

Annual governance report

South Kesteven District Council

Audit 2005/06

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports to the Authority

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

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

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

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Purpose of this report

- 1 We are required by the Audit Commission's statutory Code of Audit Practice for Local Government bodies (the Code) to issue a report to those charged with governance summarising the conclusions from our audit work. For the purposes of this report, the Constitution and Accounts Committee is considered to fulfil the role of those charged with governance and references to the Audit Committee should be read as such.
- 2 We are also required by professional auditing standards to report to the Audit Committee certain matters before we give our opinion on the financial statements. The section of this report covering the financial statements fulfils this requirement.
- 3 This is our annual governance report covering the audit of the Authority for the year ended 31 March 2006 and is presented by the District Auditor.
- 4 The principle purposes of the report are:
 - to reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and the Audit Committee;
 - to share information to assist both the auditor and those charged with governance to fulfil their respective responsibilities; and
 - to provide the Audit Committee with recommendations for improvement arising from the audit process.
- 5 The Audit Commission has circulated to all audited bodies a Statement of Responsibilities of Auditors and Audited Bodies that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement.

Scope of the report

- 6 In undertaking our audit, we comply with the statutory requirements of the Audit Commission Act 1998 and the Code. Auditors' responsibilities are to review and report on, to the extent required by the relevant legislation and the requirements of the Code:
 - the Authority's financial statements; and
 - whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 7 Our risk assessment and planned response to the key audit risks was summarised in our audit and inspection plan. A summary of our responsibilities and audit approach is included in Appendix 1. The annual governance report summarises the significant findings, conclusions and recommendations arising from our audit work. The results of our inspection work, and our separate grant claims' certification programme, will be reported in the Relationship Manager Letter later in the year.

8 We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 2. Appendix 3 provides information about the likely fee charged for our audit and Appendix 4 sets out the requirements in respect of independence and objectivity.

Key messages

Financial statements

- 9** Our work on the financial statements is now substantially complete. We anticipate being able to issue an unqualified opinion by 30th September 2006. A draft report is attached at Appendix 5.

Use of resources

- 10** Our work on the Authority's arrangements to secure economy, efficiency and effectiveness of its use of resources is now complete. We anticipate being able to issue an unqualified conclusion on the use of resources by 30th September 2006. A draft report is attached at Appendix 5.

Financial statements

11 We are required to give an opinion on whether the Authority's financial statements present fairly the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended.

Status of the audit

12 Our work on the financial statements is now substantially complete.

Matters to be reported to the Audit Committee

13 We have the following matters to draw to the Audit Committee's attention.

Expected modifications to the auditor's report

14 On the basis of our audit work, subject to the satisfactory conclusion of any work outstanding reported above, we currently propose to issue an unqualified audit opinion. A draft audit report is attached at Appendix 5.

15 Whilst, subject to the above, I will be in a position to issue an unqualified audit opinion on the accounts I will not be in a position to formally certify completion of the audit until I have had chance to fully consider recent concerns about the lawfulness of one aspect the Council's pension scheme arrangements referred to paragraph 20 and 21 below, and reported to full Council on 7th September. I am satisfied that this matter will not have a material effect on the Council's accounts.

16 Once I have considered the above matter I will certify completion of the audit and re-issue the opinion on the accounts.

Uncorrected misstatements

17 Whilst our audit identified a number of mis-statements in the financial statements there were none, excluding those misstatements that are 'clearly trivial' (as defined in professional auditing standards), that management decided not to adjust.

Adjusted misstatements

18 To assist you in fulfilling your governance responsibilities, we are required to consider reporting adjusted misstatements to you where these are material. None of the adjusted misstatements were material.

Qualitative aspects of accounting practices and financial reporting

- 19 Our audit includes consideration of the qualitative aspects of the financial reporting process, including matters that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements.
- 20 Members will be aware that the Chief Executive has received legal advice that one aspect of the Council's current local pension arrangements is unlawful, and in certain specific circumstances that may mean that payments made under the arrangements may also be unlawful. If payments made under the scheme are unlawful it may be that in certain circumstances the Council would be able to reclaim the payments made. In reality it is likely that if any payments are reclaimable they may be significantly lower than those paid
- 21 Since the scheme was introduced the Council has made or become liable for payments of around £0.5 million under the arrangements and officers are currently assessing individual cases to ascertain the lawfulness of payments made. The accounts have been prepared on the basis that the payments made are likely to be lawful and not reclaimable. A note has been added to the accounts to this effect.

