

Annual Governance Report

Woodley Town Council

Audit 2008/09

January 2010

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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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2008/09 Annual Governance Report

I am pleased to present the results of our audit work for 2008/09.

This report updates those matters resolved since my draft Governance Report was issued in December 2009 and sets out the key issues that you should consider before we complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements including the proposed wording of the audit opinion;
- take note of the adjustments to the financial statements following my audit as set out in this report (Appendix 2);
- take note of the non-trivial errors in the financial statements we have identified, which have not been amended (Appendix 3);
- 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).

Phil Sharman CPFA
District Auditor

26 January 2010

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 how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.

Audit opinion on the financial statements

- 1 Due to an initial disagreement in the accounting treatment for the Council's investments, I delayed giving my audit opinion. I am now proposing to issue an audit report including an unqualified opinion on the financial statements. This is due to the misstatements identified during the course of the audit work having been adjusted by the Council prior to the audit opinion being given. Details of the adjustments made and remaining are recorded in Appendix 2 and Appendix 3.

Value for money

- 2 I propose to issue a qualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources for reasons outlined in this report.

Audit fees

- 3 Within the Audit Plan for 2008/09 I originally proposed an audit fee of £9,353 based on certain planning assumptions. However the costs of performing the audit this year are significantly higher than this estimate and a supplementary fee will therefore be required to reflect the considerable additional input to addressing matters arising during this audit. I will advise you of the final amount when my audit has been completed and reporting responsibilities finally discharged.

Next steps

This report identifies what 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 as my audit is not designed to identify all matters that might be relevant to you.

4 I ask the Council to:

- consider the matters raised in the report before approving the revised financial statements;
- take note of the adjustments to the revised financial statements set out in this report (Appendix 2);
- take note of the remaining non-trivial errors in the financial statements which have not been amended (Appendix 3);
- take note of the VFM Conclusion; and
- approve the letter of representation before I issue my opinion and conclusion (Appendix 4).

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 now adopt the financial statements and the annual governance statement.

Opinion on the financial statements

- 5 I now plan to issue an audit report including a unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Errors in the financial statements

- 6 The adjusted errors identified during the course of the audit are outlined in Appendix 2. The errors remaining unadjusted are deemed not material but are outlined in Appendix 3 for completeness of reporting.
- 7 There has been a disagreement over the basis of accounting of investments which would have led to the audit opinion being qualified. This was because Council had accounted for its 'available for sale' investments as fixed assets. The purchase of investments does not meet the definition of capital expenditure under FRS 14 and the Statement of Recommended Practice 2008 Guidance (the SORP). The 2008 SORP defines capital expenditure as 'Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset'. As the purchase of investments does not satisfy this definition, it was inappropriate to account for them as capital expenditure.
- 8 In order to comply with the SORP:
- the general fund balance needed to only reflect gains and losses on 'available for sale' investment activity;
 - interest and dividend income needed to be taken to the Income and Expenditure account; and
 - gains and losses arising from changes in value needed to be taken to the Statement of Movement on the General Fund balance.

This accounting approach has now been reflected in the revised accounts.

- 9 The Council has a fund to finance repayment of the loan relating to the Oakwood Centre. The accounts as originally drafted did not explain clearly the purpose of the fund. In my view, the accounts needed to specify the purpose of the investment fund, total achieved and progress against the 'sinking fund' schedule. This has now reflected in the revised accounts which include reference to the purpose of the investment fund in note 15 to the accounts (page 29) and in the explanatory foreword (page 5).

Financial statements

- 10 Funds are invested in an income bond with the Keydata Secure Income Plan. Since the year end, Keydata have defaulted, and the Council may need to seek compensation from the Financial Services Compensation Scheme. Latest information indicates that the Council will be entitled to compensation, although the case has yet to be determined. This is an adjusting post balance sheet event and needed to be disclosed. This position was confirmed in November 2009 and the Town Council has taken the decision to treat this as an adjusting post-balance sheet event. The revised accounts now recognise the £96,004 impairment upon the investments balance and a corresponding amount written out through the income and expenditure account.
- 11 We identified a number of other presentational errors and omissions, which we communicated to the Clerk for adjustment. These address areas of non-compliance with the SORP, incorrectly shown 2007-08 comparatives and other rounding, narrative and formatting issues. The key presentational errors and omissions, such as for the Oakwood Centre Sinking Fund within the schedule of reserves, are now adjusted in the revised accounts.

Weaknesses in internal control

- 12 We identified some weaknesses in the design and operation of your internal controls, and wish to draw your attention to the following matters.

