

# Annual Governance Report

South Kesteven District Council

Audit 2008/09

Date: **September 2009**

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## Status of our reports

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

- any director/member or officer in their individual capacity; or
  - any third party.
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Ladies and Gentlemen

**2008/09 Annual Governance Report**

I am pleased to present the final version of my report on the results of my audit work for 2008/09.

A draft of the report was discussed and agreed with the Section 151 Officer in September 2009 and has been updated since as issues have been resolved.

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

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 7);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2); and
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3).

Yours faithfully

Chris Wilson  
District Auditor  
September 2009

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# Key messages

**This report summarises the findings from the 2008/09 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.**

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<b>Financial Statements</b>	<b>Results</b>	<b>Page</b>
Unqualified audit opinion	Yes	6
Financial statements free from error	Yes	6
Adequate internal control environment	Yes	6
Adequate arrangements to secure value for money	Yes	8

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## Audit opinion

- 1 Our work on the financial statements is substantially complete and I propose issuing an unqualified audit opinion by 30 September (a draft report is attached at Appendix 1).

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## Financial statements

- 2 Management has agreed to adjust the financial statements for those errors identified in Appendix 2. We have not identified any errors (other than those of a trivial nature) that management has declined to correct.

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## Audit Fees

- 3 Our work has been undertaken in line with the fees previously reported.

# Next steps

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

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**4** I ask the Governance and Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 7);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- take note of the VFM conclusion; and
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4).

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# Financial statements

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

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## Opinion on the financial statements

- 5** 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.

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## Errors in the financial statements

- 6** We identified errors within the financial statements (other than those of a trivial nature) and reported these to management. Management has agreed to adjust the financial statements for the errors identified in Appendix 2. We have not identified any errors (other than those of a trivial nature) that management has declined to correct.

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## Material weaknesses in internal control

- 7** We have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statement of which you are not aware.

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## Letter of representation

- 8** Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation I seek to obtain from you.

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## Key areas of judgement and audit risk

- 9** In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table 1.

## Financial statements

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

<b>Issue or risk</b>	<b>Finding</b>
Financial statements need to be supported by working papers that have been subject to robust quality review processes.	The working papers were complete and had been subject to a quality review.
Fixed Asset Register is likely to be updated during 2008-09 and this could impact on the working papers produced to support the accounts.	The Fixed Asset Register has been updated and has been used to support the generation of working papers from the system.
Valuation Reports previously obtained to support the accounts did not explicitly identify the consideration of enhancements during the year in view of the capital programme.	The valuation reports obtained now included enhancements during the year however an error was found with the valuation produced by the District Valuer.
Leisure Trust - the Council is establishing a trust which could impact on the financial statements which need to be produced.	The trust was not established within the 2008-09 financial year and the risk remains inherent for the 2009-10 audit work.

## Accounting practice and financial reporting

**10** I consider the qualitative aspects of your financial reporting and there are no matters that auditing standards require me to report to you.

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# Value for Money Conclusion

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

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## Value for money conclusion

- 11** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. In making my conclusion I have relied on the work carried out as part of the separately reported scored Use of Resources judgement. The background to the assessment and my decision on each of the areas reviewed in reaching the Value for Money Conclusion are set out in more detail at Appendix 4. The results from the scored Use of Resource judgement are being reported separately from this report.
- 12** I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my draft report.

# Appendix 1 – Independent auditor’s report to Members of South Kesteven District Council

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## Opinion on the Financial Statements.

I have audited the Authority accounting statements and related notes of South Kesteven District Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses. The Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of 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 49 of the Statement of Responsibilities of Auditors and Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Responsible Financial Officer and auditor.

The Responsible Financial Officer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

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

I report to you my opinion as to whether the accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 the financial position of the Authority and its income and expenditure for the year.

