

# Annual governance report

Mid Devon District Council

Audit 2011/12



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# Key messages

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**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

As at 25 September 2012 I expect to issue an unqualified audit opinion.

Subject to satisfactory clearance of outstanding matters, I plan to issue an unmodified audit report including an unqualified opinion on the financial statements and on the arrangements to secure value for money. Appendix 1 contains my draft report.

- I have identified one uncorrected non-trivial error.
- I identified presentational inconsistencies and officers have adjusted the financial statements.

I have not identified any weaknesses in the design or operation of internal controls to bring to your attention.

## Value for money (VFM)

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 on page 9.

I intend to issue an unqualified conclusion stating the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft report.

# 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 aware of the following relationship that might constitute a threat to independence and that I am required to report to you. I have therefore put in place the following safeguards to reduce the threat.

Table 1: **Threats and safeguards**

Threat	Safeguard
A member of the audit team Sarah Martin has a friendship with a member of the finance team, JP McLachlan.	I applied the following safeguard that reduced this threat to an acceptable level. Another member of the audit team will review the information provide for the accounts by JP Mclachlan.

. The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2011/12.

## I ask the Audit Committee to:

- agree not to amend the uncorrected error (appendix 2); and
- approve the letter of representation (appendix 3), on behalf of the Council before I issue my opinion and conclusion.

# Financial statements

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**The Council's financial statements and annual governance statement are important means by which the Council 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**

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.

## **Uncorrected errors**

I identified one uncorrected error as set out in Appendix 2. A sample test of year end creditor statements identified that some 2011/12 invoices have not been included in the financial statements. The total error identified was £37,000, of which £17,000 related to a disputed invoice that proved payable. In line with auditing standards I have extrapolated the remaining £20,000 error to reflect the full amount of the creditor invoices that may have been omitted. I estimate there may be an omission of £84,000, making an overall uncertainty of £103,000 of creditors. Management have decided not to correct the statements as the extrapolated error is an estimate.

## **Corrected errors**

Work carried out identified presentational inconsistencies. Officers have amended the financial statements and supporting notes.

## **Significant risks and my findings**

In January, I reported to you, in my Audit Plan, the significant risks that I identified relevant to my audit of your financial statements. In Table 1 I report to you my findings against each of these risks.

Table 2: Risks and findings

Risk	Finding
<p><b>Heritage Assets</b></p> <p>The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets. There is a risk the Council may be unable to identify and account for all heritage assets because of insufficient resources or inadequate arrangements for identifying such assets.</p> <p>A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.</p>	<p>I have evaluated the management controls you have in place to recognise and value heritage assets. My review has found that these controls are appropriate.</p> <p>The Council's disclosure in its financial statements is consistent with the disclosures set out in the CIPFA code of Practice; Guidance notes for practitioners.</p> <p>I have also undertaken testing to check the Council has accounted for heritage assets in accordance with FRS 30 and the Code and the financial statements are materially correct. No issues have arisen from my testing.</p>
<p><b>Leisure Trust</b></p> <p>The Council is considering options for a more efficient and cost effective method of delivering the leisure service. Options under consideration are:</p> <ul style="list-style-type: none"><li>– To establish a leisure trust;</li><li>– to enter into a partnership with an existing trust; and</li><li>– consideration of an in-house bid.</li></ul> <p>There could be financial reporting implications for 2011/12 depending on the timing of any changes and the option chosen.</p>	<p>The Council did not change its arrangements for leisure service delivery in 2011/12. Therefore the possible risk was not realised.</p>
<p><b>Financial misreporting</b></p> <p>The level of savings public bodies need to make is unprecedented.</p>	<p>I have assessed the control environment of the Council. In particular, I focused my review on the management controls in place for those areas of the financial statements</p>

## Risk

The Council plans to achieve savings of £750,000 in the current year. Overall the Council needs to save £4 million over the next four years. This along with other pressures due to the economic down-turn, like falls in the value of property and increased use of services puts pressure on the Council to achieve its financial plan. This could increase the scope for misreporting in the financial statements to demonstrate that the Council can deliver its planned savings.

## HRA reform

The government plans to reform local authority housing finance by adopting a self-financing model from 1 April 2012. This will be through a one-off settlement payment to or from central government before 28 March 2012. This will adjust the HRA debt of the Council. Payments from government will usually be used to redeem an equal percentage of all PWLB debt held by the Council. Because of the complexity, size and timing of the HRA reform there is risk the financial statements will be materially misstated.

## Significant weaknesses in internal control

I reported to you, in my interim audit report, that my testing of the Council's significant systems identified some failures in key controls. I was unable to rely on a controls approach to the extent that I planned. My team undertook alternative substantive testing to address the residual gaps in assurance.

I reported to you that my changed approach may have resulted in additional work and that may lead to an increase in the audit fee. I can confirm that this alternative work has not led to an increase in work and I therefore do not intend to raise any additional fees.

## Finding

that are more susceptible to manipulation. This included:

- material accounting estimates (asset valuations, depreciation, accruals and provisions);
- changes to accounting policies that impact the financial position;
- journals; and
- capital expenditure.

I also considered the in-year financial performance of the Council against the year-end financial position to identify any unusual or unexpected transactions.