Material weaknesses in internal control identified during the audit

- 22 Our audit identified no weaknesses in the systems of accounting and financial control which we wish to draw to your attention.
- 23 We have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed.

Matters specifically required by other auditing standards

24 Other auditing standards require us to communicate with you in other specific circumstances including:

- where we suspect or detect fraud;
- where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
- non-compliance with legislative or regulatory requirements and related authorities.

Any other matters of governance interest

25 Finally, we are required to report any other matters that we believe to be of governance interest. We report these matters in Table 1 below.

Table 1 Other matters of governance interest

There are a number of other matters that we would like to bring to the attention of those charged with governance

Area	Auditor responsibility	Impact
Statement of internal control (SIC)	The auditor reviews the SIC for compliance with the requirements of proper practice as specified by CIPFA and consistency with other information from the audit of the financial statements.	No issues to report
Whole of Government Accounts' consolidation pack	The auditor is responsible for issuing a report on the consistency of the Authority's consolidation pack with the statutory financial statements.	We have no issues to report on this aspect at this stage. The work will be completed in the near future.

Letter of representation

26 We obtain written representations from management as an acknowledgement of its responsibility for the fair presentation of the financial statements and as audit evidence on matters material to the financial statements. The text of the required letter of representation is included at Appendix 6.

Next steps

27 We are drawing these matters to the Audit Committee's attention so that:

- you can consider them before the financial statements are approved and certified;
- the representation letter can be signed on behalf of the Authority and those charged with governance before we issue our opinion on the financial statements; and
- the Committee has the opportunity to amend the financial statements for any unadjusted misstatements/significant qualitative aspects of financial reporting issues identified above. Should you choose not to amend the financial statements, in accordance with the ISA (UK and Ireland) 260, we request that you extend the representation letter to explain why you are not adjusting the financial statements. We ask that the letter specifically details the misstatements and/or qualitative aspects of reporting to which it relates, either in the body of the letter or in a document appended to it.

Use of resources

Value for money conclusion

- 28** The Code requires us to issue reach a conclusion on whether we are satisfied that the Authority has proper arrangements in place for securing economy, efficiency and effectiveness in its use of your resources (the value for money conclusion). In meeting this responsibility, we will review evidence that is relevant to the Authority's corporate performance management and financial management arrangements. Our work in reaching the value for money conclusion is integrated with our work on the use of resources assessment. The use of resources assessment is a qualitative assessment of the effectiveness of the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources. The five areas we make assessments on are; financial statements, financial management, financial standing, internal control and value for money.
- 29** We have completed our work in relation to the use of resources and there are no matters which we wish to draw to the attention of the Audit Committee.

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Use of auditors' statutory powers

30 Auditors are required to consider the exercise of certain statutory powers during the course of the audit, as summarised in Table 2 below.

Table 2 Use of statutory powers

Issue	Auditor responsibility	Impact
Section 8 reports	Section 8 of the Act requires that auditors should consider whether, in the public interest, they should report on any matter that comes to their attention in the course of the audit so that it may be considered by the body concerned or brought to the attention of the public.	We have not so far issued any report under section 8 in respect of the financial year 2005/2006.
Section 11 recommendations	To consider whether a written recommendation should be made to the audited body requiring it to be considered and responded to publicly.	We have not so far issued any s11 recommendations in respect of 2005/06.
Best value	To consider whether to recommend that the Audit Commission should carry out a best value inspection of the Authority under section 10 of the Local Government Act 1999 and/or that the Secretary of State should give a direction under section 15 of that Act.	Our work in respect of the Authority's 2005/2006 Best Value Performance Plan (BVPP) was reported in the 2005 annual audit and inspection letter. No recommendations were made to the Audit Commission or the Secretary of State.

Closing remarks

- 31** This report has been discussed and agreed with Director of Finance. A copy of the memorandum will be presented at the Audit Committee on 20th September 2006.
- 32** The Authority has taken a positive and constructive approach to our audit and I would like to take this opportunity to express my appreciation for the Authority's assistance and co-operation.

