeting on 29 September 2010.
- 

## Errors in the financial statements

- 12 My audit of the Council's accounts seeks to ensure the accounts are materially correct and present a true and fair view of the financial transactions of the Council in 2009/10.
- 13 I set the materiality level for this audit at £1.37 million. I also set a threshold below which I judge any errors to be 'trivial' and do not seek any amendments to the accounts. I have set the trivial threshold at £13,700.
- 14 I am required to bring to your attention misstatements that have already been corrected by management where I consider them relevant in assisting you to fulfil your governance responsibilities.
- 15 The financial statements submitted for audit contained two material accounting misstatements and three other significant disclosure errors. Appendix 2 details those accounting misstatements and disclosure errors that have been corrected by management, including other non-trivial misstatements I identified during the audit.
- 16 I am also required to report to you the unadjusted misstatements and errors that I have identified during the course of our audit. I have identified two unadjusted non-trivial accounting misstatements, as set out in Appendix 3.

- 17** I recommend that you amend the accounts for these non-trivial accounting misstatements. However, if you choose not to do so, please include reasons for not correcting the misstatements in your letter of representation.

---

### Important weaknesses in internal control

- 18** I have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware. I have however identified some areas where improvement can be made and, as with previous years, these will be reported to management in my forthcoming Accounts Memorandum. This will not necessarily provide a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made, as I can only report those matters which have come to my attention because of the audit procedures I have performed.
- 19** There are two matters which I would specifically like to draw to your attention in this report. These are:
- Termination payments to staff; and
  - The findings of an employment tribunal in June 2009.

#### Termination payments

- 20** Early in 2009/10 the Council identified that termination payments made to four individuals in March 2009 were incorrectly calculated and overstated by a total of approximately £41k. The overpayments arose because payments had been made in accordance with old terms and conditions. Although some of this money has subsequently been recovered, this represents a lapse in administrative and approval processes within the Council. I understand from management that arrangements were revised shortly after the discovery of the overpayments to prevent this re-occurring.

#### Employee tribunal

- 21** In June 2009 a former employee took the Council to an employment tribunal, alleging sex discrimination. Although the claimant lost the tribunal case, the judge did make some serious criticisms of the Council relating to both the process for appointing a senior member of staff and the quality of information provided to the tribunal in support of the appointment of another member of staff on higher pay than the claimant.
- 22** I have discussed this matter with the Chief Executive, who takes the criticisms seriously. The Council has subsequently reviewed and strengthened arrangements within its human resources department, including its policies and procedures for recruitment.

Recommendation	
<b>R1</b>	Ensure that improvements made in the HR process, including the award of termination payments and staff recruitment, are maintained. I also recommend that Internal Audit undertake a follow up review in 2010/11 to assess progress made.



## Financial statements

### Key areas of judgement and audit risk

23 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

**Table 1 Key areas of judgement and audit risk**

Issue or risk	Finding
Valuation of fixed assets in light of continuing volatility in the property market	I reviewed the evidence provided to support the Council's assessment of asset values, and found this to be reasonable.
Application of agency accounting for council tax and national non-domestic rates, as required by CIPFA Statement of Recommended Practice 2009	I checked the accounting entries against SORP requirements and agreed the figures used to supporting documentation. As noted in Appendix 2, I found a material misstatement and a number of non-trivial misstatements.
New legislation introduced in March 2010 in relation to the disclosure of senior officer remuneration	As noted in Appendix 2, I found disclosures incorrectly excluded returning officer fees.
Accounting for deferred repayment terms permitted for certain backdated business rates bills under legislation introduced in March 2009	My review confirmed that the contribution to the pool figure in the accounts properly reconciles to the equivalent figure in the 2009/10 NNDR return.
Transfer of payroll processing to Maidstone BC as from February 2010	My analytical review procedures confirmed that payroll costs processed in February and March 2010 were fairly stated.
Bad debt provision – increased risk of bad debts in light of continuing economic downturn	As noted in Appendix 2, I found the NNDR bad debt provision to be overstated by approximately £500k primarily due to a compilation error.
Accounting for material contract costs	I found that costs recognised in relation to the waste management/street cleansing, grounds maintenance and leisure contracts were fairly stated.

