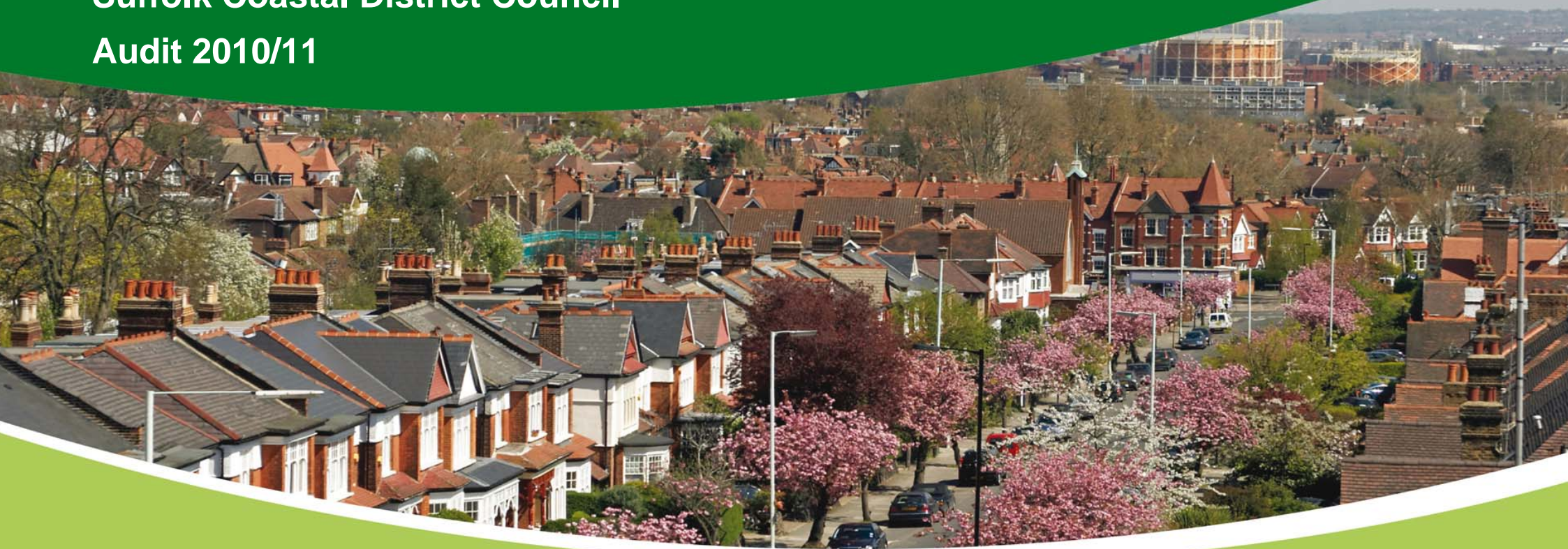


Annual governance report

Suffolk Coastal District Council

Audit 2010/11



Contents

- Key messages.....3**
 - Audit opinion and financial statements.....3
 - Value for money3
 - Weakness in internal control3
 - Audit certificate.....3

- Before I complete my audit.....4**

- Financial statements5**
 - Opinion on the financial statements5
 - Errors in the financial statements6

- Value for money.....20**

- Appendix 1 – Draft auditor’s report22**

- Appendix 2 – Amendments to the draft financial statements26**

- Appendix 3 – Action plan.....35**

- Appendix 4 – Glossary.....38**

Traffic light explanation

Red  Amber  Green 

Key messages

This report summarises the findings from the 2010/11 audit which is complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●
Significant weakness in internal control	◆

Audit opinion and financial statements

- On 30 September, I issued an unqualified audit opinion on the Council's financial statements. My audit report is shown at appendix 1.
- The arrangements for resolving audit queries have again been challenging for the Council, due to the level of staffing and working patterns within the finance department. Some working papers were incomplete at the start of the audit and did not provide all the information needed for our audit. Due to officer availability, my audit team have faced a number of delays in receiving responses to audit queries.

Value for money

- I am satisfied that in all significant respects the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011. I therefore issued an unqualified value for money conclusion on 30 September 2011. My conclusion is shown at appendix 1.
- Senior management and Members provide leadership to prioritise resources and focus efforts to achieve spending reductions in the medium to long term.

Weakness in internal control

- There is a weakness in internal control relating to authorisation controls for BACS payments. Management have included actions to address this matter in the revised Annual Governance Statement.

Audit certificate

- I will not be able to issue my audit certificate by 30 September 2011 due to an objection to the 2010/11 accounts received from a local elector.

Before I complete my audit

I confirm to you

My report 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.

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 identified a potential threat to independence concerning a friendship between a member of the external audit team and a family member of a Councillor. I have put in place suitable safeguards to reduce this independence threat to an acceptably low level. I have discussed the matter with the Head of Finance, who is content with the safeguards in place.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

I ask you to confirm to me

I ask full Council to:

- take note of the adjustments to the financial statements which are set out in this report (appendix 2);
 - approve the letter of representation, provided alongside this report, on behalf of the Council before I issue my opinion and conclusion; and
 - agree your response to the proposed action plan (appendix 3).
-

Financial statements

On 30 September 2011, I issued an unqualified opinion on the Council's financial statements. Capacity in the finance team has significantly delayed the audit process. Some working papers were incomplete at the start of the audit and did not provide all the information we required. Some material adjustments have been agreed with officers.