Neil Bellamy
District Auditor

20 September 2006

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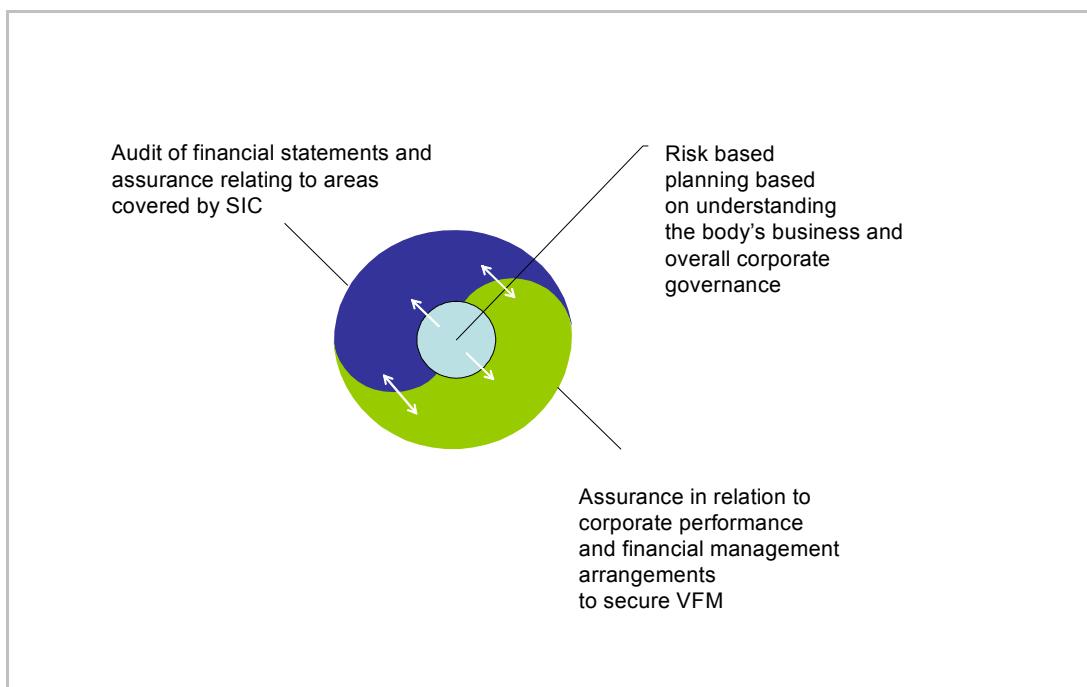
Appendix 1 – Audit responsibilities and approach

Audit objectives

- 1 Our objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on the significant risks that are relevant to our audit responsibilities.

Figure 1 Code of Audit Practice

Code of practice responsibilities



Approach to the audit of the financial statements

- 2 In our approach to auditing the financial statements, we adopt a concept of materiality. Material errors are those which might be misleading to a reader of the financial statements. We seek, in planning and conducting our audit of the accounts, to provide reasonable assurance that your financial statements are free of material misstatement. In planning our work we considered the arrangements of the Authority which had most impact on our opinion. These included:
 - the standard of the overall control environment and internal controls;
 - reliance on internal audit;
 - the likelihood of material misstatement occurring from of material information systems; or a material error failing to be detected by internal controls;
 - any changes in financial reporting requirements; and
 - the effectiveness of procedures for producing the financial statements and supporting material.
- 3 The results of the above feed into our risk assessment which determines the level and type of testing undertaken on each element of the financial statements. The key risk that we identified was:
 - Producing financial statements to meet earlier deadlines, and changing technical requirements, whilst maintaining standards of working papers and levels of accuracy.

Approach to audit of arrangements to secure value for money

- 4 The scope of these arrangements is defined in paragraph 20 of the Code as comprising:
 - corporate performance management; and
 - financial management arrangements.
- 5 Our conclusion is informed and limited by reference to relevant criteria covering specific aspects of audited bodies' arrangements, specified by the Code.

