

# Annual Governance Report

Ashfield District Council

Audit 2008/09

Date December 2009

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# Contents

<b>Key messages</b>	<b>4</b>
<b>Next steps</b>	<b>6</b>
<b>Financial statements</b>	<b>7</b>
<b>Use of resources</b>	<b>15</b>
<b>Appendix 1 – Independent auditor’s report to Members of Ashfield District Council</b>	<b>17</b>
<b>Appendix 2 – Adjusted amendments to the accounts</b>	<b>20</b>
<b>Appendix 3 – Draft letter of representation</b>	<b>22</b>
<b>Appendix 4 – Use of resources key findings and conclusions</b>	<b>26</b>
<b>Appendix 5 – Action Plan</b>	<b>33</b>
<b>The Audit Commission</b>	<b>36</b>

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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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Councillors

## **2008/09 Annual Governance Report**

I am pleased to present the final version of my report on the results of my audit work for 2008/09.

A draft of the report was discussed and agreed with the Interim Head of Financial Management and Audit Services on 1 December 2009.

The report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 14);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 5).

Yours faithfully

Sue Sunderland  
District Auditor  
December 2009

# 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.

<b>Financial Statements</b>	<b>Results</b>	<b>Page</b>
Unqualified audit opinion	Yes	7
Financial statements free from error	No	7
Adequate internal control environment	Yes	10
<b>Use of resources</b>	<b>Results</b>	<b>Page</b>
Use of resources judgements	Yes	15
Arrangements to secure value for money	No	16

## Audit opinion

- 1 Our work on the financial statements is substantially complete. Subject to satisfactory clearance of what is now a small number 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.
- 2 I was unable to issue my opinion on your financial statements by the deadline of 30 September 2009 because of the extent of unresolved issues at that time, particularly in relation to fixed asset values. In fact we had to withdraw from the audit to allow your officers more time to respond to our outstanding queries, recommencing on 19 October.
- 3 In the 2010/11 local government work programme and scale of fees consultation document, published in July 2009, the Audit Commission commented that the failure to publish accounts on a timely basis, or the qualification of an auditor's opinion on a set of accounts, not only reflects poorly on authorities' financial management arrangements, but represents a fundamental failure of governance.
- 4 In response to this issue, the Commission committed to publishing, in an open letter to the Secretary of State, a list of all those authorities whose accounts have been qualified, or where the auditors have not been able to issue their reports by 30 November. You will be included on this list when the letter is issued on 17 December.

## Key messages

- 5 On a more positive note, following last year's qualified opinion because of concerns over your cash and bank balances I have been able to obtain sufficient assurance over your bank reconciliation to enable me to give an unqualified opinion this year.

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## Financial statements

- 6 The draft financial statements contained several material and other non-trivial errors, all but one of which have been amended.
- 7 There are ongoing issues of capacity in the financial management division which, despite officers' best efforts, contributed to the number of errors in the draft accounts and issues around the resolution of audit queries.
- 8 We remain concerned over the accounting entries in respect of many aspects of fixed assets and capital accounting. Action must be taken to address these issues in the current year.

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## Use of resources

- 9 Overall, the Council is performing adequately against most of the new use of resources criteria and has arrangements which are generally consistent with established professional practice and guidance, meet statutory requirements and operate effectively. However, the Council's performance is inadequate in two key areas;
  - In producing timely, reliable financial reporting that meets the needs of internal users, stakeholders and local people; and
  - In planning, organising and developing the workforce effectively to support the achievement of strategic objectives.
- 10 I intend to issue a qualified value for money conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources, except for weaknesses in your arrangements in the two areas highlighted in the paragraph above.

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## Audit Fees

- 11 We will be reviewing the additional time taken to obtain the assurance that we need on your financial statements at the conclusion of our audit and will need to charge an additional fee to reflect the work required.

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# Next steps

**This report identifies the key messages that 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. My audit is not designed to identify all matters that might be relevant to you.**

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## 12 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 14);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified which management has declined to amend or set out the reasons for not amending the errors;
- take note of the VFM Conclusion and Use of Resources score;
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 5).

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# 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 adopt the financial statements and the annual governance statement.**

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## Opinion on the financial statements

- 13** Our opinion audit commenced in July 2009 but a number of issues hindered progress and we temporarily suspended work to allow officers more time to respond to our outstanding queries. Some background to the audit this year is set out below.
- 14** There are ongoing issues of capacity in the financial management division which placed severe pressure on your close-down plan to produce a set of draft accounts for members by 30 June 2009. In particular, the departure of your HRA and Capital Accountants prior to commencement of the close-down process.
- 15** This reduced the time available for finance staff to prepare the final accounts working papers by the beginning of July. As a result despite staff working long hours in June some of these were still under preparation as the audit started. Officers themselves highlighted some anomalies in the accounts approved by members on 30 June as subsequent internal checks were undertaken.
- 16** Finance staff continued work into August 2009 on the bank reconciliation which required changes to the figures in the accounts approved by Members.
- 17** As a result of the above a number of significant queries particularly on the capital (and valuation / impairment) side were unable to be resolved prior to 30 September 2009.
- 18** We recommenced our audit work on 19 October. 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.