Investments

- 13 The sinking fund set up to finance repayment of the loans relating to the Oakwood Centre is not currently projected to accumulate the £2 million over 20 years needed to redeem the loans. The expected balance at the end of 2008/09 was originally projected as £434k, whereas only £261k had been achieved at the year end, as shown in the revised statements. As Councillors will be aware, the position has been considered on a number of occasions, but the Council will need to continue to keep under review any further actions needed to adequately cover future repayment of the Oakwood Centre loans.
- 14 The Council's approach to investments has not adequately addressed to date the officer demands and knowledge required to manage the complexity and risk for the range and types of investments into which the Council has been advised to invest. This is needed alongside the external advice obtained externally on investment decisions. Investment performance was inevitably poor in the 2008/09 year due to the market conditions then which have improved since. However, the approach set out in the Treasury Management policy does not sufficiently consider how the Council should manage market risk or counter party risk. It is understood this is to be amended. Also, clear, reliable and easily understood monitoring information about investments was not always being obtained during the year. This has now been improved, in that revised reports monitor the investment portfolio on a regular basis and provide clearer reporting to Members.
- 15 Finally, the Council has not yet recouped 10 per cent tax paid on its investment interest income, but this is also now being progressed.

Fraudulent activity

- 16 Since the year end the Council has identified some fraudulent activity in relation to the banking of cash receipts from one of its facilities. Losses arose in the 2008/09 year with some further losses in the 2009/10 year. The sum is below the opinion materiality level for the accounts in the 2008/09 year. The matter is now subject to police and ongoing internal investigation. The Council has since implemented additional controls over cash income collection and actions are pending with regard to recovery of losses but these controls were not adequate in the year.

Fixed Assets

- 17 The Fixed Assets Register (FAR) excludes assets which have been transferred to the Council at nil cost - for example a play area this year. Since the Council has all the benefits and liabilities of ownership, it should include the assets in the FAR, and plans to do so in future. Due to an error in the FAR spreadsheet, depreciation was also not consistently applied to additions in the year. This was not a material matter in 2008/09, and this is being checked for next year.
- 18 The March 2007 valuer's report has been used to report on the values of land and buildings at the year end. During periods of significant movements in property values, without a formal impairment review or interim revaluation, there is potential for material overstatement in reported asset values. The current approach is also not in line with SORP requirements to complete an annual impairment review nor possibly with the accounting policy note which states that material changes to asset valuations will be adjusted in the interim period (between five-yearly revaluations), should they occur. However, it is also accepted that there is no material misstatement in the year and a revised accounting basis may be applied from 2009/10 onwards to Town Councils, removing this requirement in future.

Other

- 19 There have been a number of other matters relating to the presentation of accounts in terms of the reporting of the draft financial statements and with these not being in accordance with the statement of recommended practice. These have now been largely addressed in the revised statements.

Recommendations

- R1** The Council should ensure plans are in place to adequately cover future repayments of the Oakwood Centre loans.
- R2** The Council should review its approach to safeguarding invested funds. In particular, it should ensure it has adequate specialist knowledge, and be sure that it now has clear and reliable monitoring information. The treasury management policy should be updated to deal with the complexities and risks of the types of investments made.
- R3** The Council should ensure that its approaches to prevention of fraud and corruption are now adequate.

Letter of representation

- 20 Before I issue my opinion, auditing standards require me to obtain appropriate written representations about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation I seek to obtain from you.

Value for money

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 (VFM) conclusion.

- 21** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission which specifies which are relevant for the VFM conclusion at each type of audited body. My conclusions on each of the criteria for the 2008/09 year are set out in Appendix 5.
- 22** I have undertaken my audit in accordance with the Code of Audit Practice. In so doing I was unable to fully satisfy myself that the Town Council had adequate arrangements in place in the 2008/09 year. In particular:
- I was unable to obtain sufficient evidence that the Council had adequate financial management arrangements in that decisions to invest in higher risk markets were not supported by adequate treasury management processes, or resources to manage the risks and needs of its investment funds.
 - I was unable to obtain sufficient appropriate evidence that the Council had an adequate and effective counter fraud strategy and system of internal control to prevent loss of income or assets in the year.
 - the draft accounts originally approved did not comply with statutory requirements and relevant accounting and reporting standards, and did not present fairly the financial position and contained material errors.
- 23** For the reasons set out above, and having regard to relevant criteria specified by the Audit Commission for other local government bodies published by the Audit Commission in May 2008 and updated in February 2009, and the supporting guidance, I am therefore unable to conclude that, in all significant respects, Woodley Town Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009, in that it did not have in place adequate arrangements for the VFM criteria in this year for:
- planning its finances effectively to deliver its strategic priorities and secure sound financial health;
 - managing its risks and maintaining a sound system of internal control; and
 - ensuring the accounts complied with statutory requirements and relevant accounting and reporting standards.
- 24** Appendix 1 contains the wording of my proposed audit report including a qualified value for money conclusion.

