

Annual governance report

Corby Borough Council

Audit 2011/12



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Key messages

This report summarises the findings from the 2011/12 audit. It includes the messages arising from my audit of your financial statements which is substantially complete. My work to assess your arrangements to secure value for money in your use of resources remains in progress.

Financial statements

My audit is substantially complete. At this stage, subject to satisfactory clearance of the outstanding matters and agreeing the final amended version of the financial statements, I expect to issue an unqualified audit opinion. I will inform members of the Audit & Governance Committee if any additional material issues arise from the outstanding work.

- The draft financial statements were prepared promptly and certified by the Director of Corporate Service on 29 June. The Accounts and Audit (England) Regulations 2011 require members to approve the final version of the financial statements by 30 September.
- Some errors in the draft financial statements submitted for audit have been identified (see page 6 and 8). To date, adjustments have been agreed to the comprehensive income and expenditure account, housing revenue account, balance sheet and disclosure notes. Most adjustments are presentational in nature and all but one have no impact on the general fund balance.
- All errors have been corrected with the exception of under-accrued audit fees (appendix 2)
- The overall impact of the corrected errors is an increase in net expenditure of £51k.

Value for money (VFM)

At this stage I am unable to issue a conclusion as to whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The Committee will be aware that I am still considering issues brought to my attention during the course of the audit in relation to the Council's arrangements for managing significant capital developments and transactions and related issues.

I will report further to the Council once I have finalised my value for money conclusion.

Certificate

As I am still considering matters brought to my attention during the course of my audit which may impact on my value for money conclusion I am unable to certify completion of the audit at this stage. I have also not yet completed my audit of the Council's Whole of Government Accounts return.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am aware of the following relationship that might constitute a threat to independence and that I am required to report to you. I have therefore put in place the following safeguard to reduce the threat.

Table 1: **Threats and safeguards**

| Threat | Safeguard |
|---|---|
| A member of the local audit team occasionally meets with the Council's Senior Housing ICT Officer in a social capacity. | I have made arrangements to ensure that the auditor undertakes no audit work in respect of Housing, ICT or payroll. |

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2011/12.

I ask the Audit Committee to:

- take note of the adjustments to the financial statements included in this report (appendix 3);
- consider and approve management's decision not to adjust the financial statements in respect of the issue in appendix 2;

- approve the letter of representation (appendix 4) on behalf of the Authority before I issue my opinion; and
- agree your response to the proposed action plan (appendix 6).

Financial statements

The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As elected 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

My audit is substantially complete.

The financial statements were prepared and submitted for audit in accordance with the agreed timetable and officers have been responsive and supportive throughout. The audit of the financial statements has progressed largely according to plan and there have been much fewer difficulties compared to the previous year.

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.

Uncorrected errors

At this stage I have identified one issue in respect of audit fees that officers have decided not to adjust (appendix 2).

Corrected errors

At this stage I have identified twelve material errors within the draft financial statements, all of which have been corrected (appendix 3). As noted above, most of the errors are presentational in nature and primarily affect the disclosure notes. All but one have no impact on the general fund balance but failure to accrue certain costs has resulted in an increase in net expenditure of £51k with a corresponding reduction in revenue reserves.

Significant risks and my findings

I reported to you in my April 2012 Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In Table 2 I report to you my findings against each of these risks. None resulted in any material errors in the financial statements.

Table 2: **Risks and findings**

| Risk | Finding |
|--|---|
| <p>Kingswood</p> <p>The continuation of the Kingswood project will impact the 2011/12 financial statements but not to the same extent as last year as the accounting treatment has been agreed. There may however be further material impairments or provisions required.</p> | <p>I have reviewed and tested the accounting treatment which is consistent with the approach adopted last year. I have not identified any significant issues this year.</p> |
| <p>Willowbrook Urgent Care Centre</p> <p>The building of the Willowbrook Urgent Care Centre on behalf of Northants PCT commenced in 2012 but will be incomplete at 31 March. The accounting treatment has not yet been finalised but is likely to have a material impact on the financial statements.</p> | <p>I have reviewed the accounting treatment with input from my technical support team and tested the detailed transactions and year-end balances, including review of valuations and a site visit. There are no matters that I wish to bring to your attention.</p> |
| <p>HRA reform</p> <p>The government is reforming local authority housing finance by adopting a self-financing model from 1 April 2012. For Corby this means a one-off payment to central government of £70.6 million on or before 28 March 2012 with a corresponding increase in debt. Due to the complexity, magnitude and timing of the HRA reform there is a risk that the financial statements could be materially misstated.</p> | <p>I have evaluated management's oversight of HRA reforms and the transactions required by the Authority. I have agreed the detail on the settlement payment to the DCLG notification and checked the accounting treatment.</p> <p>My testing has not identified any significant issues to bring to your attention.</p> |
| <p>Financial reporting</p> <p>My Annual Governance Report last year reported weaknesses in the way key financial information was</p> | <p>Additional audit testing on key transactions was undertaken to ensure classification between the HRA, General Fund and between capital and revenue was materially accurate and complete. I have not identified any matters requiring the attention of</p> |

| Risk | Finding |
|---|----------|
| reported to members in respect of Kingswood. It also referred to the challenge the Council is facing to achieve savings in respect of the General Fund. | Members. |