No issues have arisen from my testing.

I have reviewed the Council's procedures in accounting for the changes to the HRA financing regime. I have:

- agreed the settlement payment or receipt to the amount specified in the relevant Annex to the Settlement Payments Determination 2012;
- checked the accounting for the settlement transaction is in line with the requirements of the Code and relevant CIPFA guidance;
- agreed the details of loan redemptions to supporting documentation; and
- checked the calculations supporting item 8 debit and item 8 credit to the HRA.

## 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 Council's financial reporting process including.

- 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

There is one item that I wish to bring to your attention. A sample test of year end trade creditors excluded some late invoices. This gives me uncertainty over the completeness of the accrued trade creditors and a potential extrapolated error of £101,000. My testing on the estimation of accruals gives me assurance the process is reasonable.

## 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. The Council's consolidation pack is consistent with the information the Council's audited statutory accounts and the accounting records from which the audited statutory accounts are produced. I have no matters to report.



# Value for money

**I am required to conclude whether the Council 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 January 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 the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

Table 3: **Value for money conclusion criteria and my findings**

Criteria	Risk	Findings
<p><b>1. Financial resilience</b></p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</p> <p>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>	<p>The Council has achieved its financial plans in recent years. However, the Council must achieve £4 million of savings over the next four years.</p> <p>The Council aims to do this without significantly reducing its level of service. There is a risk that in making the savings, the Council will no longer be able to deliver to the level it currently provides.</p> <p>There is a risk that in making the savings, the Council will no longer be able to deliver services to the level it currently provides.</p>	<p>Each service manager has been responsible for the identification, monitoring and achievement of financial savings for their services. They have worked with policy development groups to ensure that service business plans follow the corporate priorities. The Council has regular finance and performance reporting that addresses delivery of financial targets and the delivery of services.</p> <p>The Council integrates its corporate planning and financial planning and undertakes a detailed risk</p>

Criteria	Risk	Findings
		<p>assessment. The current economic climate has been considered and the Medium Term Financial Plan reflects the Council's priorities. Financial planning addresses the expected levels of savings. Treasury management is regularly reviewed and reflects the Council's current attitude to risk and the external financial environment.</p> <p>The Council has good financial monitoring. Management and Members are aware of the extent of savings identified and are monitoring the position through monthly budget monitoring by exception.</p> <p>The Council achieved savings of £1,206k in 2011/12. Financial monitoring to July 2012 disclosed an under spend of £112k against the 2012/13 budget.</p>
<p><b>2. Securing economy efficiency and effectiveness</b></p> <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 is considering options for a more efficient and cost effective method of delivering the Leisure Service. There is a risk that the Council may not achieve value for money in its selection of options.</p>	<p>Service managers identified areas of possible savings for their services. Members and management have challenged service expenditure across the Council and agreed savings plans were approved.</p> <p>There has been consultation with staff and taxpayers and the Council uses this to inform service planning. The Council has considered its options for the future provision of leisure services. The Council is continuing to assess the costs and benefits attached to various options.</p> <p>The Council has looked at shared services with neighbouring district councils, arrangements are in</p>

**Criteria****Risk****Findings**

the early stages and are not yet a major part of savings plans.

Shared procurement is in place and the Council is part of the Devon wide procurement group.

Anticipated savings from County wide procurement are expected to contribute to future savings plans of the Council.

# Fees

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## **I reported my planned audit fee in the January Audit Plan.**

The Audit Commission has set a scale audit fee of £104,500 which represents a five per cent reduction on the audit fee for 2010/11; I will complete the audit within the planned fee.

# Appendix 1 – Draft independent auditor’s report

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## **INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF MID DEVON DISTRICT COUNCIL**

### **Opinion on the Authority financial statements**

I have audited the financial statements of Mid Devon 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, 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 Mid Devon 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 Head of Finance and the auditor**

As explained more fully in the Statement of the Head of Finance Responsibilities, the Head of Finance 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 accounting 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 Head of Finance; 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 Mid Devon 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 accounting 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, Mid Devon 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 Mid Devon District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Wayne Rickard

District Auditor

3-4 Blenheim Court  
Lustleigh Close  
Matford  
Exeter  
EX2 8PW

25 September 2012



# Appendix 2 – Uncorrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Creditors	A sample test of year end trade creditors excluded some late invoices. This extrapolated to an error of £103,000	103	0	0	103

# Appendix 3 – Draft letter of management representation

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Mid Devon District Council - Audit for the year ended 31 March 2012

We confirm to the best of our knowledge and belief, having made appropriate enquiries of other officers of Mid Devon District Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2012.

## **Compliance with the statutory authorities**

We have fulfilled our 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 Council, for the completeness of the information provided to you, and for making accurate representations to you.

## **Supporting records**

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

## **Irregularities**

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

We also confirm that we have disclosed:

- our 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;
- our 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**

We 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 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.

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**

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

### **Related party transactions**

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

### **Subsequent events**

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

### **Signed on behalf of Mid Devon District Council**

I confirm that the this letter has been discussed and agreed by the Council on 25 September 2012

Signed

Andrew Jarrett

Head of Finance

25 September 2012

# Appendix 4 – Glossary

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