Appendix 1 – Independent auditor’s report to Members of Woodley Town Council

Independent auditor’s report to the Members of Woodley Town Council

Opinion on the financial statements

I have audited the Authority accounting statements and related notes of Woodley Town 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, 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 Woodley Town 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 Clerk and auditor

The Clerk’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

Appendix 1 – Independent auditor’s report to Members of Woodley Town Council

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. For this Council, this comprises the Explanatory Foreword to the accounts. 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 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 other local government bodies. 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. In so doing I was unable to satisfy myself that the Council had adequate arrangements in place for achieving value for money in its management of financial and other resources. In particular:

- I was unable to obtain sufficient appropriate evidence that the Council had adequate financial management arrangements to secure financial stability. Its decisions to invest in higher risk markets was not supported by clear treasury processes, including allocation of appropriate resources to manage the risks and needs of its investment funds;
- I was unable to obtain sufficient appropriate evidence that the Council had an adequate and effective counter fraud strategy and system of internal control that would prevent loss of income or assets; and
- the draft accounts approved by the body did not present fairly the financial position and contain material errors.

For the reasons set out above, and having regard to relevant criteria specified by the Audit Commission for other local government bodies published by the Audit Commission in May 2008 and updated in February 2009, and the supporting guidance, I am not satisfied that, in all significant respects, Woodley Town Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009, in that it did not put in place adequate arrangements for:

- planning its finances effectively to deliver its strategic priorities and secure sound financial health;
- managing its risks and maintaining a sound system of internal control; and
- timely and reliable financial reporting which meets the needs of internal users, stakeholders and local people.

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.

Phil Sharman CPFA
District Auditor

Audit Commission, Council Offices, Farnborough Road, Farnborough, Hampshire, GU14
7JU

Appendix 2 – Adjusted amendments to the accounts

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

Table 1 Adjusted amendments to the accounts

Reason for adjustment	Accounts affected	Value £'000s
1. Investment accounting		
Disclosure inconsistent with SORP guidance	Note 11 to accounts: Investments made charged in the year to the General Fund balance	117
Disclosure inconsistent with SORP guidance	Note 11: Investment proceeds posted to the General Fund balance	116
Disclosure inconsistent with SORP guidance	Note 11: 07-08 comparative: Investments made charged in the year to the General Fund balance	126
Disclosure inconsistent with SORP guidance	Note 11: 07-08 comparative: Investment Proceeds Utilised	77
2. Investment impairment		
Incorrect treatment for Keydata investment	Investments and Financial Instruments Adjustments, via Income and Expenditure account	96
3. Other		
We identified a number of presentational errors and omissions, which have been adjusted to address non-compliance with the SORP, incorrectly shown 2007/08 comparatives and other rounding, narrative and formatting discrepancies	Various	

Appendix 3 – Unadjusted misstatements in the accounts

- 2 The following misstatements were identified during the course of our audit and remain unadjusted. These unadjusted misstatements do not have an impact upon my opinion. I just bring them to your attention to assist you in fulfilling your governance responsibilities.

Table 2 Unadjusted amendments to the accounts

Description of error	Accounts affected	Value £'000s
2008/09 Audit fee under-accrual	Audit fee expense - accruals	5
Southern electricity overcharge not shown as offsetting corresponding creditor	Trade creditors Other debtors	4

Appendix 4 – Draft letter of representation

Draft Letter of Representation to Appointed Auditor

I confirm to the best of my knowledge and belief, having made appropriate enquiries of members, officers and officials of Woodley Town 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. All representations cover the Council's accounts included within the financial statements.

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.

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 undisclosed:

- 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.

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 regulatory 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.

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.

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 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.

Appendix 4 – Draft letter of representation

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 Town 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

- The alleged fraud has been identified and investigated and is hereby formally notified to you. [Set out a brief summary of the matter for the record in this letter].
- The fixed assets, as listed in the fixed asset register, are all genuine assets which the council has full ownership of except as disclosed to you; land assets are held for community purposes and there are no plans to change their existing use; and the values of operational buildings have not changed significantly since the 2007 valuation was performed.
- The current position on the investment in Keydata is as described in the accounts.
- 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.

Signed on behalf of Woodley Town Council

Clerk

Woodley Town Council, The Oakwood Centre, Headley Road, Woodley, Berks

Date

Appendix 5 – Use of resources conclusions

- 1 The following table summarise the key finding and conclusions for each of the relevant use of resources themes. These KLOEs form the set of criteria used to inform the VFM conclusion.

Managing finances	VFM criterion met
KLOE 1.1 (financial planning)	No
Key findings and conclusions	
In view of the issues associated with the management of investments we are not satisfied with the evidence that the council had adequate arrangements in place to plan its finances effectively to deliver its strategic priorities and secure sound financial health.	
KLOE 1.2 (understanding costs and achieving efficiencies)	Yes
Key findings and conclusions	
We are satisfied with the evidence that the council has adequate arrangements in place to ensure it has a sound understanding of its costs and performance and achieve efficiencies in its activities	
KLOE 1.3 (financial reporting)	No
Key findings and conclusions	
In view of the material errors in the draft financial statements we are not satisfied that the council has adequate arrangements in place to ensure its financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people.	
Governing the business	
KLOE 2.4 (risk management and internal control)	No
Key findings and conclusions	
In view of the reported fraud we are not satisfied with the evidence that the council had adequate arrangements in place to manage its risks and maintain a sound system of internal control.	

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

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