Significant weaknesses in internal control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

The following weaknesses in internal control are only those I have identified during the audit that are relevant to preparing the financial statements.

Table 3: **Internal control issues and my findings**

| Description of weakness | Potential impact | Management action |
|---|---|--|
| Following recommendations arising from last year's audit the Council is now undertaking a monthly reconciliation between the aged debtors report from the debtors system to the general ledger. However, there are unexplained differences each month. The discrepancy at 31 March 2012 was £17k. | Whilst we are satisfied that there is unlikely to be a material error within the debtors system, the failure to fully reconcile the system creates uncertainty over the accuracy and completeness of the figures in the financial statements. | Officers response: We shall have to take this into 2012/13 and look at refining our processes to eliminate this issue in future. |

Recommendation

R1 Review the procedure in place for reconciliation between the debtors system and the general ledger, ensuring that all differences can be identified and resolved in a timely manner.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process, including the following.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest

Table 4 sets out the other matters arising from my audit.

Table 4: **Other matters**

| Issue | Finding |
|--|---|
| Valuation of investment properties | Investment properties have been valued as at 1 April 2011 but the Code requires them to be valued at the balance sheet date (31 March 2012). The valuer has undertaken a separate impairment review at 31 March 2012 which confirms that there have been no material changes in asset values during the year. We are therefore satisfied that investment properties are unlikely to be materially misstated. Nevertheless, the valuer should be asked to undertake all valuations at the balance sheet date in future. See recommendation R2 below. |
| Property, Plant & Equipment (PPE) - Depreciation | Testing identified a number of weaknesses in the Council's arrangements for calculating depreciation. For example, depreciation has been incorrectly calculated on the total value of some assets (including land) and there are others with no evidence to support their estimated remaining life. We are satisfied that the calculations are unlikely to be materially misstated but there is clearly scope to improve the accuracy of the |

Issue

Finding

PPE - Valuations

calculations in future. See recommendation R3 below.

Testing of valuations identified the following issues:

- there are inconsistencies in the classification of some assets between the valuation report and fixed asset register (FAR);
- some assets (e.g. community centres) have not been revalued within the 5 year maximum valuation interval specified in the Code; and
- there is a risk that some assets have been double-counted as they appear in more than one category in the FAR.

We are satisfied that any potential errors are unlikely to be material but there is a risk that the cumulative effect of these weaknesses could become material over time if not corrected. See recommendation R4 below.

Provision for bad debts

The provision for bad debts in respect of sundry debtors and housing benefit overpayments has been estimated using monthly performance indicators. However, the indicators only relate to debts raised in the current month and take no account of past performance for the recoverability of older debts. The basis of the provision in respect of HRA debtors has not been updated to reflect the most up to date recovery statistics and there is no evidence to support the basis of the provision in respect of court costs. See recommendation R5 below.

Recommendation

R2 Instruct the valuer to provide all land & buildings valuations (including investment properties) at the balance sheet date (31 March) in future.

R3 Review depreciation calculations and ensure all information can be verified in future.

Recommendation

- R4** Review arrangements for the valuation, classification and recording of assets. In particular,
- ensure instructions to the valuer are accurate and that assets are valued in accordance with the Code and accounting policies (including frequency of valuations); and
 - review and “cleanse” the asset register ensuring all assets are correctly classified and not duplicated.
-
- R5** Review the overall approach to calculating the bad debts provision ensuring that it reflects appropriate and up to date statistics on actual recovery rates and that evidence is maintained to support all estimates.
-

Whole of Government Accounts

Alongside my work on the financial statements, I also review and report to the National Audit Office on your Whole of Government Accounts return. At the date of writing I have not completed the procedures specified by the National Audit Office. I expect to complete my report by 5 October 2012.

Value for money

I am required to conclude whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.