### Accounting practice and financial reporting

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

Table 2

Issue or risk	Finding
In previous years our work has found significant governance issues have been omitted from the Annual Governance Statement approved by members in June.	As noted in Appendix 2, I identified that the Statement omitted significant governance issues relating to limited assurance internal audit reports and lack of internal audit systems coverage.
Additional disclosures could make the accounts less user friendly for readers of the accounts and make meaningful analysis more difficult.	The accounts continue to be long compared with other Kent authorities, despite efforts made to remove duplication and unnecessary notes to the accounts, due to font size and additional information provided.
Related party transaction disclosures may not be complete.	The Council has a process in place to record declarations of related party transactions by both members and officers but does not have a process to record the fact that these had been properly considered to establish whether they should be disclosed or not.

### Recommendations

**R2** Review arrangements for the review of the effectiveness of the governance framework to ensure all potential significant governance issues are captured and considered for disclosure.

**R3** Continue to find ways of reducing the length of the accounts, focussing on the Explanatory Foreword, Annual Governance Statement and Statement of Accounting Policies.

**R4** Document consideration of potential disclosure implications of related party transactions declared by members and officers.

### Letter of representation

**25** Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation.

### Way forward

- 26** I will shortly issue to management an Accounts Memorandum. The key purpose of the memorandum is to highlight more detailed findings of our audit to officers, including any internal control weaknesses or areas for improvement. I will agree an action plan for addressing any recommendations with senior officers and will monitor progress in implementing the recommendations during my 2010/11 audit.

---

# Value for money

I am required to decide whether the Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

---

## Value for money conclusion

- 27 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 5.
- 28 I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft report.

# Glossary

---

## Annual governance statement

- 29** Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.
- 30** It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.
- 31** The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.
- 

## Audit closure certificate

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

## Audit opinion

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

## Materiality

- 34** Information is material if its omission or misstatement could influence the decisions of readers of the accounts taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement.
- 

## Qualified

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

---

**SORP**

- 36** CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (the SORP) specifies the principles and practices of accounting required to prepare accounts which give a true and fair view of the financial position and transactions of a local authority.

---

**Unqualified**

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

---

**Value for money conclusion**

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

# Appendix 1 – Independent auditor’s report to Members of Swale Borough Council

---

## Independent auditor’s report to the Members of Swale Borough Council

### Opinion on the accounting statements

I have audited the Authority accounting statements and related notes of Swale Borough Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the 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 Swale Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

### **Respective responsibilities of the Interim Head of Finance and auditor**

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

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

I report to you my opinion as to whether the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks

and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements. My responsibilities do not extend to any other information.

### **Basis of audit opinion**

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

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

### **Opinion**

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

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

### **Authority’s Responsibilities**

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

### **Auditor’s Responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper



## Appendix 1 – Independent auditor’s report to Members of Swale Borough Council

arrangements, having regard to relevant criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, Swale Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

### Certificate

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

.....

*Andy Mack*

*District Auditor*

*Audit Commission, 16 South Park, Sevenoaks, Kent TN13 1AN*

*[ ] September 2010*

# Appendix 2 – Amendments to the draft accounts

I identified the following misstatements during my audit and the financial statements have been adjusted by officers. I bring them to your attention to aid you in fulfilling your governance responsibilities. Adjustments annotated with a # indicate that they have no impact upon either the level of the General Fund or Collection Fund balance

**Table 3**

Adjusted misstatements	Nature of adjustment
<b>Material accounting misstatement</b>	
1. Agency accounting for NNDR balances incorrectly implemented in that the overall net balance (£3,213k) was included within taxpayers' accounts rather than amounts due from central government	Amount reclassified into appropriate category of debtors #
2. Misstated figures reported in the Cash Flow Statement for Net cash outflow from Revenue Activities (understated by £1,253k), Purchase of Fixed Assets (overstated by £2,290k), Net Increase/ (Decrease) in Other Liquid Resources and Repayments of Amounts Borrowed	Individual lines in the Cash Flow Statement and associated notes to the accounts have been amended, with no overall impact upon the Net decrease in Cash figure of £1,073k #
<b>Non-trivial accounting misstatements</b>	
1. Community asset (£1,183k) incorrectly transferred into Land & Building and revalued down to £nil	Community asset reinstated and impairment loss charged to Income and Expenditure Accounts reversed out #
2. Agency accounting for council tax balances incorrectly implemented in that amounts due from major preceptors (£1,017k) were included within taxpayers' accounts rather than amounts due from other local authorities	Amount reclassified into appropriate category of debtors #
3. Pension costs (£866k) associated with 12 early retirements not recognised in the accounts as omitted from the actuary's	Additional pension costs recognised in Net Cost of Services (Non-distributed costs), with Statement of Movement in