### Recommendation

- R1** The Council should ensure the financial management division is sufficiently resourced to achieve its accounts close down plan and produce a good quality set of draft accounts with supporting working papers to meet the statutory approval date of 30 June.

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## Errors in the financial statements

- 19** We identified a number of material and non trivial errors in the financial statements and reported these to management.

- 20** Management agreed to adjust the financial statements for these errors. Correction of these errors is important as it ensures your accounts are compliant with the requirements of the Statement of Recommended Practice.
- 21** The more significant corrected errors are summarised below.
- Valuation of council dwellings. Further work was undertaken to ensure revaluation and impairment in relation to council dwellings was undertaken in accordance with the SoRP. A revised valuation provided by a qualified external valuer which considered council dwellings on a beacon basis resulted in valuation changes of £18,983,000 to those reported in the draft accounts in June 2009.
  - Valuation and impairment of other fixed assets. Valuation and impairment of the Council's other fixed assets had not been processed on the basis on information provided by a qualified valuer. Work subsequently undertaken by a qualified valuer resulted in "other HRA assets" being impaired by a further £1,088,000. Other land and buildings saw valuation changes of £1,668,000 mainly as a result of the change in valuation of the Council's new leisure centre which had originally been valued at cost. Non operational assets have altered in value by £44,000.
  - Bank reconciliations. Following last year's qualified opinion because of unreconciled balances with the cash and bank reconciliation a substantial amount of work has been undertaken by officers to resolve the issue. Officers continued work on the bank reconciliation after the accounts were approved in June 2009. As a result, officers have made amendments to the balance sheet changing the cash in hand balance of £85,000 to a cash overdrawn balance of £183,000. This adjustment has been charged against the Council's earmarked reserve.
  - Interest payable and interest receivable. Both interest payable and interest receivable were overstated by £405,000 due to the incorrect netting off and failure to eliminate internal transactions on consolidation.
  - Gross service expenditure in the "Income and Expenditure Account" reduced by £6,377,000 as a result of depreciation and impairment adjustments following the additional work that was undertaken on valuation and impairment of fixed assets described above.
  - Gross service income and expenditure increased by £1,655,000 in the "Income and Expenditure Account" as officers identified that there had been incorrect "netting off" of the major repairs allowance against depreciation.
  - The "Statement of Total Recognised Gains and Losses" contained an "adjustment to carrying value of financial instruments" of £143,000. This item had been incorrectly charged to the "Housing Revenue Account Income and Expenditure Account" rather than the "Housing Revenue Account Reserve". The amendment removes the entry from the "Statement of Total Recognised Gains and Losses".
  - Incorrect allocation of "Corporate and Democratic Core" expenditure of £280,000 to the "Housing Revenue Account" line in the "Income and Expenditure Account".
  - Gross service income and expenditure increased by £855,000 to properly reflect transactions relating to insurance claims that had not been treated correctly in the draft accounts.