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

## Appendix 1 – Independent auditor’s report to Members of South Kesteven District Council

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

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

### Basis of Audit Opinion

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

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

### Opinion

In my opinion the Authority's financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

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

### Authority's Responsibilities

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

### Auditor's Responsibilities

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

## Appendix 1 – Independent auditor’s report to Members of South Kesteven District Council

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

### Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commissions and published in May 2008 and updated in February 2009, and the supporting guidance, I am satisfied that, 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 2009.

### Certificate

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

Chris Wilson

District Auditor

Audit Commission

2nd Floor

Witham House

Canwick Road

Lincoln, LN5 8HE

Date:

# Appendix 2 – Adjusted amendments to the accounts

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The following misstatements were identified during the course of my audit and the financial statements have been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities.

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## **Explanatory Foreword**

The explanatory foreword to the accounts contained three typographical errors and an error in relation to cross referencing to the page containing the Statement of Responsibilities. There was no financial effect to this adjustment.

## **Net Pension Liability**

The net pension liability figure in Note 43 did not agree to the corresponding figure within the Balance Sheet by £520,000. The figure within the Balance Sheet has been amended to read £20,107k and match that within Note 43. The Total Net Worth figure within the Balance Sheet has decreased as a result.

## **Financial Instruments**

The notes to the account contained typographical/format errors in relation to missing columns and title headings which have now been included to match the presentation required by the SORP.

## **Revenue Expenditure Funded from Capital under Statute (REFCUS)**

The REFCUS has not been recorded in accordance with the Local Authority Accounting Practice - Bulletin 81. The Deferred Charges element has been treated correctly but the Grant funding element (both income and expenditure totalling £834,000) needed to be removed from the Capital Adjustment Account and presented through the Statement of Movements on the General Fund Balance which has no effect on the deficit or the amount transferred to the General Fund working balance. The cash flow statement also needed amendment because the REFCUS was shown within the capital transactions and should have been within revenue activities. The above changes have been made to the final statements.

## **FRS17 - Pension Fund**

The method used to value the Pension Fund assets for FRS 17 purposes has been changed this year by the actuary. The Council included a note in relation to the change in policy but this needed to be expanded to meet the requirements of the Statement of Recommended Practice (SORP).

## Appendix 2 – Adjusted amendments to the accounts

### **Building Control Account**

The transactions within the Building Control Account are correctly represented but there is a requirement for the account to break-even over a three year period. The account has made a deficit over the last three years and a record of this has been added along with management's responses to the situation to the account note.

### **Meres Leisure Centre**

An error was identified within the District Valuers (DV) valuation report for Fixed Assets within the Balance Sheet whereby the Meres Leisure Centre was valued at £632,000 less than expected. The DV has confirmed the error and adjustments have been made to the figures within Fixed Assets, I&E, Revaluation Reserve and Capital Adjustment Account along with the subsequent impact on other statements and notes within the accounts.

### **Capital Financing Requirement (CFR) and Minimum Revenue Provision (MRP)**

The calculation of the CFR and the MRP were not in accordance with the SORP requirements. The CFR and MRP have been recalculated following the adjustments made above and have been represented to match the adjusted transactions within the accounts.

# Appendix 3 – Draft letter of representation

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Chris Wilson  
Audit Commission  
2nd Floor  
Witham house  
Canwick Road  
Lincoln  
LN5 8HE

## **South Kesteven District Council - Audit for the year ended 31 March 2009**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of Beverly Agass, Chief Executive, and Ian Yates, Corporate Director 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 2009.

### Compliance with statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice/United Kingdom Generally Accepted Accounting Practice which presents fairly the financial position and financial performance of the Council and for making accurate representations to you.

### Uncorrected misstatements

There are no uncorrected misstatements within the Financial Statements.

### Supporting Records

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

### Irregularities

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

### Appendix 3 – Draft letter of representation

There have been no:

irregularities involving management or employees who have significant roles in the system of internal accounting control;

irregularities involving other employees that could have a material effect on the financial statements; or

communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I have also confirm that I have disclosed:

my knowledge of fraud, or suspected fraud, involving either management employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and

my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators' or others.

