

Annual Governance Report

Swale Borough Council

Audit 2007/08

28 August 2008

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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.

Summary

Purpose

- 1 This report summarises the findings from our 2007/08 audit, which is substantially complete. It identifies the key issues that you should consider before we issue our opinion, conclusion and certificate.
- 2 This report includes only matters of governance interest that have come to our attention in performing our audit. Our audit is not designed to identify all matters that might be relevant to you.

Financial statements and Annual Governance Statement

- 3 Our work on the financial statements is substantially complete although there are two outstanding items as at 28 August 2008. Should any further matters arise in concluding the outstanding work that need to be reported, we will raise them with the Chairman of the Council.
- 4 We expect to issue an unqualified opinion on the financial statements. The financial statements submitted for audit were complete and contained no material accounting errors. As a result there is no requirement for revised financial statements to be re-approved by members. Last year we noted that the arrangements for production of your financial statements had improved, and we are pleased to record that further enhancements have been made this year. In particular, the quality and timeliness of working papers provided to us were further improved and new significant capital accounting requirements for 2007/08 were effectively implemented.
- 5 As a result of our audit, the Annual Governance Statement approved by full Council in June 2008 has been revised to incorporate two additional significant governance issues.

Value for Money

- 6 We propose issuing an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources. This is a significant improvement from last year's qualified conclusion.

Next steps

- 7 This report has been prepared for presentation to the Council on 17 September 2008. Members are invited to:
 - approve the revised Annual Governance Statement on behalf of the Council before we issue our opinion, conclusion and certificate;
 - approve the representation letter on behalf of the Council before we issue our opinion, conclusion and certificate; and
 - agree the proposed action plan.

Financial statements and Annual Governance Statement

- 8 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 the financial statements and Annual Governance Statement. It is therefore important that you consider our findings before you adopt the financial statements and the Annual Governance Statement.
- 9 In planning our audit we identified specific risks and areas of judgement that we have focused on during our audit. We report to you the findings of our work in those areas.
- 10 In addition, auditing standards require us to report to you:
- the draft representation letter which we are asking management and you to sign;
 - our views about the Council's accounting practices and financial reporting;
 - errors in the financial statements;
 - any expected modification to our report;
 - weaknesses in internal control; and
 - certain other matters.

Audit status

- 11 Our work on the financial statements is substantially complete although there are two outstanding items as at 28 August 2008. In particular, our work on the following items has yet to be concluded:
- agreement of the appropriate accounting entries and associated disclosures in relation to the Council's participation in the South Thames Gateway Building Control Partnership to the financial statements, together with confirmation that the three partners have adopted consistent accounting treatments (see paragraphs 13 and 14 for further details); and
 - closing audit procedures, including a final review of any events after the balance sheet date.

Key areas of judgement and audit risk

- 12 In planning our audit we identified key areas of judgement and audit risk that we have considered as part of our audit. Our findings are set out in Table 1.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
Issues or risks identified in our Audit and Inspection Plan dated May 2007	
Capacity of the finance team	The capacity of the team has been increased, including external consultants as appropriate
Plans to establish a number of new partnership and arms length trust arrangements	The only significant new partnership formed was the South Thames Gateway Building Control Partnership - see below for our detailed findings
Devolution of significant financial responsibilities to service-level	The finance team's involvement at service-level increased during 2007/08 with the recruitment of a Management Accountant
Significant changes to capital accounting requirements proposed for 2007/08	New capital accounting requirements for 2007/08 were effectively implemented
Issues or risks identified subsequent to our Audit and Inspection Plan	
Ensuring the accounts recognised the impact of introducing a twin bin collection during summer 2007	We found that costs recognised in relation to the waste management contract were fairly stated, plus correct accounting treatment adopted in relation to the leasing of blue wheelie bins from the contractor
Accounting and/or disclosure implications of disciplinary action taken against two former senior officers	We have agreed additional disclosures with senior officers and incorporated into the Annual Governance Statement and a note to the core financial statements
Completeness of significant governance issues reported in the Annual Governance Statement.	We identified two significant issues which were not included in the draft Statement. These related to the departure of the ex Chief Executive and the management of the leisure and grounds maintenance contracts. Both issues have now been added to the Statement.

- 13 On 1 October 2007, the Council's Building Control Unit transferred to the South Thames Gateway Building Control Partnership (STGBCP), along with the respective units of Medway Council (Medway) and Gravesham Borough Council. Medway acts as host authority for STGBCP insofar as it has responsibility for employment of staff, procurement of goods and services and related matters.

