

Annual Governance Report

South Hams District Council

Audit 2008/09

Updated 30 September 2009

Contents

Key messages	4
Next steps	6
Financial statements	7
Use of resources	10
Appendix 1 – Amended or additional disclosures	14
Appendix 2 – Unadjusted misstatements in the accounts	15
Appendix 3 – Draft letter of representation	16
Appendix 4 – VfM conclusion	20
The Audit Commission	21

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.
-

Ladies and Gentlemen

2008/09 Annual Governance Report

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

A draft of the contents has been discussed and agreed with management.

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;
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors (Appendix 3); and
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4).

Yours faithfully

Lee Budge
District Auditor
28 September 2009

Key messages

This report summarises the findings from the 2008/09 audit which is largely complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.

Financial Statements	Results	Page
Unqualified audit opinion?	Yes	7
Financial statements free from material error?	Yes	7
Adequate internal control environment?	Yes	8
Use of resources	Results	Page
Arrangements to secure value for money	Unqualified	9

Audit opinion

- 1 Subject to the satisfactory completion of outstanding procedures I plan to issue an unqualified opinion on the accounts.
- 2 I am unable to issue a certificate of closure until an outstanding objection is determined.

Financial statements

- 3 The arrangements for production of your financial statements are sound.
- 4 I have identified the following non-trivial misstatements or errors which the council is not planning to amend (Appendix 3):
 - the variance between the estimated and the actual value of pension fund assets of £416k (which is outside the control of the council)
 - fixed assets overstated by £154,000.
- 5 In addition amended or additional disclosures have been made in a number of areas (detailed at Appendix 2).

Key messages

Use of resources

- 6 I intend to issue an unqualified value for money conclusion stating that the Authority had adequate arrangements in all significant respects to secure economy, efficiency and effectiveness in its use of resources. Detailed findings are set out in Appendix 5.

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.

7 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements;
- agree to adjust the errors in the financial statements I have identified which management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- take note of the VFM Conclusion, which is based upon my Use of Resources judgements; and
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 2).

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.

Opinion on the financial statements

- 8** 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.
-

Objection to the accounts

- 9** I have received an objection to the accounts about the council's spending on publicity. This is not material to the accounts, nor to my opinion, but I am unable to issue a certificate of closure until the objection is determined.
-

Errors in the financial statements

- 10** I have identified the following non-trivial misstatements or errors which the council is not planning to amend (Appendix 3):
- The assumed value of Devon Pension Fund assets used by the actuary in their FRS17 reports to the scheduled and admitted bodies was £1,767.9 million – an underestimate of £14.7 million compared with the actual audited figure. South Hams' share of this difference has been calculated at £416K, using the actuarial calculation of the percentage share of assets. This is something over which South Hams have no control and is reported to you for information only.
 - Completed assets under construction have been overvalued by £123,000 and other fixed assets on one site have been valued on an incorrect basis leading to a further over-valuation of £31,000.
- 11** A number of amended or additional disclosures have been actioned in the accounts to either comply with the requirements of the CIPFA Statement of Recommended Practice or for clarity (Appendix 2).
- 12** Minor errors or omissions identified during the audit will be reported to officers in a separate memo after the opinion is given.
-

Accounting practice and financial reporting

- 13** Apart from the issues that have been amended in the accounts (and which are set out at Appendix 2), the only other accounting practice/financial reporting issue I would
-

bring to the attention of members is the prior period adjustment which the council has included in respect of the change in accounting policy for pension retirement benefits.

- 14 This is not material to the accounts nor is it a fundamental error and therefore the accounting treatment is inconsistent with both FRS3 "Reporting Financial Performance" and the CIPFA Statement of Recommended Practice. I report this for information only.

Material weaknesses in internal control

- 15 No material weaknesses in internal control have been identified during the audit.

Letter of representation

- 16 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 4 contains the draft letter of representation I seek to obtain from you.

Key areas of judgement and audit risk

- 17 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.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
Fixed asset valuation and impairment	The council's assets have been materially appropriately valued and impaired - subject to the valuation errors referred to above and the additional disclosure notes which have been added to the accounts.
Icelandic bank investment	We are satisfied that the accounting is materially correct.
Contingent liabilities – Single status and Sherford development	The contingent liabilities are appropriately disclosed but the Sherford disclosure note has been enhanced for clarity.
Aged debts	Our testing found these to be materially correct.

Financial statements

Issue or risk	Finding
Risks specifically arising from the economic downturn - including possible increased bad debts, failure to adequately impair fixed asset values, possible increased likelihood of fraud etc	No issues identified.

Use of resources

I am required to consider how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and give a scored use of resources judgement.

I am also 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 (VfM) conclusion.

Use of resources judgements

- 18** I have used the methodology set out in the [use of resources framework](#) as a basis for confirming that the Authority has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest.
- 19** Level 1 represents a failure to meet the minimum requirements at level 2 and results in a qualified VfM conclusion.
- 20** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 21** The Use of Resources assessment for 2008-09 represents a significantly harder test than previous assessments and level 2 requires arrangements in place and embedded for the period. It also signifies that the arrangements:
- are consistent with established professional practice and guidance, meet statutory requirements and operate effectively.
 - demonstrate for example; organisational commitment and leadership; appropriate skills and capacity and place; partnership working and action plans in place to address improvement
 - meet minimum acceptable levels of performance.
- 22** The detailed results of this work will be reported to the next meeting of the Audit Committee.