I assess your arrangements against the two criteria specified by the Commission. In my earlier Audit Plan I reported to you the significant risks that were relevant to my conclusion. I am still considering the Council's arrangements for the management of significant capital developments and transactions, including the CUBE, and cannot at this stage come to an overall conclusion on the Council's arrangements for securing economy, efficiency and effectiveness. I will report my findings in due course.

Table 5: **Value for money conclusion criteria and my findings**

| Criteria | Risk | Findings |
|---|---|-----------------------|
| <p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p> | <p>Securing financial resilience</p> <p>The continuing financial pressures facing the public sector and proposed financial reforms represent a significant challenge to the delivery of financial plans in the current and future years. At Corby there are additional local pressures arising from previous year's litigation costs and a major programme of capital projects. Overall levels of borrowing have been increasing in recent years reaching a peak of £47.4 million in July 2011, although this has now reduced to £42.9 million. Considerable over-spends on major projects such as the Cube has contributed to this.</p> | <p>To be reported</p> |

| Criteria | Risk | Findings |
|---|--|------------------------|
| <p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2011/12:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p> | <p>The issues identified above could also impact on arrangements for securing economy, efficiency, and effectiveness, particularly in light of the cessation of the internal VFM review programme in 2011.</p> | <p>To be reported.</p> |

Report by exception

In addition to the two specified criteria, the Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If auditors become aware of any significant issues in these areas they need to consider whether or not to report by exception at the same time as issuing the VFM conclusion.

As detailed earlier in this report I am still considering the Council's arrangements for managing significant capital developments and transactions and related issues. These may also impact on the criteria outlined in the paragraph above. I will report further to the Committee in due course.

Fees

I reported my planned audit fee in the April 2012 Audit Plan.

I will complete the audit within the planned fee.

Table 6: Fees

| | Original Scale Fee (£) | Planned fee 2011/12 (£) | Expected fee 2011/12 (£) |
|--------------------|------------------------|-------------------------|--------------------------|
| Audit | 113,050 | 115,500 | 115,500 * |
| Claims and returns | | 25,000 | 25,000 ** |
| Non-audit work | | Nil | Nil |
| Total | | £140,000 | £140,000 *** |

* The Audit Commission has paid a rebate of £9,044 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £106,456.

** Certification of claims and returns remains in progress. At this stage I do not expect the actual fee to be significantly different to the planned fee.

*** Audit work relating to the current review of the Council's arrangements for managing major capital developments and transactions is being done as part of the 2010/11 audit which is still ongoing. The table above excludes additional audit fees relating to this review.

Appendix 1 – Draft independent auditor’s report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF CORBY BOROUGH COUNCIL

Opinion on the Authority financial statements

I have audited the financial statements of Corby Borough Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Corby Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Corporate Services and auditor

As explained more fully in the Statement of Responsibilities, the Director of Corporate Service is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of

significant accounting estimates made by the Authority and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Corby Borough Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

Delay in issuing conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources and certificate of completion of the audit

I am considering matters brought to my attention during the course of my audit relating to the Council's arrangements for managing significant capital developments and transactions and related issues. Until I have done so I am unable to reach a conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.

Until I have reached my value for money conclusion and completed the work necessary to issue my assurance statement in respect of the authority's Whole of Government Accounts consolidation pack, I am unable to certify completion of my audit.

I am satisfied that these matters brought to my attention and that I am considering do not have a material effect on the financial statements.

Neil Bellamy

Officer of the Audit Commission

Appendix 2 – Uncorrected errors

I identified the following errors during the audit which management have not addressed in the revised financial statements.

| | | Statement of comprehensive income and expenditure | | Balance sheet | |
|-----------------|--|---|-----------|---------------|-----------|
| Item of account | Nature of error | Dr £'000s | Cr £'000s | Dr £'000s | Cr £'000s |
| Audit Fees | <p>There is disagreement over the treatment of audit fees. In our view fees are under-stated due to a failure to accrue for the estimated additional costs of the investigation into capital contracts and other governance issues. Officers do not believe an accrual is necessary in 2011/12 as the work was not completed in that financial year. At this stage the estimated additional fees are £39,000</p> <p>- Net cost of service</p> <p>- Short term creditors</p> <p>This also affects the Movement in Reserves Statement (increasing the deficit on provision of services & reducing total usable reserves) and disclosure note 34.</p> | 39,000 | | | 39,000 |