- 14 A formal partnership agreement was signed by all parties prior to the commencement of partnership operations. During our audit we identified that although the appropriate accounting treatment in relation to the Council's participation in the partnership had been correctly established by senior finance officers, the appropriate accounting entries and associated disclosures had neither been agreed with the other two partners nor incorporated into the financial statements. Although the amounts involved are not material for 2007/08, good practice would be to consider and agree all potential accounting implications prior to establishing new partnership and/or trust arrangements.

Recommendation

- R1** Review and revise arrangements for the preparation of the Annual Governance Statement to ensure any significant governance issues are identified and disclosed.
- R2** Consider and agree all potential accounting implications of any new partnership and/or trust arrangements prior to their commencement.

Draft representation letter

- 15 Before we issue our opinion, auditing standards require us to obtain from you and management, written representations that:
- you acknowledge your collective responsibility for preparing financial statements in accordance with the applicable financial reporting framework;
 - you have approved the financial statements;
 - you acknowledge your responsibility for the design and implementation of internal controls to prevent and detect fraud and error;
 - you have told me the results of your assessment of the risk that the financial statements might be materially misstated because of fraud;
 - you have told me any actual or suspected fraud by management, employees with significant roles in internal control or others (where the fraud could have a material impact on the financial statements);
 - you have told me of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
 - you have told me about all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements;
 - you have assessed the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council where relevant to the fair value measurements or disclosures;
 - you are satisfied that all related parties requiring disclosure in the financial statements have been disclosed and that the disclosure is adequate;
 - you are satisfied that the individual or collective impact of errors we have identified, but that you have not corrected, is not material; and

Financial statements and Annual Governance Statement

- cover areas where other sufficient appropriate evidence cannot reasonably be expected to exist, for example the completeness of the disclosure of contingent liabilities.

16 We also need a specific representation from you that 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.

17 Appendix 1 contains the draft of the letter of representation we seek from you.

Accounting policies and financial reporting

18 We consider the qualitative aspects of your financial reporting. Table 2 contains the issues we want to raise with you.

Table 2 Accounting practice and financial reporting

Issue or risk	Finding
Level of typographical and disclosure errors made in the financial statements	Although the level of such errors is improved compared with recent years, and the errors we found this year were minor, there remains scope for further improvement and in particular it was identified that completion of the CIPFA Disclosure Checklist could be undertaken more effectively in future years
Quality and timeliness of supporting working papers	The quality was found to have improved from last year, with all substantive evidence provided to us electronically at the start of the audit

Recommendation

R3 Review and revise arrangements to ensure the level of typographical and disclosure errors in the financial statements is further reduced.

Errors in the financial statements

- 19 No material accounting errors were identified during the course of the audit. Subject to resolution of the outstanding items detailed in paragraph 11, we identified one non-trivial accounting error in the financial statements and reported it to management.
- 20 We have not identified any accounting errors (other than those of a trivial nature) that management has declined to correct.

The audit report

- 21 We plan to issue an unmodified report including an unqualified opinion on the financial statements. Appendix 2 contains a copy of our draft report.

Material weaknesses in internal control

- 22 We 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. We have however identified some areas where improvement can be made and, as with previous years, these will be reported to management in our forthcoming Accounts Memorandum.
- 23 We have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made. We have reported only those matters which have come to our attention because of the audit procedures we have performed.

Other matters

- 24 There are no other matters that auditing standards require me to report to you.

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Value for money

- 25 We are required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. We assess your arrangements against 12 criteria specified by the Commission.
- 26 We have assessed the arrangements of the Council as adequate in all 12 areas and we therefore propose to issue an unqualified conclusion. This is a significant improvement upon the qualified conclusion we issued in 2006/07 as we are now satisfied that, in all significant respects, the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
- 27 Our conclusion is primarily informed by our work on Use of Resources, a scored judgement reported to the Audit Commission. We are currently finalising our report arising from our 2008 UoR assessment. When finalised in December 2008, we will report our findings to both senior officers and the Audit Committee.