## Financial statements

- 22** We remain concerned over the accounting entries in respect of many aspects of fixed assets and capital accounting. Whilst I am satisfied that the figures within the 2008/09 financial statements are materially correct it is essential that action is taken during 2009/10 to address the following issues:
- The split between revaluation and impairment in the accounts and the methodology for calculating it. Audit testing provides assurance that whilst the entries are not materially misstated, we have been unable to conclude the split is correct. This has implications for entries in the “Capital Adjustment Account”, the “Revaluation Reserve” and also entries throughout the “Income and Expenditure Account”.
  - Depreciation of council dwellings. We tested depreciation calculations for a small sample of council dwellings and in each case it was not possible to reperform the depreciation calculation to obtain the figure charged in year. Extrapolating the error over the full depreciation charge indicates an understatement of £172,000 in depreciation for the year. Although not a material difference, the fact that the Council is unable to reperform calculations on individual dwellings back to the depreciation charged to that dwelling is indicative of failings within the asset register and how it's maintained. We request representation in the Letter of Representation as to the Council's views on this matter.
  - Internal inconsistencies within the accounts. There are a number of internal inconsistencies within the accounts (between amounts included in the main statements and those disclosed in supporting notes or statements) which it has not been possible to resolve. Whilst these are not material, they are not trivial. There is an unexplained difference of £1,596,000 between depreciation and impairment of fixed assets in the “Statement of Movement on the General Fund Balance” and Note 15 to the accounts “Tangible Fixed Assets”. There is also an unexplained difference of £578,000 between the movement on revaluation of fixed assets in the “Statement of Total Recognised Gains and Losses” and the revaluations included in the “Revaluation Reserve”.
  - There is an unexplained difference of £70,000 between the fixed asset disposals as per the “Capital Adjustment Account” (£684,000) and Note 15 “Tangible Fixed Assets” (£614,000).
  - There is an “other adjustments” entry of £578,000 included in the “Capital Adjustment Account” that officers believe relates to journals in respect of disposed assets in 2007-08 made by the previous capital accountant but there is no audit evidence to support this explanation. It is possible that this entry could be related to the unexplained differences in fixed assets and revaluations above.
  - There is currently no auditable entry for the difference between historical and current cost depreciation. Whilst this is not expected to be material, it should form an entry in the Capital Adjustment Account.
- 23** We also identified the following non material but non trivial error that management declined to correct. Those Charged with Governance need to consider the unadjusted non material but non trivial misstatement and agree either to adjust the errors in the financial statements or to set out the reasons for not amending the errors in the letter of representation.

- The “Statement of Total Recognised Gains and Losses” contained an “other” line of £61,000 relating to the repayment of transferred debt. This should not be included in the “STRGL” as it relates to an element of minimum revenue provision and should go through the “Income and Expenditure Account”. Whilst officers agree that this is the correct accounting treatment, they prefer to make the changes in 2009/10.

**Recommendation**

**R2** The Interim Head of Financial Management and Audit Services should review the cause and nature of the errors identified and take appropriate action to prevent such errors in future.

**R3** The Interim Head of Financial Management and Audit Services must take action to ensure ALL capital accounting entries in future years’ accounts are fully supported with an adequate audit trail and reconciled back to the fixed asset register. All entries must be in accordance with the requirements of the CIPFA Statement of Recommended Practice (SoRP).

**Material weaknesses in internal control**

- 24** A qualified opinion was given on the 2007/08 accounts because of weaknesses in the cash and bank reconciliation arrangements which had led to significant unreconcilable balances within the reconciliation which could not be resolved. Significant work by officers during 2008/09 on the cash and bank reconciliation has enabled the unreconcilable balance to be reduced to £74,000. The source of the imbalance has also been proved to predate 2007/08 and is a static balance. The cash and bank balances as at 31 March 2008 and 2009 within the financial statements have been amended and the qualification is not necessary in 2008/09. The static imbalance should be written back during 2009/10.
- 25** Our audit work in this area identified that whilst monthly reconciliations were being undertaken during 2009/10 these were not complete. They have been reconciling movements in the month between the ledger and bank but not reconciling the ledger balance to the bank statement balance. The bank reconciliation is a key internal control and it is essential that full reconciliations are undertaken each month.
- 26** We have not provided a comprehensive statement of all weaknesses which may exist in internal control nor of all improvements which may be made. We have reported only those matters which have come to our attention because of the audit procedures we have performed.

**Recommendation**

**R4** The Interim Head of Financial Management and Audit Services must ensure that complete bank reconciliations are undertaken monthly and that the static imbalance from the past is written back during 2009/10.

## Financial statements

### Letter of representation

27 Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation I seek to obtain from you.

### Key areas of judgement and audit risk

28 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table 1.

**Table 1 Key areas of judgement and audit risk**

Issue or risk	Finding
<p>Our Annual Governance Report to the Audit Committee in respect of last year's accounts identified a number of issues whereby the Council scored a "1" for the element of the use of resources scored judgement where we assess whether it "produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers".</p> <p>We therefore planned a higher level of testing for our audit of the Council's 2008/09 accounts which reflected the risk brought forward from last year's accounts audit.</p>	<p>As identified in the sections above, we have again identified a number of issues during the audit which have required material changes to the statement of accounts.</p> <p>The Council's use of resources score for financial reporting was assessed as level 1 – inadequate.</p>
<p>Bank reconciliations and unidentified imbalance.</p> <p>We qualified our opinion on your accounts in 2007/08 owing to the unidentified imbalance of £278,000 on the year end bank reconciliation.</p>	<p>As referred to above, we reviewed the year end reconciliation as part of our audit of the Council's 2008/09 accounts. We are satisfied that the methodology supporting the preparation of the final bank reconciliation for 2008-09 is sound and that it has been correctly prepared.</p>
<p>Loss of key accounts and valuation staff.</p>	<p>The loss of key staff had a considerable impact on the Council's ability to achieve its close down plan and address the significant asset valuation requirements this year. There was less time available for your staff to quality assure the draft accounts and prepare for the audit.</p>