Appendix 3 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

| Item of account | Nature of error | Statement of comprehensive income and expenditure | | Balance sheet | |
|---|---|---|-----------|---------------|-----------|
| | | Dr £'000s | Cr £'000s | Dr £'000s | Cr £'000s |
| Note 7 – Adjustments between accounting basis and funding basis under regulations. HRA impairments | HRA impairments of £7,434k were incorrectly disclosed on the “Charges for depreciation” line rather than the “Revaluation losses on PPE” line. | | | | |
| HRA Note 9 – Capital expenditure and financing. | The HRA self-financing expenditure & related borrowing of £70,646k was incorrectly omitted from the note and was therefore incomplete and inconsistent with note 37. | | | | |
| Note 39 – Operating leases as lessor. | The note was over-stated as follows: <ul style="list-style-type: none"> ■ Within 1 year £105k ■ 2-5 years £159k ■ Over 5 years £966k | | | | |
| Note 11 – Property, Plant & Equipment. Assets Under Construction | Costs of £2,954k incurred on the Kingswood project were incorrectly included in the note as assets under construction. This error also affected | | | | |

| | | Statement of comprehensive income and expenditure | | Balance sheet | |
|--|--|---|-----------|---------------|-----------|
| Item of account | Nature of error | Dr £'000s | Cr £'000s | Dr £'000s | Cr £'000s |
| | note 37, capital expenditure and financing. | | | | |
| Note 24 - Provisions | The note did not disclose reversal of provisions of £379k or the balance brought forward of £2,098k. | | | | |
| Property, Plant & Equipment. | <p>Assets valued at depreciated replacement cost (DRC), such as the Cube and the Swimming Pool, were not valued in accordance with the Code. Valuations incorrectly include financing costs of £4m.</p> <ul style="list-style-type: none"> ■ Property, Plant & Equipment ■ Impairment ■ Adjustments for funding basis (MiRS) ■ Unusable Reserves (CAA) <p>This is a prior period adjustment requiring restatement of the 2010/11 balance sheet. It also affects note 11. There is also a non-material impact on the related depreciation charges. For 2011/12 there is also a non-material impact on impairment charges.</p> | 4,000 | 4,000 | | 4,000 |
| Gains on disposal of non-current assets. | Two asset disposal were incorrectly classified as Assets Held for Sale | | | | |

| | | Statement of comprehensive income and expenditure | | Balance sheet | |
|---------------------------------------|---|---|-----------|---------------|-----------|
| Item of account | Nature of error | Dr £'000s | Cr £'000s | Dr £'000s | Cr £'000s |
| | <p>rather than Investment Properties. Consequently, the gain on disposal was incorrectly classified as "Other Operating Expenditure" rather than "Financing & Investment Income".</p> <ul style="list-style-type: none"> ■ Other operating income & expenditure ■ Financing & Investment Income & Expenditure | 4,079 | | | 4,079 |
| Note 11 – Property, Plant & Equipment | <p>There was an inconsistency between the impairment allowance (revaluation loss) in the income & expenditure statement and the corresponding figure in note 11. This was due to an error of £1,291k in note 11 which was incorrectly classified as "Revaluations recognised in the Surplus/Deficit on the Provision of Services" rather than "Revaluations recognised in the Revaluation Reserve".</p> | | | | |
| Officers emoluments | <p>The Council did not accrue or disclose the full costs in respect of the Chief Executive. As a result, the Net Cost of Services is under-stated by approximately £216k (£165k pension strain and £51k</p> | | | | |

| | | Statement of comprehensive income and expenditure | | Balance sheet | |
|--|---|---|-----------|---------------|-----------|
| Item of account | Nature of error | Dr £'000s | Cr £'000s | Dr £'000s | Cr £'000s |
| | <p>compensation for loss of office). The £165k pension strain has no impact on usable reserves as it is removed and replaced by actual pension payments via the Movement in Reserves Statement with the difference going to the Pensions Reserve.</p> <ul style="list-style-type: none"> ■ Net Cost of Service ■ Unusable Reserves (pension reserve) ■ Short term creditors <p>The error also affected note 33.</p> | 216 | | | 165 |
| | | | | | 51 |
| Net Cost of Services - Pension deficit funding | <p>The Council incorrectly classified contributions towards the pension deficit as "Non Distributed Costs" rather than allocating the costs across the relevant services. The impact on the 2011/12 financial statements was not material (£712k), but there was a material error in the prior period as follows:</p> <ul style="list-style-type: none"> ■ Non Distributed Costs (2010/11) ■ Service Expenditure Analysis (2010/11) | | 988 | | |
| | | 988 | | | |
| Collection Fund Note 5 | The rateable value disclosed in the | | | | |

| | | Statement of comprehensive income and expenditure | | Balance sheet | |
|---|--|---|-----------|---------------|-----------|
| Item of account | Nature of error | Dr £'000s | Cr £'000s | Dr £'000s | Cr £'000s |
| – Non-Domestic Rates | note is understated by £1,499,669. | | | | |
| Property, Plant & Equipment – Infrastructure Assets | <p>Testing identified a number of infrastructure assets (roads) for which the Council was unable to provide evidence of ownership. Further enquiries established that the roads were adopted by the County Council and should therefore have been excluded from the Council's balance sheet.</p> <ul style="list-style-type: none"> ■ PPE (Infrastructure) ■ Unusable reserves (CAA) ■ Impairment allowance ■ MiRS (Adjustment between accounting and funding basis) <p>This was a prior period adjustment requiring restatement of the 2010/11 balance sheet. It also affected note 11.</p> | | 1,279 | | |