Opinion on the financial statements

I issued an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my report.

International Financial Reporting Standards

Suffolk Coastal District Council, along with all local authorities and police authorities, were required to prepare their financial statements in line with International Financial Reporting Standards (IFRS) for the first time in 2010/11. IFRS requirements differ significantly from UK Generally Accepted Accounting Practice (UK GAAP) which authorities have prepared their accounts under in previous years in several respects.

IFRS adoption has been a significant exercise because the CIPFA Code requires retrospective adoption of the new standards covering areas such as leases. This has required finance officers to review lease agreements and, where necessary, restate accounting entries from the beginning of these agreements onwards. To prepare for IFRS, councils have needed robust project plans to ensure they can collect and review the necessary information to restate balances, often with considerable lead-in times, and agree these with auditors at an early stage. In some areas of the financial statements, significant judgements are required in interpreting international standards and their applicability to local circumstances.

IFRS has created significant pressure on resources for councils due to the need for additional disclosures in the financial statements. We refer to this matter further in our report overleaf.

Errors in the financial statements

The financial statements submitted for audit were received by the deadline and were complete other than the omission of the group cash flow statement. The draft statements contained a high number of disclosure errors relating to the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 based on International Financial Reporting Standards (the Code). Material errors were identified in the Council's balance sheet relating to cash and cash equivalents, short term creditors and the capital grants unapplied reserve, along with material adjustments to the cash flow statement. Associated disclosure notes have also been amended for the material errors. Non-trivial errors regarding redundancies were identified in the comprehensive income and expenditure statement which did have an impact on the Council's financial position. Material presentational adjustments have also been made to disclosure notes for the financial instruments note and grant income. The Council's management have agreed to all amendments that we have recommended. Details of the adjustments are shown in appendix 2.

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.

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. The key audit risks noted in the table below are taken from our Audit Plan that was presented to the Audit and Governance Committee on 29 June 2011. We have updated the risks identified in our audit planning process with the findings of our final accounts audit work.

Key audit risk and our findings

Key audit risk	Finding
<p>1. International Financial Reporting Standards (IFRS)</p> <p>Local authorities are now required to prepare financial statements under the International Financial Reporting Standards (IFRS), as adopted by the Code of Practice on Local Authority Accounting in the United Kingdom (Code of Practice). There is a risk that the 2010/11 financial statements do not meet the new requirements.</p> <p>I reviewed and tested whether the Council:</p> <ul style="list-style-type: none">■ identified those transactions and balances that will be affected by the transition to IFRS;■ adopted and correctly applied accounting policies that comply with the requirements of the Code and IFRS;	<p>Our review of the Council's IFRS restatements during April to June identified that Government and non Government grants had not been accounted for in accordance with the Code. A revised assessment has been audited and amendments have been agreed.</p> <p>Audit testing of cash and cash equivalents identified that the treatment of short term investments meeting the definition of a cash and cash equivalent was not in line with the Council's accounting policy. Accounting treatment was materially different to the policy for the period 1 April 2009 to 31 March 2011. Officers have now amended the accounting policy to reflect the Council's treatment of these items.</p> <p>The draft financial statements received for audit did not contain all the required disclosure note analyses for the 1 April 2009 balance sheet items. This requirement was set out in LAAP Bulletin 88 issued to all councils.</p>

Key audit risk

- appropriately restated 2009/10 transactions and balances in accordance with the adopted accounting policies and IFRS; and
- made all appropriate disclosures in accordance with adopted accounting policies and the requirements of the Code and IFRS.

2. Financial environment

The financial environment is becoming increasingly challenging with significant cuts in funding, including grant support from central government.

The Council is reflecting the economic downturn in its financial planning. However, the scale of the cuts may increase the risk of misreporting.

I undertook audit work to:

- follow up differences between the in year financial forecasts and year-end position;
- review transactions at year-end to ensure inclusion to the correct financial period; and
- test material adjustments made by journals to ensure the Council has accounted for these correctly.

I also considered the impact of any onerous or abortive contracts, senior officer redundancy payments, fixed asset valuations and treatment of provisions following International Accounting Standard 37.

Finding

A high number of IFRS disclosure errors were identified throughout the draft financial statements, affecting both primary statements and supporting disclosure notes. An amendment was made to remove the non-compliant column within the disclosure note to the movement in reserves statement.

We tested these areas. We have found one issue arising from this work that we wish to report to you.

We agreed an audit adjustment to include a creditor in the financial statements relating to voluntary redundancies agreed before 31 March 2011.

Key audit risk

3. Non-current assets (formerly know as fixed assets)

A new asset management system was implemented in April 2010 to ensure that IFRS reporting requirements could be fully captured and maintained.

Working papers to support the figures need to be simplified.