Issue or risk	Finding
Minor changes to the format and presentation of the Statement of Accounts required by the 2008 Statement of Recommended Practice.	Council officers attended the Audit Commission's Chief Accountants' Workshops which highlighted the key changes for 2008/09 and the challenges to be faced. In general, the requirements were met.
Completion of job evaluation process and reporting of financial position.	We consider the Council's disclosure in respect of job evaluation to meet the reporting requirements of the Statement of Recommended Practice (SoRP).
Disclosure of debtor balance in respect of housing benefit overpayments being recovered from ongoing benefit.	The 2008/09 statement of accounts correctly includes this item.
Reducing asset values in the current economic climate.	The current economic climate is having a potentially material impact on asset values. This was a major problem area for the audit this year and much additional work was required to ensure the accounting entries complied with the requirements of the SoRP. As already referred to material changes were made to the statement of accounts.
Completeness of fixed asset register to allow for disclosure of financial information on an asset by asset basis. We expressed concerns at the Audit Committee in September 2008 over the structure and content of the fixed asset register to report information on an individual asset basis for the 2008/09 accounts.	Considerable further work was done on the fixed asset register during the audit to ensure the disclosure requirements are met. Further comment on the asset register is made within the accounting practice and financial reporting section of this report (page 13).
Status of the Mansfield Crematorium Joint Committee in the context of FRS 9 to establish the correct accounting treatment for the 2008/09 financial statements.	The 2008/09 accounts correctly include for the Council's share of the Mansfield Crematorium as a joint arrangement but not a separate entity (JANE).
Our last Annual Governance Report identified the need to carry out further work during 2008/09 to identify the purpose, ongoing requirement and audit arrangements for all of the Council's trust accounts.	Whilst the disclosures this year were more comprehensive, we still requested some additional disclosures to comply with the requirements of the SoRP. See also accounting practice and financial reporting section below.

## Financial statements

Issue or risk	Finding
<p>The completion of our IT risk assessment has identified a number of issues for us to consider as part of the 2008/09 accounts audit.</p> <p>No corporate Business Continuity Plan yet in place;</p> <p>Written Disaster Recovery Plans now in draft but to be formally approved and implemented; and</p> <p>No periodic testing or recovery exercises of full system restores are undertaken - risk that backup procedures may lack full integrity and potential loss of data on restore. There is the occasional recovery of individual files, without incident.</p>	<p>Our risk assessment mainly highlights the risk to the Council of loss of data, and the potential risks of failure to recover it. Whilst these issues may not be considered to impact directly on the opinion audit this year, in the event of an incident occurring, the impact could be considerable.</p>

## Accounting practice and financial reporting

29 I consider the qualitative aspects of your financial reporting. Table 2 contains the issues I want to raise with you.

**Table 2**

Issue or risk	Finding
Fixed asset register	<p>The structure and content of the fixed asset register did not meet SoRP requirements to provide the information needed for financial reporting requirements.</p> <p>Officers spent considerable time during the course of the audit in revising and updating the fixed asset register to provide information in a form required by the SoRP.</p> <p>However, we remain concerned that an old version of the asset register is still in use (recent updates do not appear to have been applied) and inadequate maintenance and update of the asset register has been the cause of the capital accounting issues reported above.</p>

Issue or risk	Finding
Authorisation of journals	Journals are not independently authorised and in some cases, did not contain adequate supporting documentation or explanation.
Trust fund disclosures	The disclosures included in the draft accounts in respect of the Council's trust funds did not meet the disclosure requirements of the SoRP. Whilst further disclosures were added during the audit, the Council should still carry out a review of its stewardship responsibilities for all its current trust funds.
Financial instrument disclosures	Paragraph 4.92-93 of the SoRP requires local authorities to disclose the fair values of their borrowings. The fair value disclosures included in the draft accounts were incorrect and officers recalculated on a basis that achieved compliance with the SoRP.
Inaccurate reporting of member's allowances	Employer contributions to the Local Government Pension scheme amounting to £27,000 had been omitted from the disclosure note. The note has now been amended.

**Recommendations**

**R5** Review future financial reporting requirements (particularly in the context of IFRS disclosures) to ensure the current asset register is fit for purpose and produces information with an adequate audit trail which is SoRP compliant.

**R6** Journals should be subject to independent review and authorisation.

**R7** Carry out further work during 2009/10 to identify the purpose, ongoing requirement and audit arrangements for all of the Council's trust accounts.