Appendix 4 – Draft letter of management representation

Corby Borough Council - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other relevant officers of the Council, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements are not material to the financial statements, either individually or in aggregate.

These misstatements have been discussed with those charged with governance within the Audit & Governance Committee and the reasons for not correcting these items are as follows.

- The uncorrected misstatement refers to additional audit fees that are expected to total £39k for the Cube and other associated issues investigation. The auditors argue that because this relates to outstanding work from the 2010/11 audit, it should be allowed for within the 2011/12 accounts.
- Whilst the council does accept that this is a legitimate cost, we believe that it is attributable to 2012/13 rather than 2011/12. The basis for this is that we operate on an accruals basis and we only accrue for outstanding costs at the end of each year if the goods or services have been received by the end of the year. As this work was undertaken during 2012/13, we believe this to be a 2012/13 cost as this is then consistent with the treatment of other accruals and treatments of expenditure.

Supporting records

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

Irregularities

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

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;
- 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; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Comparative financial statements

The balance sheet and comprehensive Income & expenditure statement have been amended to correct material misstatements in the prior period financial statements. This affects the comparative information of Property, Plant & Equipment and the service expenditure analysis. Written representations previously made in respect of the prior period remain appropriate.

Signed on behalf of Corby Borough Council

I confirm that the this letter has been discussed and agreed by the Audit & Governance Committee on 26 September 2012

Signed

Adrian Sibley

Director of Corporate Services

Date

Appendix 5 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement

within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Significance

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

Appendix 6 – Action plan

Recommendations

Recommendation 1

Review the procedure in place for reconciliation between the debtors system and the general ledger, ensuring that all differences can be identified and resolved in a timely manner.

| | |
|-----------------------|---|
| Responsibility | Claire Edwards (Encor Group Accountant) |
|-----------------------|---|

| | |
|-----------------|------|
| Priority | High |
|-----------------|------|

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|-------------|---------|
| Date | 2012/13 |
|-------------|---------|

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|-----------------|-------------------------------------|
| Comments | Agreed. To be addressed in 2012/13. |
|-----------------|-------------------------------------|

Recommendation 2

Instruct the valuer to provide all land & buildings valuations (including investment properties) at the balance sheet date in future.

| | |
|-----------------------|---|
| Responsibility | Claire Edwards (Encor Group Accountant) |
|-----------------------|---|

| | |
|-----------------|------|
| Priority | High |
|-----------------|------|

| | |
|-------------|---------|
| Date | 2012/13 |
|-------------|---------|

| | |
|-----------------|---|
| Comments | Agreed. The valuer will be requested to value the properties as at the balance sheet date but this may be dependant on their capacity to deliver. |
|-----------------|---|

Recommendation 3

Review depreciation calculations and ensure all information can be verified in future.

| | |
|-----------------------|---|
| Responsibility | Claire Edwards (Encor Group Accountant) |
|-----------------------|---|

| | |
|-----------------|------|
| Priority | High |
|-----------------|------|

| | |
|-----------------|---------------------------------------|
| Date | 2012/13 |
| Comments | Agreed. Will review for future years. |

Recommendation 4

Review arrangements for the valuation, classification and recording of assets. In particular,

- ensure instructions to the valuer are accurate and that assets are valued in accordance with the Code and accounting policies (including frequency of valuations); and
- review and “cleanse” the asset register ensuring all assets are correctly classified and not duplicated.

| | |
|-----------------------|---|
| Responsibility | Claire Edwards (Encor Group Accountant) |
| Priority | High |
| Date | 2012/13 |
| Comments | Agreed. Will look at in 2012/13. |

Recommendation 5

Review the overall approach to calculating the bad debts provision ensuring that it reflects appropriate and up to date statistics on actual recovery rates and that evidence is maintained to support all estimates.

| | |
|-----------------------|--|
| Responsibility | Claire Edwards (Encor Group Accountant) |
| Priority | High |
| Date | 2012/13 |
| Comments | Agreed. A review will be undertaken and evidence maintained to support the estimates used in future. |

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

