

**Audit and Governance Committee**

29 September 2011

Report of the Director of Customer & Business Support Services

**Annual Governance Report – Audit Commission**

**Summary**

1. The International Standard on Auditing (United Kingdom and Ireland) – ISA (UK&I) - 260 requires the Audit Commission to report to those ‘charged with governance’, issues arising from the audit of Financial Statements. The purpose of this report is to bring to Members attention the Audit Commission’s Annual Governance Report, agree the Council’s response and seek approval to changes to the 2010/11 Financial Statements. A copy of the Audit Commission Annual Governance Report is attached at Annex A.

**Background**

2. In 2006 the Audit Commission introduced revised reporting arrangements that included the requirement for an Annual Governance Report to be presented to those ‘charged with governance’ at the council. The council must consider the report before a statutory deadline of the 30 September each year. This report is made in addition to the Annual Audit Letter, which will be published in December 2011.
3. International Standard on Auditing (ISA) 260 also requires the Audit Commission to give an opinion on the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion). An unqualified Audit Opinion on the Council’s arrangements is anticipated by the 30th September 2011.
4. The Pre-Audit Statement of Accounts 2010/11 were approved by the Director of Customer & Business Support Services on 30<sup>th</sup> June 2011 in accordance with the planned timetable and revised Accounts and Audit Regulations.

5. The 2010/11 audit is now substantially complete. The audit of the accounts will formally continue until the statutory deadline of the 30th September 2011, however it is not expected that the position will change significantly from this report. During the course of the audit to date, a number of material misstatements have been identified which the Council proposes to amend, pages 5 and 6 of the Audit Commission's Annual Governance Report attached at Annex A details these "Errors in the financial statements". Page 6 of the Annual Governance Statement also provides information of three misstatements to the accounts which the Council proposes not to amend and not reflect in the accounts ("Errors and uncertainties not adjusted").
6. A Letter of Representation (as required by International Auditing Standards) has been prepared for signature by the Chair of this Committee following Members consideration of this item. The Council's S151 Officer will also be required to sign this letter. The Letter of Representation will include information to show that the accounts show a true and fair view of the financial position and financial performance of the Council and also explain that management believes the uncorrected misstatements to be immaterial, both individually and in aggregate, to the financial statements as a whole. The letter has been drafted in accordance with the template provided by the Audit Commission.
7. A revised Statement of Accounts reflecting all the agreed changes has also been provided at of item 5, Annex B, of this agenda.
8. In planning their work, the Audit Commission identified four key areas of risk that have been considered during the audit. The Annual Governance Report on page 6 and 7 details the findings on these areas. In particular, in respect of the risk on two key Council projects – Waste PFI and the new office Accommodation – amendments to the accounts have been agreed in respect of costs incurred on West Offices. In respect of the risk around errors to the fixed asset valuations and accounting, there has been improvement overall, although adjustments have been required to disclosure notes and sheltered housing revaluation.
9. The Audit Commission's Annual Governance Report on page 8 has identified three issues to bring to Members attention regarding the quality of financial statements:
  - The financial statements containing errors
  - The implementation of the new IFRS and Code requirements

- Meeting the submission deadline for the Whole of Government Accounts work.
10. The production of the Statement of Accounts is the subject of continuous review and improvements will be sought in 2011/12. This year will focus on (i) raising the profile of Final Accounts (ii) further prioritisation of resources to the preparation of the Accounts (iii) increased frequency of meetings with the external auditors (iv) further specific training sessions for accountants (iv) enhanced project planning to ensure all deadlines are achieved.

### **Consultation**

11. The report of the External Auditor has been discussed with the relevant responsible officers and has been approved in draft by the S151 Officer. It is reported here for due consultation with those members charged with governance at the council.

### **Options**

12. Not relevant for the purpose of the report.

### **Analysis**

13. Not relevant for the purpose of the report.

### **Corporate Priorities**

14. This report contributes to the overall effectiveness of the council's governance and assurance arrangements.

### **Implications**

15. There are no financial, HR, equalities, legal, crime and disorder, IT or property implications arising from this report.

### **Risk Management**

16. The council will fail to comply with legislative and best practice requirements to provide for the proper audit of the authority if it does not consider this report or approve and sign off the letter of representation now required by International Auditing Standards.
17. By not responding effectively to the matters contained in this report, the council will fail to properly comply with legislative and best practice requirements.

## Recommendations

18. Members are asked to:

- (a) Note and discuss the matters set out in the Annual Governance Report presented for discussion by the External Auditor;

### Reason

*To ensure the proper consideration of the opinion and conclusions of the External Auditor in respect of the annual audit of accounts and review of the council's arrangements for ensuring value for money.*

- (b) Consider the items identified as material misstatements on pages 5 and 6 of the Annual Governance Report at Annex A (Errors in the financial statements) and agree to amend the 2010/11 Statement of Accounts for those items.
- (c) Consider the items identified on page 6 of the Annual Governance Report at Annex A (Errors and uncertainties not adjusted) and agree not to amend the 2010/11 Statement of Accounts for those items.
- (d) Approve the amended Statement of Accounts 2010/11
- (e) Approve the letter of representation for signature by the Chair of this Committee, having first considered whether it sufficiently reflects the views and beliefs of the Committee as those charged with governance at the Council

### Reason

*To ensure compliance with International Auditing Standards and relevant legislative requirements.*

- (f) Note the anticipated receipt of an unqualified Audit Opinion to both the Statement of Accounts 2010/11 and the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources

### Reason

*To ensure Members of the Audit and Governance Committee are aware of any matters arising from the annual audit of the Statement of Accounts.*

## Contact Details

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**Report  
Approved**



**Date** 26/09/11

## Specialist Implications Officers

Not applicable

**Wards Affected:**

**All**



**For further information please contact the author of the report**

## Background Papers:

Audit and Governance Committee 26<sup>th</sup> July 2011 – Pre-Audit Statement of Accounts 2010/11

Audit and Governance Committee 29<sup>h</sup> September 2011 Annex A – Schedule of Changes to the Pre-Audit Statement of Accounts 2010/11

## Annex

Annex A - Annual Governance Report; City of York Council; Audit 2010/11