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# Use of resources

I am required to consider how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and give a scored use of resources judgement.

I am also 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.

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## Use of resources judgements

- 30** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest
- 31** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 32** The Council's use of resources theme scores are shown in Table 3 below. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 4.

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**Table 3** Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	2
Governing the business	2
Managing resources	1

- 33** Overall, the Council is performing adequately against most of the new use of resources criteria and has arrangements which are generally consistent with established professional practice and guidance, meet statutory requirements and operate effectively. The Council's performance is inadequate in two key areas;
- In producing timely, reliable financial reporting that meets the needs of internal users, stakeholders and local people; and
  - In planning, organising and developing the workforce effectively to support the achievement of strategic objectives.
- 34** In order to move to the next level, the Council needs to show improvements in the two areas identified above and demonstrate that overall, arrangements are not only effective but are having the intended impact in terms of outcomes and the delivery of strategic priorities.

## Recommendation

**R8** The Council should strengthen the processes supporting its arrangements for producing timely and reliable financial reporting and in planning, organising and developing its workforce to achieve at least level “2” performance in these two areas.

## Value for money conclusion

- 35** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out in Appendix 5.
- 36** I have identified weaknesses in your arrangements in;
- producing timely, reliable financial reporting that meets the needs of internal users, stakeholders and local people; and
  - planning, organising and developing the workforce effectively to support the achievement of strategic objectives.
- 37** The more detailed explanation of the weaknesses in these areas is set out in Appendix 5. I intend to issue a qualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources, except in the areas highlighted in the paragraph above. Appendix 1 contains the wording of my draft report.

# Appendix 1 – Independent auditor’s report to Members of Ashfield District Council

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## Opinion on the financial statements

I have audited the Authority and Group accounting statements and related notes of Ashfield District Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund 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 Ashfield District 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 Interim Head of Financial Management and Audit Services and auditor**

The Interim Head of Financial Management and Audit Services 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 Authority and Group 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; and
- the financial position of the Group 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 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

## Appendix 1 – Independent auditor’s report to Members of Ashfield District Council

I read other information published with the Authority and Group accounting statements, and consider whether it is consistent with the audited Authority and Group accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority and Group 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 Authority [and Group] 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 Authority [and Group] 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 Authority and Group 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 Authority and Group accounting statements and related notes.

### **Opinion**

In my opinion:

- The Authority 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; and
- The Group 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 principal local authorities. 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.

## Appendix 1 – Independent auditor’s report to Members of Ashfield District Council

### **Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice. However, the number and significance of the errors and issues identified in relation to the financial statements led me to conclude that the Council does not have adequate arrangements to prepare accounts that meet statutory requirements and financial reporting standards. In addition, the ongoing interim arrangements particularly at corporate management team level and the limited progress in improving longer term workforce planning has led me to conclude that the Council does not have adequate arrangements to manage its workforce effectively.

Having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, I am satisfied that, in all significant respects, Ashfield District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009 except that it did not put in place adequate arrangements for:

- producing timely, reliable financial reporting that meets the needs of internal users, stakeholders and local people; and
- planning, organising and developing the workforce effectively to support the achievement of strategic objectives.

### **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.

Sue Sunderland  
District Auditor

Audit Commission  
Littlemoor House  
Littlemoor  
Eckington  
Sheffield S21 4EF

December 2009

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# Appendix 2 – Adjusted amendments to the accounts

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

**Table 4**

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Balance sheet	Incorrect valuation of council dwellings			18,983	18,983
Balance sheet	Incorrect valuation of “other HRA assets”			1,088	1,088
Balance sheet	Incorrect valuation of other land and buildings			1,668	1,668
Balance sheet	Incorrect valuation of non-operational assets			44	44
Balance sheet	Changes to bank balances			268	268
Income and expenditure account	Overstatement of interest payable and interest receivable	405	405		
Income and expenditure account	Incorrect allocation of “Corporate and Democratic Core” expenditure of	280	280		

## Appendix 2 – Adjusted amendments to the accounts

		Income and Expenditure Account		Balance Sheet	
	<b>£280,000 to the HRA in the Income and Expenditure account.</b>				
<b>Income and expenditure account – gross service expenditure</b>	<b>Incorrect treatment of impairment and depreciation</b>	<b>6,377</b>	<b>6,377 (reversed through SMGFB)</b>		
<b>Income and expenditure account – gross service income (identified by officers)</b>	<b>Incorrect “netting off” of an element of the MRA.</b>	<b>1,655</b>	<b>1,655</b>		
<b>Income and expenditure account – gross service income and expenditure (identified by officers)</b>	<b>Incorrect treatment of transactions relating to insurance claims</b>	<b>855</b>	<b>855</b>		

