

**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**

**AUDIT AND GOVERNANCE COMMITTEE – 26 SEPTEMBER 2012**

Title of report	<b>ANNUAL GOVERNANCE REPORT 2011/12</b>
Contacts	Councillor Nicholas Rushton 01530 412059 <a href="mailto:nicholas.rushton@nwleicestershire.gov.uk">nicholas.rushton@nwleicestershire.gov.uk</a>  Head of Finance / Section 151 Officer 01530 454520 <a href="mailto:ray.bowmer@nwleicestershire.gov.uk">ray.bowmer@nwleicestershire.gov.uk</a>
Purpose of report	To consider the District Auditor's Annual Governance Report for 2011-12.
Reason for Decision	In order to approve the Representation letter and Action Plan in relation to the 2011-12 Statement of Accounts.
Council Priorities	Value for Money
Implications:  Financial/Staff  Link to relevant CAT  Risk Management  Equalities Impact Assessment  Human Rights  Transformational Government	No direct implications.  None  The Council's governance arrangements are a fundamental part of the Authority's management of risk and contribute towards good corporate governance.  Not applicable  None identified.  No direct implications.
Consultees	Council Officers
Background papers	None
Recommendations	<b>(A) THAT THE COMMITTEE NOTES THE CONTENTS OF THIS REPORT</b> <b>(B) APPROVES THE REPRESENTATION LETTER ATTACHED AS APPENDIX 3</b> <b>(C) APPROVES THE ACTION PLAN ATTACHED AS APPENDIX 5</b>

## **1.0 BACKGROUND**

- 1.1 The Accounts of this authority are audited in accordance with Part II of the Audit Commission Act 1998 and, as part of that process, the District Auditor produces an Annual Governance Report which is attached.
- 1.2 The Annual Governance Report attached states that the Audit Commission will issue an unqualified audit report and that there are no important weaknesses in internal control. It also affirms that there are proper arrangements to secure value for money.
- 1.3 There are still areas for improvement but these are of a relatively minor technical nature and these will be addressed as set out in the action plan.

# Annual governance report

North West Leicestershire 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

I expect to issue an unqualified audit opinion by the deadline of 30 September 2012. The key messages from the opinion audit are as follows.

- At the time of writing this report the audit is well progressed. Outstanding work is described on page 5.
- Officers have agreed to revise the financial statements for all non-trivial audit amendments arising during the audit. The main amendments are shown in appendix 2.

## Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. This is based on our which which has looked at the following criteria:

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

Further detail is provided on page 9.

## Audit Certificate

I expect to issue the audit certificate closing my audit at the same time as issuing the opinion. However I cannot do this until my work on the Whole of Government Accounts return is complete. As the deadline for Whole of Government accounts is 5 October 2012 I may have to delay my audit certificate beyond the opinion deadline of 30 September 2012.

# Before I give my opinion and conclusion

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

## **Independence**

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

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

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

- take note of the adjustments to the financial statements included in this report (appendix 2);
- approve the letter of representation (appendix 3), on behalf of the Authority before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (appendix 5).

# Financial statements

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

## Opinion on the financial statements

Subject to 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. As at 13 September 2012 work was still ongoing on the following areas.

- Property Plant and Equipment.
- Movement in reserves statement.
- Related Party Transactions.
- Comprehensive Income and Expenditure Statement disclosure notes.

I will update members on the progress of this work at the Audit Committee on 24 September 2012.

## Corrected errors

All non-trivial errors found as a result of this audit have been corrected. I have not listed all amendments made but summarised the main issues. The main areas to be amended are Property Plant and Equipment and the service analysis in the Comprehensive Income and Expenditure statement. The significant changes are shown in appendix 2.

## Significant risks and my findings

I reported to you in my 28 March 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 1: Risks and findings

Risk	Finding
<p>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 of £76,785k to central government on or before 28 March 2012. This will increase the HRA debt of the Authority. Due to the complexity, magnitude and timing of the HRA reform there is risk that the financial statements will be materially misstated</p>	<p>I have reviewed the HRA business plan and the accounting treatment for the new HRA associated debt taken on in the year.</p> <p>Some minor amendments were made to the accounting entries for the debt but these did not have an impact on the overall financial position of the Authority.</p>
<p>You have entered into a shared service to provide the Revenues and Benefits processing for the Authority. This has led to new systems being introduced for Housing Benefits, Council Tax and NNDR.</p> <p>Any change in material financial systems increases audit risk as data has to be correctly transferred between systems, and assurance is needed over the operation of new controls.</p> <p>This increases the risk of material misstatement of your financial statements.</p>	<p>I have documented the changes in control due to the move to a shared service arrangement for these systems. I have also carried out tests of key controls under the new arrangements.</p> <p>I have no matters to report to you in relation to this work.</p>
<p>You have implemented a new payroll system from 1 April 2011. As mentioned above any change in a material financial system increases the risk of material misstatement.</p>	<p>I have documented the changes in control associated with the new system and tested the key controls.</p> <p>There are no issues to report arising from this work.</p>
<p>The comprehensive spending review in October 2011 reduced the amount of government grant payable to the Authority.</p> <p>As shown in the 2011/12 budget and the refresh of the Medium Term Financial Strategy the reduction has led to a challenging level of savings required in the medium term. There is a risk that assumed savings within this plan are not achieved leading to further savings required in future years.</p>	<p>I have reviewed the assumptions made as part of the budgeting process and considered performance against financial plans for the year to date. I have considered the Council's draft financial statements in the light of this in planning detailed tests to be carried out on account balances.</p> <p>I have no matters to report to you in relation to this work.</p>