## Appendix 2 – Amendments to the draft accounts

Adjusted misstatements	Nature of adjustment
FRS17 disclosures report	General Fund Balance, Income and Expenditure Account, pensions liability and reserve amended accordingly #
4. The in-year postings of pension payments direct to services have not been fully reversed out, resulting in an incorrect credit entry of £727k in Non-distributed costs within Net Cost of Services	Credit entry in Non-distributed costs reallocated across relevant net service expenditure lines #
5. In-year property revaluations posted as at 31 March 2010 rather than the actual valuation date of 1 April 2009, resulting in in-year depreciation of £692k being incorrectly taken into account in the revaluation entries	Revaluation entries revised so that in-year depreciation is not taken into account #
6. NNDR bad debt provision estimated to be overstated by approximately £500k primarily due to a compilation error	Decrease bad debt provision and increase amount payable to the national pool by £530k #
7. BACS element (£377k) of housing benefit payment run on 31 March 2010 not accrued for, plus no subsidy accrued for the whole of the payment run (£472k)	Housing Services income and expenditure increased by £472k and £377k respectively
8. Long term payments in advance (£706k) relating to the leisure contract not aged in accordance with the actual contract terms.	£351k of total long term payments in advance reclassified as due within less than one year #
9. The Council's share of council tax overpayments and prepayments (£106k) was incorrectly netted off against its share of council tax arrears, rather than being disclosed within creditors, plus the cash posting account (£64k) was not shared between major preceptors	Increase council tax debtors and amounts due from other local authorities #
10. An element (£135k) of housing benefit subsidy has been accrued with sundry debtors rather than within amounts due from central government	Amounts reclassified into appropriate categories of debtors #
11. Cheque for £132k raised in March 2010 but not despatched until after the year end incorrectly included within the cash book	Cash overdrawn reduced and sundry creditors increased #
12. Repayments of housing repair loans (£100k for both 2008/09 and 2009/10) posted to the Income and Expenditure Account contrary to SORP requirements	Entries in Income and Expenditure Account and Statement of Movement in General Fund Balance removed and credit entry in Capital Receipts Reserve reallocated to Unapplied Capital Grants #

## Appendix 2 – Amendments to the draft accounts

Adjusted misstatements	Nature of adjustment
13. VAT of £71k relating to purchase invoices with tax points after 31 March 2010 incorrectly included in the VAT debtor	Both sundry creditors and amounts due from central government reduced #
14. A credit balance of £39k on the NNDR receipts account has been included in sundry creditors rather than offset against amounts due from central government	Amount reclassified against appropriate categories of debtors #
15. Audit adjustment to the 08/09 housing benefit subsidy claim was not posted to the ledger during 09/10.	Recognise additional income of £38k within Net Cost of Services (Housing Services)
16. Employer contributions into the Kent Pension Fund were £28k lower than that accounted for via the Statement of Movement on the General Fund Balance	Both pensions liability and reserve increased, and SMGFB and Income and Expenditure Account entries corrected #
17. Debit entry (£18k) exists on the NNDR refunds account relating to amount paid twice to the Council in error	Amount written off to Net Cost of Services (Highways, Roads & Transport Services)
18. Depreciation of £18k not charged on existing fixed assets identified by valuer as operational, but not previously recognised in valuations	Depreciation charge increased in line with accounting policy #
<b>Other significant disclosure errors</b>	
1. Annual Governance Statement omitted significant governance issues relating to limited assurance internal audit reports and lack of internal audit systems coverage	Additional significant governance issues added to the Statement #
2. Employee and senior officer remuneration disclosures omitted returning officer fees contrary to CIPFA guidance	Disclosures amended to include returning officer fees #
3. Material non-adjusting post balance sheet event in relation to an announcement by the government on 22 June 2010 to move to using the CPI as the measure of price inflation for public sector pension schemes from April 2011 not disclosed	Disclose the event, together with an estimate of its financial effect, in the Events after the Balance Sheet Date note #