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# Appendix 3 – Draft letter of representation

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ASHFIELD DISTRICT COUNCIL  
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Kirkby-in-Ashfield,  
Nottingham, Tel: 01623 450000  
East Midlands. Fax: 01623 457585  
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**Contact:** Roy Taylor  
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**Our Ref:**  
**Your Ref:**  
**Date:** 15<sup>th</sup> December 2009

The Audit Commission  
Mrs Sue Sunderland  
Littlemoor House  
Littlemoor  
Eckington  
Sheffield S21 4EF

Dear Mrs. Sunderland

**Ashfield District Council - Audit for the year ended 31 March 2009**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other Members and officers of Ashfield District 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 and Group 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 which present fairly the financial position and financial performance of the council and for making accurate representations to you.

## Appendix 3 – Draft letter of representation

### ***Uncorrected misstatements***

The “Statement of Total Recognised Gains and Losses” contains an adjustment of £61,000 relating to the repayment of transferred debt. This relates to an element of minimum revenue provision and should have gone through the “Income and Expenditure Account” instead. I proposed to adjust for this relatively low sum in the 2009-10 accounts.

### ***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 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:

- 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. For the valuation of financial instruments assumption, referred to in disclosure note 35, I confirm:

- the appropriateness of the measurement method;

- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- there are no subsequent events that require adjustment to the fair value measurement.

### ***Group entities***

The accounts of Ashfield Holmes Limited have been included within the Group Accounts. Their audited accounts have been used to support this exercise and their management consulted for items that may need to be disclosed within this letter. I have no specific representations to make in respect of the Group Accounts.

### ***Assets***

The following have been properly recorded and when 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. The Council has no credit arrangements to disclose.

### ***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.

### ***Related party transactions***

I confirm the completeness of the information provided 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 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.

## Appendix 3 – Draft letter of representation

### ***Specific Representations***

There are identified weaknesses in the accounting records and systems relating to fixed assets and capital accounting. In particular, the following matters need addressing:-

- the methodology for determining the split between revaluation and impairment in the accounts with the consequential effect on the Capital Adjustment Account, Revaluation Reserve and Income and Expenditure Account.
- the calculation of depreciation of council dwellings by the fixed asset system produces figures that understate the amount, albeit by a relatively small sum (approximately £172,000 in total for the year)
- there are internal inconsistencies within the accounts relating to fixed assets
- there is an unexplained difference of £70,000 between the fixed assets disposals shown on the Capital Adjustment Account and that shown on Tangible Fixed Assets.
- there is no auditable entry for the difference between historical cost and current cost depreciation.

All of these matters will receive close attention as part of the accounts closure for 2009-10. Further, the Fixed Asset System will be updated by implementing the latest software release to ensure that it is fit for purpose to deal with the current and future requirements for the preparation of local authority accounts.

I confirm that this letter has been discussed and agreed by the Audit Committee on 15 December 2009.

Roy Taylor

Interim Head of Financial Management and Audit Services

15<sup>th</sup> December 2009

# Appendix 4 – Use of resources key findings and conclusions

The following tables summarise the key finding and conclusions for each of the three use of resources themes.

**Table 5**      **Managing finances**

<b>Theme score</b>	<b>2</b>
<b>Key findings and conclusions</b>	
<p>The medium term financial plan (MTFS) is weak in terms of its linkages to other key strategies and plans. The budget for 2009-10 requires significant savings. The Council has a general knowledge of communities and needs but there is little evident impact of this on high level financial plans, and no specific engagement of communities in financial planning. There are capacity weaknesses in the financial services function which are being addressed.</p> <p>The Council is developing a process to build up and analyse cost information across all services, and has some understanding of unit costs mainly in priority areas. It does not link this to performance to inform VFM decisions on a routine basis. There are very challenging efficiency/savings targets for the next 3 years.</p> <p>Budget monitoring is not related to operational activity indicators or informed by risk assessment and there is no evidence of financial training provided. The Council does not consider financial information alongside performance objectives with links to strategic objectives with an integrated approach to gathering financial and non financial performance data. There are some ongoing issues with the 2008/09 audit of the financial statements. There is no evidence supporting consultation with residents when determining requirements of any published financial summary information.</p>	

