

Stratford-on-Avon District Council 2008/09 Report to those charged with governance



The Members

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Ladies and Gentlemen

2008/09 Report to those charged with governance

We are pleased to present our report on the results of our audit work for 2008/09. We hope that the information contained in this report provides a useful source of reference for members.

Yours faithfully

PricewaterhouseCoopers LLP

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Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In April 2008 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies' which applies to the 2008/09 audit. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

Executive summary

The purpose of this report

This report summarises the results of our audit work from our 2008/09 audit of accounts.

It includes the issues arising from our audit of the financial statements and those issues which we are formally required to report to you under the Audit Commission's Code of Audit Practice and International Standard of Auditing (UK & Ireland) (ISA(UK&I)) 260 - "Communication of audit matters with those charged with governance".

It also includes the results of the work we have undertaken on 'Value for Money in the Use of Resources' under the Code of Audit Practice, to support our formal conclusion in this area.

Our work during the year was performed in line with the plan that we presented to you on 18 June 2008.

We have set out below the most important issues and recommendations that we have discussed with you in the course of our work.

Financial Statements

We anticipate issuing an unqualified audit opinion on the financial statements subject to the satisfactory resolution of the following outstanding issues:

- the receipt of a final set of financial statements with all required amendments made as a result of the audit; and
- receipt of the letter of assurance from the Warwickshire Pension Fund auditors.

There are no unadjusted misstatements for us to bring to the attention of members. However, one significant misstatement has been amended by the Council since the draft accounts were approved. This is detailed in Appendix A to this report.

We have identified no material weaknesses in the Council's accounting and internal control systems during our audit.

There are also no significant matters of irregular expenditure, fraud or misconduct, or poor standards of financial integrity that we need to bring to your attention.

Financial Standing

The Council is responsible for ensuring that it has arrangements in place to secure an adequate financial standing. This requirement has become more pronounced in light of the current economic climate.

One of our responsibilities as auditors is to consider the financial standing of the Council. The Council has reported in the final accounts an underspend of £724,000 against the final budget. This underspend is welcomed given the pressures on the Council's financial position going forward.

Local Authorities, including this Council, face a significant challenge in the short to medium term resulting from the global economic downturn, the likelihood of a reduction in expenditure across most parts of the public sector and an increase in demand for public services. The need for effective financial management, budgeting and internal control will be critical going forward.

Use of Resources

We intend to issue an unqualified Use of Resources conclusion. Our initial use of resources and data quality assessment has concluded that the Council has met minimum requirements and has achieved an assessment of at least adequate.

Acknowledgements

We would like to thank the Head of Resources and his staff for the help and assistance provided to us during the course of our audit.

The dashboard below summarises our view of your performance in relation to the completion of the accounts and the audit. For further detail see later sections of the report.

	RED	AMBER	GREEN	COMMENTS
Quality of accounts and working papers		●		Accounts and working papers were submitted on a timely basis. However, a number of changes were required to the accounts as a result of the audit process.
Readiness for start of audit			●	A set of working papers were ready at the start of the audit and finance staff were available as agreed before the start of the audit.
Availability and responsiveness of staff		●		Key staff were available during the audit and finance staff responded to most audit requests on a timely basis. However, some improvements could be made to the speed with which some information requests were responded to.
Significant audit and accounting issues		●		One significant adjustment was required to the financial statements, in addition to a number of other, more minor changes.
Weaknesses in internal control systems			●	We have not identified any material weaknesses in Internal Control.

Key

- Red – significant improvements required
- Amber – some improvements required
- Green – no or some minor improvements required

Financial statements

Accounts

We have completed the audit of the Authority's accounts in line with the Code of Audit Practice and Auditing Standards. We anticipate issuing an unqualified audit opinion on the financial statements.

Accounting Issues

Unadjusted Misstatements

We are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature.

There are no unadjusted misstatements for us to bring to the attention of members of the Audit Committee.

Adjusted Misstatements

We are also required to bring to your attention misstatements which have been corrected by management, but which we consider you should be aware of in fulfilling your governance responsibilities.