# Appendix 3 – Unadjusted misstatements in the accounts

I identified the following non-trivial misstatements during my audit and the financial statements have not been adjusted by management. I bring them to your attention to help you in fulfilling your governance responsibilities. If you decide not to amend, please tell us why in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

**Table 4**

Description of non-trivial misstatement	Accounts affected	Value
1. The element of council tax arrears relating to summons costs (£343k) has been apportioned between major preceptors rather than wholly retained as amounts due to the Council	The classification between categories of debtors is misstated	£301k #
2. The element of NNDR arrears relating to summons costs (£22k) has been included within amounts due from central government, whilst this falls outside the agency arrangement and hence represents amounts due to the Council itself	The classification between categories of debtors is misstated	£22k #

# = no impact upon either the level of the General Fund or Collection Fund balance

---

# Appendix 4 – Draft letter of representation

---

Andy Mack  
District Auditor  
Audit Commission  
16 South Park  
Sevenoaks TN13 1AN

Dear Andy,

## **Swale Borough Council - Audit for the year ended 31 March 2010**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other senior officers of Swale Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010.

### **Compliance with the statutory authorities**

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which give a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

### **Uncorrected misstatements**

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows;

- reason 1 etc;
- reason 2

### **Supporting records**

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all committee meetings, have been made available to you.

### **Irregularities**

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

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

### **Law, regulations, contractual arrangements and codes of practice**

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

### **Fair values**

I confirm the reasonableness of the significant assumptions within the financial statements, including:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require adjustment to the fair value measurement.

### **Assets**

The following have been properly recorded and, when appropriate, adequately disclosed in the financial statements:

- losses arising from sale and purchase commitments;

- agreements and options to buy back assets previously sold; and
- assets pledged as collateral.

### **Compensating arrangements**

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

### **Contingent liabilities**

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and,
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

### **Related party transactions**

I confirm the completeness of the information provided regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

### **Post balance sheet events**

Since the date of approval of the financial statements by members of the Council, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

### **Specific representation**

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



## Appendix 4 – Draft letter of representation

Signed on behalf of Swale Borough Council

I confirm that this letter has been discussed and agreed by the Audit Committee on 29 September 2010.

.....

Name    Nick Vickers

Position    Interim Head of Finance

Date        .....

# Appendix 5 – Value for money criteria

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

# Appendix 6 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Annual Governance Report 2009/10 - Recommendations</b>						
8	Ensure that improvements made in the HR process, including the award of termination payments and staff recruitment, are maintained. I also recommend that Internal Audit undertake a follow up review in 2010/11 to assess progress made.	3	Head of Organisational Development Head of Internal Audit Partnership	Yes	Changes to HR process for termination payments and staff recruitment have been implemented. The Internal Audit Team will be carrying out a follow up review by December 2010.	Ongoing  December 2010
10	Review arrangements for the review of the effectiveness of the governance framework to ensure all potential significant governance issues are captured and considered for disclosure.	3	Head of Internal Audit Partnership Head of Finance	Yes	The Head of the Internal Audit Partnership and the Head of Finance will clarify their respective roles with regard to the capture and disclosure of significant governance issues.	October 2010

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Annual Governance Report 2009/10 - Recommendations</b>						
10	Continue to find ways of reducing the length of the accounts, focussing on the Explanatory Foreword, Annual Governance Statement and Statement of Accounting Policies.	2	Chief Accountant	Yes	A review will be made of the presentational requirements for the Statement of Accounts 2010-11 to reduce their size whilst meeting the accounting standards required.	For the 2010-11 accounts
10	Document consideration of potential disclosure implications of related party transactions declared by members and officers.	2	Chief Accountant	Yes	The recommendation will be implemented.	For the 2010-11 accounts

---

# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

---

## Copies of this report

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

© Audit Commission 2010

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

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

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

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

---