## Appendix 4 – Use of resources key findings and conclusions

<p><b>KLOE 1.1 (financial planning)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>	<p><b>2</b></p> <p><b>Yes</b></p>
<p>Key findings and conclusions</p>	
<p>The MTFSS is weak in terms of its linkages to other key strategies and plans. Integration of financial planning with service planning is adequate. The budget for 2009-10 requires significant savings and this approach is unsustainable in the medium term. The Council has a general knowledge of communities and needs but there is little evident impact of this on high level financial plans, and no specific engagement of communities in financial planning. There are capacity weaknesses in the financial services function which are being addressed. There is some progress in developing financial awareness and skills in councillors, but little in relevant non-finance staff.</p>	
<p><b>KLOE 1.2 (understanding costs and achieving efficiencies)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>	<p><b>2</b></p> <p><b>Yes</b></p>
<p>Key findings and conclusions</p>	
<p>The Council is developing a process to build up and analyse cost information across all services, and has some understanding of unit costs mainly in priority areas. It does not link this to performance to inform VFM decisions on a routine basis. There is no evidence of understanding partnership resources. Performance information is reasonable, but not well linked to costs. The Council needs to further develop project appraisals, business plans and affordability tests for new policy and capital developments. The Council's services are generally low cost but patchy performance means they are not consistently good or improving value. There are very challenging efficiency/savings targets for the next 3 years.</p>	

## Appendix 4 – Use of resources key findings and conclusions

<b>KLOE 1.3 (financial reporting)</b>	
<b>Score</b>	<b>1</b>
<b>VFM criterion met</b>	<b>No</b>
<b>Key findings and conclusions</b>	
<p>Budget monitoring is not related to operational activity indicators or informed by risk assessment and there is no evidence of financial training being provided. The Council has self assessed as not meeting the basic level as regards producing relevant, timely and reliable financial monitoring and forecasting information. The Council does not consider financial information alongside performance objectives with links to strategic objectives linked to an integrated approach to gathering financial and non financial performance data. The number of matters arising during the audit of the 2008-09 accounts resulted in a late opinion being delivered and there were a number of material changes made. Summary accounts have not been published since 2005/06, and there is no evidence supporting consultation with residents when determining requirements of this information.</p>	

## Appendix 4 – Use of resources key findings and conclusions

**Table 6**      **Governing the business**

<b>Theme score</b>	<b>2</b>
Key findings and conclusions	
<p>The Council’s understanding of local need and issues is good and does influence corporate and service planning. The Council engages with stakeholders generally. It has relied on the Nottinghamshire Procurement Forum and to a lesser extent ESPO for knowledge of local supply market for procuring goods and services. There are clear, ‘managed’ relationships with significant partners. The Council has some understanding of unit costs in many, mainly priority areas. The data quality framework is monitored. The Performance IT system is effective. Information is generally fit for purpose, especially for key decisions. There is a well-established performance management framework with systematic monitoring and challenge, and use of action plans.</p> <p>There are member training and development schedules for members via Personal Development Plans. The Council has demonstrated engagement through its record of ‘focus group’ meetings to discuss corporate objectives. The Standards Committee has considered a disproportionately high number of complaints.</p> <p>A risk strategy and corporate risk register is in place. Partnership risks are not considered within the corporate risk document. Risk management training has not been provided for all. The Council has successfully actioned prosecution of cases of housing benefit fraud.</p>	
<b>KLOE 2.1 (commissioning and procurement)</b>	
<b>Score</b>	<b>2</b>
<b>VFM criterion met</b>	<b>Yes</b>
Key findings and conclusions	
<p>The Council’s understanding of local needs and issues is good and does influence corporate and service planning. There are clear examples of significant procurement/commissioning to deliver on priorities (eg Lammas LC), but not a strong strategic approach. The Council engages with stakeholders generally although with limited targeting other than geographical areas. The Council is improving access and the customer experience.</p>	

## Appendix 4 – Use of resources key findings and conclusions

<p>VFM improvements are likely, though not well evidenced and overall VFM is not improving because performance improvement is inconsistent and some key service areas, such as benefits, are deteriorating. The Council has relied on the Nottinghamshire Procurement Forum and to a lesser extent ESPO for knowledge of the local supply market for procuring goods and services. There are clear, ‘managed’ relationships with significant partners. The Council has some understanding of unit costs in many, mainly priority areas.</p>	
<p><b>KLOE 2.2 (data quality and use of information)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>	<p><b>2</b></p> <p><b>Yes</b></p>
<p>Key findings and conclusions</p>	
<p>The Council’s approach for data quality (DQ) is well-defined in the DQ policy/strategy/action plan. The DQ framework is monitored. There is a routine internal programme of data quality audit. However, spot checks have shown that the framework is not always applied consistently because data is not always accurate.</p> <p>The Performance IT system is effective. Information is generally fit for purpose, especially for key decisions. Financial systems are not currently linked, undermining integration of cost and performance data, although work is underway on this. There are a comprehensive range of policies and protocols in place. There is a well-established performance management framework in place with systematic monitoring and challenge, and use of action plans.</p>	
<p><b>KLOE 2.3 (good governance)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>	<p><b>2</b></p> <p><b>Yes</b></p>
<p>Key findings and conclusions</p>	
<p>The Council constitution is updated regularly and the Chief Executive and Senior Officer roles and responsibilities are included within the scheme of delegation. There are member training and development schedules for members via Personal Development Plans. The Council has demonstrated engagement through a record of ‘focus group’ meetings to discuss corporate objectives. A corporate governance code has been adopted by the Council providing an ethical framework for the organisation. The Standards Committee has considered a disproportionately high number of complaints. A Whistleblowing Policy, Staff Code of Conduct, Standing Orders and Financial Regulations are contained within the Constitution. There are governance agreements in place for some key partners but a formal review of partnership working is required.</p>	