There is one misstatement which has been corrected by management which we consider you should be made aware of:

Impairment of Fixed Assets

The Local Authority Statement of Recommended Practice 2008 (SORP) requires a review for the impairment of fixed assets to be undertaken if events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. In response to the changing economic climate during 2008/09, the Authority engaged Gerald Eve chartered surveyors to undertake an impairment review of their fixed assets.

This review identified a total impairment to the carrying value of fixed assets of £6.980 million. The Authority charged the whole of this impairment to the Income and Expenditure account. However, the Authority had also reduced revaluation reserves where these existed for specific assets. This amounted to £1.409 million.

The correct treatment is to reduce the revaluation reserve to the extent one exists for each individual asset before charging the Income and Expenditure account. Therefore, the deficit on the Income and Expenditure account was overstated by £1.409 million in the draft accounts. The adjusting entries made by the Authority are detailed in Appendix A to this report. This has not had an impact on the general fund balance.

Systems of internal control

We are required to report to you any material weaknesses in the accounting and internal control systems identified during the audit. We have identified no such weaknesses to report.

Accounting practices

We are also required to report to you our view on qualitative aspects of the Authority's accounting practices and financial reporting and have set out below our observations on key issues affecting the Authority.

The Authority was required to approve its draft accounts by 30 June 2009 and submission of the audited accounts is required by 30 September 2009. The Authority approved its accounts at the Audit Committee meeting on 24 June 2009.

We agreed a schedule of working papers and other information required with the Authority in advance of the audit. We are pleased to report that the quality of working papers was generally of a good standard and that the Authority's finance staff were co-operative in helping us to resolve to our satisfaction any queries that we had during the audit process. We would like to take this opportunity to thank staff within the finance function for their assistance during the audit.

In our 2007/08 ISA 260 report we recommended that the Authority:

- reviews the way in which it considers the impact of accounting changes in the SORP in order to make any necessary changes to its systems and process to produce the financial statements; and
- ensures that sufficient time is allocated within the closedown and accounts preparation process for effective quality control and review of the draft accounts to take place.

We are pleased to report that the Authority has improved the quality of its draft accounts and has allocated more time to undertake effective quality control.

However, a number of changes to the disclosures in the accounts were required, and the Authority could improve upon the length of time it takes to respond to specific queries. We are working together with the Head of Resources in reviewing the final audit process to ensure further improvements can be made going forward.

Other matters

Leases

During 2008/09 the Authority has identified that one of its arrangements, where it is a lessor of a lease for land and buildings, should be classified as a finance lease rather than an operating lease. This involved de-recognising the asset in the Balance Sheet and recognising a finance lease debtor to reflect the fact that the risks and rewards of the lease reside with the lessee.

As a result, we asked the Authority to undertake a review of its numerous lease arrangements to identify any further instances where it is the lessor of land and / or buildings which should be recognised as a finance lease. We were satisfied from this work that no material changes are required to the financial statements.

However, with the upcoming introduction of International Financial Reporting Standards (IFRS), it is likely that more leasing arrangements will be classified as finance leases.

We recommend that the Authority undertake a robust assessment of all its leasing arrangements against the provisions of IAS 17 (Leases).

Electors Questions / Objections

At the date of this report we had not been made aware of any elector's questions and objections under the Local Government and Public Involvement in Health Act 2007.

Value for Money in the Use of Resources

Work performed

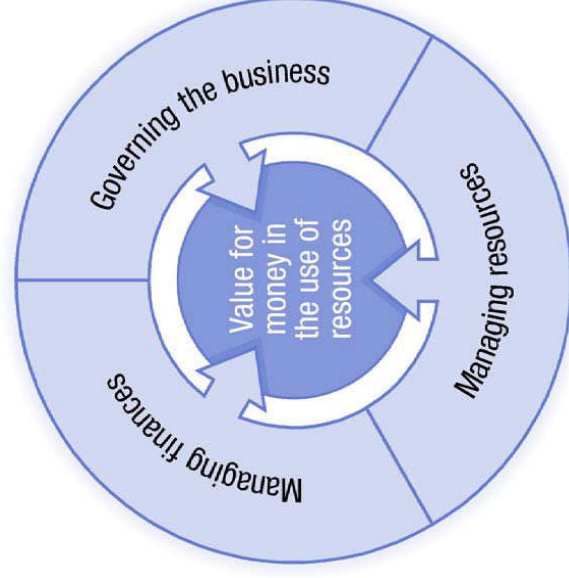
We have performed work to conclude on the Authority's arrangements for achieving economy, efficiency and effectiveness in its use of resources. Our work to support our conclusion comprised the following elements:

- Use of Resources assessment, supported by our conclusions on the key lines of enquiry (KLoEs) as specified by the Audit Commission
- Review of the Annual Governance Statement

Use of resources

From April 2009, the Audit Commission has been implementing comprehensive area assessment (CAA), jointly with the other public service inspectorates. The audit year 2008/09 is a year of transition to CAA. Our use of resources judgements in 2008/09 will therefore input into the first results of CAA which the Audit Commission will report on in autumn 2009 as well as acting as the basis for our value for money conclusion. The Audit Commission have therefore issued new Key Lines of Enquiry (KLoEs) for auditors to assess Local Authorities' arrangements against.

We have assessed the Authority's arrangements against a series of Key Lines of Enquiry (KLoEs) grouped into three themes which form the Use of Resources framework. The assessment has changed to focus on the Authority's achievements, outputs and outcomes rather than the Authority's processes. Auditors are therefore considering the Authority's strategies rather than the detailed processes that the Authority has put in place.



KLoEs are scored as follows:

- 1 – Failure to meet minimum requirements – inadequate performance;
- 2 – Meets only minimum requirements – performs adequately;
- 3 – Exceeds minimum requirements – performs well; or
- 4 – Significantly exceeds minimum requirements – performs excellently.

Use of Resources Conclusion

Under the Code of Audit Practice we are required to provide a conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. This conclusion is reached by assessing the Authority's arrangements against a set of criteria issued by the Audit Commission. From 2008/09 the Key Lines of Enquiry for the scored use of resources assessment also form the criteria for the Use of Resources conclusion. A score of Level 2 or higher under the KLoEs will usually result in an assessment of 'adequate' arrangements for the purposes of the Code criteria. In reaching our conclusions, we also consider whether the KLoE scores should be adjusted for other factors such as whether the arrangements have been in place for the whole financial year.

We intend to issue an unqualified value for money conclusion.

The final results of the use of resources assessment will be published by the Audit Commission in the autumn of 2009.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS) which is consistent with guidance issued by CIPFA / SOLACE. The AGS was included in the financial statements.

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE guidance and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Audit plans and fee update

Audit Plan 2008/09

We issued our Audit Plan for 2008/09 and presented it to Members on 18 June 2008.

We have performed appropriate reporting procedures for each of the risks identified in our Audit Plan of 2008/09. In this report we comment only on those areas where we believe we need to communicate with those charged with governance.

Audit fees update for 2008/09

We reported our fee proposals as part of the Audit Plan for 2008/09.

Our actual fees are projected to be in line with our proposals:

	2008/09 Projected Outturn	2008/09 Fee proposal
Accounts	£69,247	£69,247
Use of Resources	£29,003	£29,003
Total	£98,250	£98,250

Appendix A: Summary of material adjusted misstatements

We identified the following material misstatements during our audit which management have corrected, but which we consider should be communicated to you to assist you in fulfilling your governance responsibilities:

Adjusted Misstatement	Income and Expenditure Account		Balance Sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
<i>Impairment of Fixed Assets</i>		I&E Account £1,409	Capital Adjustment Account £1,409	Capital Adjustment Account £1,409
Reversal of amount incorrectly charged to the Income and Expenditure Account.			General Fund £1,409	
Refer to page 7 for more details.				
Net effect	0	1,409	2,818	1,409

The net impact of this adjustment is to reduce the deficit on the Income and Expenditure Account by £1,409,000 and increase the net assets on the Balance Sheet by the same amount. This has no overall impact on the level of the General Fund.