Law, regulations, contractual arrangements and codes of practice

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

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

Fair values

I confirm the reasonableness of the significant assumptions within the financial statements.

Group Entities

I confirm there are none.

Assets

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

losses arising from sale & purchase commitments;

agreements & options to buy back assets previously sold; and

assets pledged as collateral.

Compensating Arrangements

There are no formal or informal compensating arrangements with any of our cash and investment accounts. Except as disclosed within financial statements 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 is no significant pending or threatened litigation, other than those already disclosed in the financial statements;

there is no material commitments or contractual issues, other than those already disclosed in the financial statements; and

no financial guarantees have been given to third parties.

### Related Party Transactions

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

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

### Post Balance Sheet Events

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

The Council has no plans or intentions that may materially alter the carrying value or classification of assets or liabilities reflected in the financial statements. If adoption of the financial statements and the representation are on the same day this paragraph is not required.

### Specific Representations

There are no further specific representations we seek.

Signed on behalf of South Kesteven District Council

I confirm that this letter has been discussed and agreed by the Council on 24th September 2008.

Signed

Name	Richard Wyles
Position	Corporate Head of Finance (Section 151 Officer)
Date	24 September 2009

# Appendix 4 – Value for money conclusion

Under the Code of Audit Practice (the code), auditors are required to give a value for money (VFM) conclusion in their statutory audit report as to whether they are satisfied that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The auditor's VFM conclusion is informed, and limited, by reference to 'relevant criteria' covering specific aspects of audited bodies' arrangements, specified by the Commission in accordance with the Code.

As part of the Comprehensive Area Assessment (CAA) framework from 2009 the Commission has published a set of key lines of enquiry (KLOEs) that will be used to arrive at a scored (on a scale of 1-4) use of resources assessment for local authorities, fire and rescue authorities, police authorities and primary care trusts for the purposes of CAA. These KLOEs also form the set of criteria for the VFM conclusion for these bodies. The Commission specifies which of these KLOE will form the 'relevant criteria' for the VFM conclusion each year. Auditors are required to apply a yes/no judgement against the criteria to indicate whether the organisation has proper arrangements in place or not. To apply a 'yes' judgement the auditor must be satisfied that the organisation has at least met level 2 as part of the scored Use of Resources judgement for the relevant KLOE.

We have assessed the Council's arrangements against the specified criteria for the 2008/09 Conclusion and reviewed relevant evidence from our Use of Resources judgement. The detailed results from the scored Use of Resources judgement are being fed back to the Council separately from this report. The relevant criteria and our judgements for the VFM conclusion are set out in the Table below.

<b>Specified VFM Criteria (Key Lines of Enquiry)2008/09</b>	<b>Met</b>
Planning for financial health - Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	<b>Yes</b>
Understanding costs and achieving efficiencies - Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	<b>Yes</b>
Financial reporting - Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	<b>Yes</b>

## Appendix 4 – Value for money conclusion

<b>Specified VFM Criteria (Key Lines of Enquiry)2008/09</b>	<b>Met</b>
Commissioning and procurement - Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	<b>Yes</b>
Use of information - Does the organisation produce relevant and reliable data and information to support decision making and manage performance?	<b>Yes</b>
Governance and ethics - Does the organisation promote and demonstrate the principles and values of good governance?	<b>Yes</b>
Risk management and internal control - Does the organisation manage its risks and maintain a sound system of internal control?	<b>Yes</b>
Managing human resources - Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?	<b>Yes</b>

We judged all the relevant criteria to be met for 2008/09 which enables an unqualified opinion to be given stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.

The Commission has specified the criteria for 2009/10. The criteria remain largely unchanged, although the managing human resources KLOE is replaced by one which assesses whether the Council is making effective use of natural resources.