

Audit and Corporate Governance Committee Report

Report of Head of Finance

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To: Audit and Corporate Governance Committee

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AGENDA ITEM NO 3

Annual governance report

Recommendations

1. That the committee note the Audit Commission's annual governance report.
2. That the Head of Finance be authorised to write a letter of representation to the Audit Commission so that the audit opinion on the financial statements can be issued.
3. That the committee agree the action plan as identified in the annual governance report

Purpose of Report

1. To consider the Audit Commission's annual governance report.

Strategic Objectives

2. Sound financial management is central to the ongoing delivery of all the council's functions and therefore underpins the achievement of all of the council's strategic objectives as set out in the corporate plan. The timely production, audit and publication of the statement of accounts is fundamental to managing our business effectively.

Background

3. In accordance with the requirements of Audit Commission's Code of Audit Practice, the external auditor is required to comply with the requirements of International Standards of Auditing (United Kingdom & Ireland) – ISA (UK&I) – 260 "Communication of Audit Matters to Those Charged With Governance", by reporting to the Committee matters relating to the audit of the financial statements. The auditor's Annual Governance Report is attached as an appendix 1 to this report.
4. The Annual Governance Report identifies the following key messages:
5. The work on the financial statements is substantially complete although work on the Whole of Government Accounts (WGA) has yet to be concluded. Should any further matters arise in concluding the outstanding work that need to be reported, they will be raised with the Audit and Corporate Governance Committee. The external auditor proposes issuing an unqualified audit opinion.
6. The work on the council's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. The external auditor is satisfied that the council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008 except that it did not put in place:
 - arrangements within its system of internal control for the preparation of procedure notes and reconciliations of all key financial systems;
 - adequate reporting arrangements to enable Members to fulfil their responsibilities to match performance against budgets; or
 - an up to date capital strategy and asset management plan for management of its asset base.
7. The final accounts should have been presented to this committee by the end of September 2008. As was reported to the committee in September, the process of completing the accounts was made complex by a major systems conversion during the year. Working through the reconciliations of these systems, and identifying the implications of this on the statements, proved time consuming to complete. The full implications of this on the statements was recognised and in early September a request was made to the auditor to provide a late opinion on the accounts. The accounts presented for approval at this meeting are substantially different from those presented at the June meeting.
8. The auditors report identifies that the completion of the final accounts audit has been delayed and the revised accounts contain a significant number of adjusted errors, which are detailed in appendix 1 of that report. As a result of this, the audit report makes the following recommendations in respect of the financial statements:

R1 Resources within the Finance Department should be reassessed to provide resilience

R2 Arrangements for preparation and review of financial statements should be strengthened to ensure accurate accounts are produced for 2008/09

R3 The unallocated cash figure within receipts in advance should be investigated and correctly allocated against outstanding debtor accounts.

9. Appendix 2 to this report is an action plan based on these recommendations.

10. The Audit Commission's Code of Practice also requires the auditor to be satisfied that the Council has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources – the value for money conclusion. Having completed their work in relation to the use of resources the auditor makes the following recommendation, which is also covered in appendix 2:

R4 The Council should take action to improve arrangements for securing economy, efficiency and effectiveness in its use of resources as follows:

- Link corporate risks to strategic priorities and develop action plans to manage these risks;
- Document procedures for all key financial systems and undertake regular system reconciliations;
- Strengthen financial reporting to Members; and
- Prepare a capital strategy and asset management plan

11. The external auditor is required to obtain – by a letter of representation – written confirmation of certain representations from management and those charged with governance before an audit report is issued, such as acknowledgement of responsibility for the fair presentation of the financial statements in accordance with the applicable financial reporting framework and responsibility for the design and implementation of internal control to prevent and detect error.

12. The auditor should also obtain written representation from management on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist.

13. The draft letter of representation is included within the attached governance report.

Financial Implications

14. As a result of the substantial changes that have been made to the financial statements since June, additional work has had to be undertaken by the auditors before they were able to give their opinion, as identified in the report. This will result in an additional audit fee of up to £45,000, to be agreed with the Audit Commission. This will be met either from within existing budgets (underspends) or, if necessary, by virement from the corporate contingency budget.

Legal Implications

15. There are no direct legal implications arising from this report.

Human Resource Implications

16. None.

Sustainability Implications

17. None.

Conclusion

18. The audit of the 2007/08 statement of accounts is now complete. The problems encountered in completing the accounts and audit work have led the auditors to make a number of recommendations, which management will take on board when they begin preparations for the closedown of the 2008/09 accounts..