## Significant weaknesses in internal control

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

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

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

I have identified no such weaknesses during the audit that are relevant to preparing the financial statements.

## Other matters

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

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

The matters I wish to report are shown in table 2 below.

Table 2: **Other matters**

Issue	Finding
The Council's policy for identifying and depreciating significant components of Property, Plant and Equipment (PPE) needs to be clarified	As part of IFRS the Authority adopted an accounting policy for the componentisation of Property Plant and Equipment. This currently only says that when an item of PPE has major components whose cost is significant in relation to its total cost, the components are depreciated separately. As it is very general this policy will need to be applied each year against all items of PPE as new capital expenditure is incurred and revaluations of PPE occur. Alternatively, the Council may wish to consider further clarifying how its policy will be applied eg whether to set a de-minimis level for items of PPE to be

Issue	Finding
	<p>consider for component accounting, and/or de-minimis proportion for what constitutes a component. In 2011/12 this is not a risk of material mis-statement. However due to the increased amount of spend planned on HRA assets this could become an issue in subsequent years.</p> <p>I recommend that your officers consider the application of the accounting policy.</p>
<p>Accounting Policies require updating to comply with the Code of Practice on Local Authority Accounting (the Code) each year</p>	<p>The accounting policies shown in your accounts differ to those presented in the Code as best practice. The differences in the 2011/12 statements are not material.</p> <p>I recommend that the accounting policies are reviewed each year to adopt any changes suggested by the Code.</p>
<p>Financial Instrument disclosures were not in line with the Code requirements</p>	<p>My audit found three errors in the Financial Instruments disclosure note.</p> <ul style="list-style-type: none"> <li>■ Fair Values – the fair values of all assets were not disclosed.</li> <li>■ Review of balances – the process followed to prepare the note was not in line with Code requirements meaning that some balances were incorrectly included. The amendment made to this note is shown in appendix 2.</li> <li>■ Market Risk – the note does not include a consideration of market risk as required by the Code.</li> </ul>
<p>Disclosure Notes not complete</p>	<p>As part of my review of the accounts I noted some instances where minor disclosures required by the Code were not included. I have shared these with your officers and recommend that the Code is reviewed to ensure full disclosure in 2011/12.</p>
<p>Provision for Doubtful debts to be reviewed for 2012/13</p>	<p>The Council has calculated its Provision for Bad Debts appropriately in the 2011/12 statements.</p> <p>However, officers are currently reviewing collectability of its outstanding debt. This is a joint project between the Council's finance and legal departments. This could provide useful information on which to base the estimate for the 2012/13 Provision for Bad Debts. I recommend you take this into account in doing so next year.</p>

## Recommendations

- R1** I recommend that your officers consider the application of the componentisation accounting policy.
  - R2** I recommend that your accounting policies are reviewed each year to adopt any changes proposed by the Code
  - R3** I recommend that the Code is reviewed to ensure all disclosure notes are included in the 2012/13 statement of accounts
  - R4** I recommend that you review the provision for doubtful debts estimate in the 2012/13 accounts in the light of the information gained during the current review of collectability of debts.
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## Whole of Government Accounts

Alongside my work on the financial statements, I also review and report to the National Audit Office on your Whole of Government Accounts return. As at 13 September I have not completed the procedures specified by the National Audit Office. I expect to complete my report before 5 October 2012.

# Value for money

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

I assess your arrangements against the two criteria specified by the Commission. In my 28 March 2012 Audit Plan I reported to you the significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the risks I identified.

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

Table 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>Coupled with the continuing financial pressures facing the public sector and changes being made to the housing finance system, there is a risk of non delivery of financial plans in the current or future years.</p> <p>Elements of the Council's financial management have been temporary during the year.</p>	<p>I have updated my understanding of the Authority's overall financial and risk management arrangements by reviewing finance reports presented to members during the year and have reviewed the revised medium term financial plan. I have no significant concerns to report as a result of this work.</p> <p>The authority appointed a permanent Head of Finance during the year. The temporary arrangements prior to this appointment did not adversely affect the delivery of the budget for 2011/12 to any material degree.</p>

Criteria	Risk	Findings
<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>No specific risks for this element although the HRA changes and wider financial pressures are relevant to this part of our work.</p>	<p>I have updated my understanding of the Council's arrangements for challenging how it secures economy, efficiency and effectiveness, including its arrangements for prioritising resources within tighter budgets.</p> <p>More specifically I have reviewed the HRA business plan prepared in-year and discussed its application with senior officers. I concluded that the Council has appropriate arrangements to ensure its plan is based on reasonable assumptions and that the level of debt drawn down is linked to the future plans for housing services in the District. The HRA business plan will be an important document for the future management of this key element of investment.</p>

# Fees

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## I reported my planned audit fee in the 28 March 2012 Audit Plan.