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6 responsibilities and approach In addition to the arrangements for securing economy, efficiency and effectiveness in the use of resources, considered and assessed relevant significant business risk. Significance is defined by the Code as 'a matter of professional judgment and includes both quantitative and qualitative aspects of the risk'.

7 The potential sources of assurance when reaching the value for money conclusion include:

- the Authority's whole system of internal control as reported in its statement on internal control;
- results from statutory inspections or the work of other regulators, for example, corporate assessments, service assessments (whether by the Commission or other regulators), etc.;
- work specified by the Audit Commission, for example, the use of resources assessments, and data quality work;
- links to the financial statements' audit, including review of internal audit, the SIC and budgetary control arrangements; and
- other work necessary to discharge our responsibilities.

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Appendix 2 – Audit reports issued

Table 3

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit and inspection plan	April 05	April 05	Audit Committee
Annual governance report	Sept 06	Sept 06	Audit Committee
Opinion on financial statements	Sept 06	Sept 06	The Authority
Value for money conclusion	Sept 06	Sept 06	The Authority
Final accounts memorandum	Oct 06	To be completed	Management
Use of resources assessments	March 06	March 06	Management
BVPP report	Oct 05	Oct 05	The Authority

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Appendix 3 – Fee information

Table 4

Fee estimate	Plan 2005/06	Likely actual 2005/06
Audit		
Accounts*	£60,830	£60,830
Use of resources*	£22,230	£22,230
Total audit fees**	£83,060	£83,060
Voluntary improvement work*	nil	nil

* Report reasons for any significant variances

** The outcome on inspection and grant certification fees will be reported in the Relationship Manager Letter

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Appendix 4 – The Audit Commission’s requirements in respect of independence and objectivity

- 1** We are required by the standard to communicate following matters to the Audit Committee:
 - the principal threats, if any to objectivity and independence identified by the auditor, including consideration of all relationships between the Authority, directors and the auditor;
 - any safeguards adopted and the reasons why they are considered to be effective;
 - any independent partner review;
 - the overall assessment of threats and safeguards; and
 - information about the general policies and processes for maintaining objectivity and independence.
- 2** We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing and ethical standards.

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Appendix 5 – Independent auditor's report to South Kesteven District Council

Opinion on the financial statements

I have audited the financial statements of South Kesteven District Council for the year ended 31 March 2006 under the Audit Commission Act 1998, which comprise the Consolidated Revenue Account, the Housing Revenue Account, the Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to South Kesteven District 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 Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.

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 financial statements presents fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005.

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I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial 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 financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, 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 financial statements 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 financial statements.

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Opinion

In my opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the Council as at 31 March 2006 and its income and expenditure for the year then ended.

Neil Bellamy

District Auditor

September 2006

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 to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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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/us 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/our 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.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the authority’s best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and I am satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, in all significant respects, South Kesteven District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006.

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Best Value Performance Plan

I issued my statutory report on the audit of the authority's best value performance plan for the financial year 2005/06 in October 2005. I did not identify any matters to be reported to the Council and did not make any recommendations on procedures in relation to the plan.

Certificate

The audit cannot be formally concluded and an audit certificate issued until I have completed our consideration of matters relating to the lawfulness of pension payments made under the Council's local early retirement scheme as reported to Council on September 7th. I am satisfied that these matters do not have a material effect on the financial statements

Neil Bellamy
District Auditor
September 2006

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Appendix 6 – Letter of representation

Neil Bellamy
Audit Commission
Witham House
Canwick Road
Lincoln
LN5 8HE

Dear Mr Bellamy

South Kesteven District Council - Audit for the year ended 31 March 2006

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors and officers of South Kesteven 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 2006.

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements which present fairly 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.

Specific representations

As far as I am aware there are no further cases of early retirement payments made under the Council's local scheme over and above those already provided to you.

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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.

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

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;
- no financial guarantees have been given to third parties.

Law, regulations 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, other than concerns about the legality of certain aspects of the Council's pension scheme which you have already been made aware of.

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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;
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on 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, other than the concerns which have arisen about certain aspects of the Council's pension scheme, of which you have already been made aware.

Signed on behalf of South Kesteven District Council

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Sally Marshall
Corporate Head of Finance and Resources
20 September 2006.