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Formal audit powers

28 We have:

- a power to issue a public interest report. We do so where we believe this is necessary to draw a matter to your attention, or to that of the public;
- a power to apply to court for a declaration that an item in the Council's accounts is contrary to law;
- a power to issue an advisory notice. An advisory notice requires the Council to meet and consider the notice before:
 - making a decision that might give rise to unlawful expenditure; or
 - taking an unlawful course of action that would give rise to a loss; or
 - making unlawful entry in the accounts; and
- a power to seek judicial review of a decision of the Council.

29 We have not and do not propose to exercise these powers.

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Independence

- 30 The Code of Audit Practice and the APB's Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.
- 31 We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 32 We communicate to you:
- any relationships between us and the Council, its members and senior management that might affect our objectivity and independence and any safeguards put in place;
 - total fees charged to you for audit and non-audit services; and
 - our arrangements to ensure independence and objectivity.

Relationships with the Council

- 33 We have identified no relationships that might affect objectivity and independence.

Audit fees

- 34 We reported our fee proposals as part of the Audit Plan for 2007/08. The table below reports the outturn fee against that plan.

Table 3 Audit fees

	Plan 2007/08 £ (before VAT)	Actual 2007/08 £ (before VAT)
Financial statements and Annual Governance Statement	79,941	87,741
Use of resources (including BVPP)	28,136	28,136
Data quality	10,111	10,111
Whole of government accounts	1,519	1,519
National Fraud Initiative	625	625
Total Audit Fees	120,332	128,132
Advice and assistance	18,600	18,600

- 35 The actual audit fee for the year is £7,800 higher than our original planned fee. This relates to time required to review and consider the legality and value for money of the

Council's severance payment to the ex Chief Executive, as well as to consider the impact of the Council's restructure on its overall management arrangements and performance.

Our arrangements to ensure independence and objectivity

36 We have comprehensive procedures to ensure independence and objectivity. These are outlined in Table 4.

Table 4 Arrangements to ensure independence and objectivity

Area	Arrangements
Independence policies	<p>Our policies and procedures ensure that professional staff or an immediate family member:</p> <ul style="list-style-type: none"> • do not hold a financial interest in any of our audit clients; • may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; and • may not enter into business relationships with UK audit clients or their affiliates. <p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none"> • the general requirement to carry out work independently and objectively; • safeguarding against potential conflicts of interest; • acceptance of additional (non-audit) work; • rotation of key staff; • other links with audited bodies; • secondments; • membership of audited bodies; • employment by audited bodies; • political activity; and • gifts and hospitality.
Code of Conduct	<p>The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff have to comply with ethical guidance issued by their relevant professional bodies.</p>
Confidentiality	<p>All staff are required to sign an annual undertaking of confidentiality as a condition of employment.</p>

Appendix 1 – Draft letter of representation

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

Dear Andy,

Swale Borough Council - Audit for the year ended 31 March 2008

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 2008.

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 presents fairly the financial position and financial performance of the Council and for making accurate representations to you.

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.

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.

Assets

Where applicable, 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.

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.

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.

Signed on behalf of Swale Borough Council

I confirm that this letter has been discussed and agreed by members of the Council on 17 September 2008.

.....
Name David Buckett
Position Head of Finance
Date

Appendix 2 – Draft auditor's report

Independent auditor's report to the Members of Swale Borough Council

Opinion on the financial statements

I have audited the Authority accounting statements and related notes of Swale Borough Council for the year ended 31 March 2008 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 Swale Borough 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 Head of Finance and auditor

The Head of Finance's 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 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the financial 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 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 2007, 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 financial 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 Authority accounting statements, and consider whether it is consistent with the audited Authority accounting statements. This

Appendix 2 – Draft auditor's report

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 Authority 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 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.

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 Authority 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 Authority accounting statements and related notes.

Opinion

In my 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 2007, the financial position of the Authority as at 31 March 2008 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 arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. 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 December 2006, 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 2008.

Best Value Performance Plan

The previous appointed auditor issued our statutory report on the audit of the Authority's best value performance plan for the financial year 2007/08 on November 2007. She did not identify any matters to be reported to the Authority and did not make any recommendations on procedures in relation to the plan.

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

[Date]

Appendix 3 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Financial statements and Annual Governance Statement						
6	R1 Review and revise arrangements for the preparation of the Annual Governance Statement to ensure any significant governance issues are identified and disclosed.	3				
6	R2 Consider and agree all potential accounting implications of any new partnership and/or trust arrangements prior to their commencement.	3				
7	R3 Review and revise arrangements to ensure the level of typographical and disclosure errors in the financial statements is further reduced.	1				