I will complete the audit within the planned fee.

Table 4: Fees

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	110,770	110,770
Claims and returns	21,000	21,000
Non-audit work	0	0
<b>Total</b>	<b>131,770</b>	<b>131,770</b>

The Audit Commission has paid a rebate of £8,862 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £122,908.

# Appendix 1 – Draft independent auditor’s report

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## INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

### Opinion on the Authority financial statements

I have audited the financial statements of North West Leicestershire District Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, 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 North West Leicestershire 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 auditor

As explained more fully in the Statement of the Head of Finance’s 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 financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the 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 North West Leicestershire District Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

## **Opinion on other matters**

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

## **Matters on which I report by exception**

I report to you if:

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

I have nothing to report in these respects



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

### **Respective responsibilities of the Authority and the auditor**

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

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

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

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

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

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

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

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

### **Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, North West Leicestershire 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.

**Delay in certification of completion of the audit**

I cannot formally conclude the audit and issue an audit certificate until I have completed the work necessary to issue my assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. I am satisfied that this work does not have a material effect on the financial statements or on my value for money conclusion.

Neil Bellamy  
Officer of the Audit Commission

Audit Commission  
Unit 10,  
Whitwick Business Centre  
Stenson Road  
Coalville  
Leicestershire LE67 4JP

# Appendix 2 – Corrected 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
Note 39 – Financial Instruments	Some balances were incorrectly included in the Financial Instruments disclosure. This is a disclosure error only and does not impact on the General Fund balance available to the Council.			Disclosure note only £1,440	Disclosure note only £1,188
Note 10 - PPE	The presentation of depreciation within Note 10 was not in line with Code guidance. This is a disclosure error only and does not impact on the General Fund balance available to the Council.			Disclosure note only	Disclosure note only

# Appendix 3 – Draft letter of management representation

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Neil Bellamy  
District Auditor  
Audit Commission  
Unit 10, Whitwick Business Centre  
Stenson Road  
Coalville  
Leicestershire LE67 4JP

Date: 26 September 2012

Dear Mr Bellamy,

## **North West Leicestershire District Council – Audit for the Year Ended 31 March 2012**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other members of the Senior Management Team of North West Leicestershire District Council (comprising of the Chief Executive, Deputy Chief Executive, Head of Finance & Monitoring Officer), the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2012. All representations cover the Council's accounts included within the financial statements.

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

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

### **Uncorrected mis-statements**

I confirm that there are no uncorrected mis-statements in the financial statements.

## **Supporting records**

All relevant information, and access to persons within the Council, has 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 financial statements.

## **Irregularities**

I acknowledge my responsibility for the design and implementation and maintenance of internal control to prevent and detect fraud or error. I also confirm that I have disclosed:

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

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

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

Transactions and events have been carried out in accordance with the 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**

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

## **Related Party Transactions**

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

## **Compensating arrangements**

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. We have no other lines of credit arrangements.

## **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 are no significant pending or threatened litigations, other than those already disclosed in the financial statements;
- 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.

## **Group Entities**

I confirm that there are no group entities that require disclosure.

## **Subsequent events**

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of North West Leicestershire District Council:

I confirm that this letter has been discussed and agreed by the Audit Committee at its meeting on 26 September 2012.

Signed \_\_\_\_\_

Ray Bowmer

Head of Finance

Date: 26 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.

# Appendix 5 – Action plan

## Recommendations

### Recommendation 1

I recommend that your officers consider the application of the componentisation accounting policy.

<b>Responsibility</b>	Pritesh Padaniya
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<b>Priority</b>	Medium
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<b>Date</b>	January 2013
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<b>Comments</b>	Agreed
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### Recommendation 2

I recommend that your accounting policies are reviewed each year to adopt any changes proposed by the CIPFA Code

<b>Responsibility</b>	Pritesh Padaniya
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<b>Priority</b>	Low
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<b>Date</b>	January 2013
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<b>Comments</b>	Agreed
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### Recommendation 3

I recommend that the Code is reviewed to ensure all disclosure notes are included in the 2012/13 statement of accounts

<b>Responsibility</b>	Pritesh Padaniya
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<b>Priority</b>	Low
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<b>Date</b>	January 2013
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## Recommendations

### Recommendation 4

I recommend that you review the provision for doubtful debts estimate in the 2012/13 accounts in the light of the information gained during the current review of collectability of debts.

<b>Responsibility</b>	Pritesh Padaniya
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<b>Priority</b>	Low
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<b>Date</b>	January 2013
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<b>Comments</b>	Agreed
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