#### Appendix 4 – Use of resources key findings and conclusions

<b>KLOE 2.4 (risk management and internal control)</b>	
<b>Score</b>	<b>2</b>
<b>VFM criterion met</b>	<b>Yes</b>
<b>Key findings and conclusions</b>	
<p>A risk strategy and corporate risk register is in place but this is not linked directly to strategic objectives. Partnership risks are not considered within the corporate risk document. Risk management training has not been provided for all. The Council's counter fraud and corruption policy was refreshed in April 2009 but there is no evidence to demonstrate how its impact is monitored. The Council has previously participated well in NFI. The Council has successfully actioned prosecution of housing benefit fraudsters. An Audit Committee is in place delivering the required core functions. The Council provides effective internal audit in accordance with relevant requirements.</p>	

**Table 7**      **Managing resources**

<b>Theme score</b>	<b>1</b>
<b>KLOE 3.3 (workforce planning)</b>	
<b>Score</b>	<b>1</b>
<b>VFM criterion met</b>	<b>No</b>
<b>Key findings and conclusions</b>	
<p>The Council is currently undertaking a skills audit. There is extensive use of interim arrangements at senior level. Individual performance management is systematic, with regular review, but no clear evidence that development needs are met.</p> <p>The Council has not made the intended progress in improving its longer-term workforce planning. The workforce plan 2009-14 is at an early draft stage, and so is not integrated with strategic planning, and the skills audit, workforce profile and other information on which it is currently based is incomplete.</p> <p>Communication and engagement about significant change is reasonable. Unions and representative groups are effectively consulted. The Council has not evidenced recent use of staff feedback, or less recent staff surveys/views, so cannot evidence that it monitors morale, or judge effectiveness of engagement and staff satisfaction with communications.</p> <p>Basic people management policies are in place. There has been limited improvement in Equality Standard LG from 1 to 2, and the Council currently meets only basic legislative requirements and training standards for diversity and equality. There is no evidence that the workforce is representative or details of the action the Council is taking to improve this.</p>	

# Appendix 5 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Annual Governance Report 2008/09 - Recommendations</b>						
	R1. The Council should ensure the financial management division is sufficiently resourced to achieve its accounts close down plan and produce a good quality set of draft accounts with supporting working papers to meet the statutory approval date of 30 June.	3	Interim Head of Financial Management and Audit Services			
	R2. The Interim Head of Financial Management and Audit Services should review the cause and nature of the errors identified and take appropriate action to prevent such errors in future.	3	Interim Head of Financial Management and Audit Services			
	R3. The Interim Head of Financial Management and Audit Services must take action to ensure ALL capital accounting entries in future years' accounts are fully supported with an adequate audit trail and reconciled back to the fixed asset register. All entries must be in accordance with the requirements of the CIPFA Statement of Recommended Practice (SoRP).	3	Interim Head of Financial Management and Audit Services			

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	R4. The Interim Head of Financial Management and Audit Services must ensure that complete bank reconciliations are undertaken monthly and that the static imbalance from the past is written back during 2009/10.	3	Interim Head of Financial Management and Audit Services			
	R5. Review future financial reporting requirements (particularly in the context of IFRS disclosures) to ensure the current asset register is fit for purpose and produces information with an adequate audit trail which is SoRP compliant.	3	Interim Head of Financial Management and Audit Services			
	R6. Journals should be subject to independent review and authorisation.	1	Interim Head of Financial Management and Audit Services			
	R7. Carry out further work during 2009/10 to identify the purpose, ongoing requirement and audit arrangements for all of the Council's trust accounts.	2	Interim Head of Financial Management and Audit Services			
	R8. The Council should strengthen the processes supporting its arrangements for producing timely and reliable financial reporting and in planning, organising and developing its workforce to achieve at least level "2" performance in these two areas.	3				

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# The Audit Commission

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