Value for money conclusion

- 23** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOEs are the relevant criteria for the VfM conclusion at each type of audited body. My conclusions on each of the areas are set out in Appendix 5.

Use of resources

- 24 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.
- 25 Appendix 1 contains the wording of my draft report.

Independent auditor's report to Members of South Hams District Council

Opinion on the financial statements

I have audited the Authority accounting statements and related notes of South Hams 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 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 Hams 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 of 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. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

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

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the 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 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 Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, I am satisfied that, in all significant respects, South Hams District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Delay in certification of completion of the audit

The audit cannot be formally concluded and an audit certificate issued until I have completed my consideration of matters brought to my attention by local authority electors. I am satisfied that these matters do not have a material effect on the financial statements.

Lee Budge

District Auditor

5-6 Blenheim Court
Lustleigh Close
Matford Business Park
Exeter
EX2 8PW

September 2009

Appendix 1 – Amended or additional disclosures

The following amended or additional disclosures were identified during the course of my audit and the financial statements have been adjusted by management. In most cases the amendments have been made to either comply with the Statement of Recommended Practice or for clarity. I bring them to your attention to assist you in fulfilling your governance responsibilities.

Table 2 Amended or additional disclosures

The following amendments have been made to the disclosures in the Council's accounts.

Disclosure	Nature of amendment
Explanatory foreword	Information about impairment of fixed assets added
Pensions FRS17	Additional information about contributions expected to be paid to the scheme in the following accounting period and about unfunded contributions
Contingent liability re Sherford development	Disclosure amended for clarity
Officers emoluments	Additional explanatory disclosure re the shared Chief Executive post
Fixed assets revaluation reserve	Further explanation re corrections made in 2008/09
Financial instruments	Amended and enhanced to give more information
Various	Minor wording changes for clarity and other corrections

Appendix 2 – Unadjusted misstatements in the accounts

The following misstatements were identified during the course of my audit and the financial statements have not been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities. If you decide not to do so, please tell us why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Table 3

Description of error	Accounts effected	Value of misstatement £
Variance between the estimated and the actual value of pension fund assets (which is outside the control of the council)	FRS17 Pension fund	£0.416m
Completed assets under construction overvalued	Fixed assets	£123,000
Fixed assets (over)valued on incorrect basis	Fixed assets	£31,000

Appendix 3 – Draft letter of representation

To:

Lee Budge
District Auditor
5-6 Blenheim Court
Lustleigh Close
Matford Business Park
Exeter
EX2 8PW

South Hams 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 other directors and officers of South Hams 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 the statutory authorities

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

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the *council* and the reasons for not correcting these items are as follows;

- *reason 1 etc;*
- *reason 2*

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 and Committee meetings, have been made available to you.

Irregularities

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

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

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

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For [xyz] assumption, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events [require/do not require] adjustment to the fair value measurement.

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 balancing arrangements with any of our cash and investment accounts. Except as disclosed in Note X to the 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; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information 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 that have occurred which would require additional adjustment or disclosure in the financial statements.

The council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Specific representations:

[example] There are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements.

[example] The legal claim by ABC Limited has been settled out of court by a payment of £258,000. No further amounts are expected to be paid and no similar claims have been received or are expected to be received.

Signed on behalf of South Hams District Council

I confirm that the this letter has been discussed and agreed by the Council on [date]

Signed

Name

Position

Date

Guidance (to be deleted before letter is reproduced):

The ISA (UK&I) 580 requirement is only that management need **sign**. Those charged with governance must acknowledge their collective responsibility for the compilation of the financial statements and arguably this would include **considering** the adequacy of the Letter of Representation.

The audited body should ensure that representations are only provided by those competent to give them, such that;

- acknowledgement of the responsibilities of “directors” for the financial statements is made by those in whom the responsibilities are vested; and,
- management representations on matters material to the financial statements are made by persons who have the knowledge of the facts or who are authorised to make the judgement to express an opinion (for instance a legal officer may be best placed to make representations about contingent liabilities). This may be particularly relevant where the financial statements comprise a consolidation of information from lower tier accounts.

Representations should usually be given by the Responsible Financial Officer for local government bodies.

Appendix 4 – VfM conclusion

The following tables summarise the conclusions for each of the specified KLOEs.

Table 4 VfM conclusion

	VfM criterion met (Yes/No)
KLOE 1.1 Financial planning	Yes
KLOE 1.2 Understanding costs and achieving efficiencies	Yes
KLOE 1.3 Financial reporting	Yes
KLOE 2.1 Commissioning and procurement	Yes
KLOE 2.2 Data quality and use of information	Yes
KLOE 2.3 Good governance	Yes
KLOE 2.4 Risk management and internal control	Yes
KLOE 3.1 Use of natural resources	N/A this year.
KLOE 3.2 Strategic asset management	N/A this year.
KLOE 3.3 Workforce planning	Yes

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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 0844 798 7070.

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