We reviewed any Internal Audit work in respect of the system change and adopted a fully substantive audit approach to the testing of fixed assets, the revaluation reserve and capital adjustment account.

4. Group Accounts

An assessment to determine whether group accounts are required should be undertaken annually.

Following changes under IFRS and the Code of Practice there is a risk that group accounts may be required.

We reviewed the Council's assessment and identification of potential group entities.

Finding

Non-current asset working papers supplied for audit this year were much improved and easier to review.

No errors were identified in the agreement of the fixed asset register to the financial statements.

Minor errors were identified in relation to ownership and existence of non-current assets. One piece of land was identified as owned by a third party, two assets were duplicated on the fixed asset register and another could not be physically located.

Following discussion with officers, it was confirmed that, under IFRS, group accounts were required.

Group accounts for Suffolk Coastal Services Limited have been prepared as part of the financial statements. Officers provided a note in the draft financial statements to state that the group cash flow statement did not differ from Council's cash flow statement however a separate group cash flow statement is required by accounting standards and was included in the amended financial statements.

A number of disclosure issues have been identified in relation to the group accounts. Amendments were required to disclose the group accounts, which were included in the draft financial statements as a note, as a stand alone section of the financial statements, and the group accounts have been amended to reflect the Council's share of the associate in the group statements.

Disclosure of the controls relating to the group has been included in the revised Annual Governance Statement.

Key audit risk

5. Resourcing

Capacity issues within the finance team led to some working papers not being available at the start of the 2009/10 audit. There was also a lack of clarity about how some working papers agreed to the figures within the financial statements and delays in responses to audit queries.

We held a workshop with the finance teams of Waveney and Suffolk Coastal District Councils in January 2011 to identify efficiencies within the audit period and the outcomes included:

- regular meeting with officers during the closedown process to monitor progress against the plan;
- officers will be responsible for a number of areas of the financial statements to build in capacity for when officers are on leave;
- officers will ensure working papers are ready for the 1 July 2011; and
- Improvements to working papers including details of how the figures within the financial statements have been calculated and linked to supporting papers and early substantive testing.

Finding

Although some of the actions resulting from our workshop were delivered, key actions relating to resourcing, including having two officers available to deal with areas of the accounts, and managing the workload of the chief accountant to avoid delays to the audit process, were not achieved. Working papers were improved for fixed assets and through using a more structured process, however working papers for other areas, including the cash flow statement, did not provide the evidence needed for the audit process. Although regular meetings have been held, officers have not been able to attend all meetings as planned. There was a significant risk throughout the audit process that the audit deadline would not be met due to delays in progressing our work.

Recommendation

Recommendation

- R1** Review the resourcing of the finance team to ensure that future audit queries can be addressed promptly.
 - R2** Improve the quality of the working papers to ensure that adequate evidence is provided.
 - R3** Ensure that a senior officer review is used to improve the quality of the draft financial statements, and that statements presented for audit are complete.
 - R4** Adjust the material errors identified in the financial statements.
 - R5** Ensure that future financial statements do not contain balancing figures as this raises the risk of a compensating material misstatement.
-

Financial statements

Significant weaknesses in internal control

In general, the control environment relating to fundamental systems at the Council has been strong. However, capacity issues raise the risk that controls in place are weakened. A control weakness in the year occurred relating to BACS processing, resulting in a duplicate payroll run. The need to address some authorisation controls is still outstanding.

These weaknesses are only those I identified during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

Internal control issues and our findings

Description of weakness	Potential effect	Management action
<p>1. BACS processing controls</p> <p>A payroll run by BACS was processed in error during the year. An incorrect file was selected during December 2010 for BACS processing. The file selected in error was the April payroll and all staff and Members paid in April 2010 received a duplicate payment. The amounts paid have been received back by the Council.</p> <p>This issue was not included in the draft Annual Governance Statement presented to Members in June 2011. As noted in our AGR last year, evidence of the process for determining the inclusion of control weaknesses in the statement should be improved to ensure that all relevant matters are included.</p>	<p>Further audit work identified that the BACS system has a control available which requires a second officer to authorise the BACS payment run. The Council has not enabled this control due to capacity issues. This control would have prevented the payroll BACS error from occurring.</p> <p>It was also found that the system allows the manual creation or amendment of BACS payment run files that are submitted to the bank. BACS files are used to pay salaries and creditors. While there are mitigating controls in place that could potentially identify if any fraud was to occur after it had happened, this is a serious control weakness.</p>	<p>The Head of Finance requested that an internal audit review was undertaken in December 2010 following this incident and this review found no indication of fraud. The Council's internal investigation report on this issue noted a number of control weaknesses that had allowed the situation to occur and 11 recommendations were made to improve controls.</p> <p>Recommendations include the need for senior management to supervise staff, address resourcing pressures and the need to implement controls to prevent this issue recurring. The revised annual governance statement for Council has further detail on this matter and includes actions to address the control weakness.</p>

Description of weakness	Potential effect	Management action
<p>2. Fundamental systems</p> <p>Our work on fundamental systems found the following weaknesses:</p> <ul style="list-style-type: none"> ■ the November bank reconciliation had not been undertaken and was provided to the audit team on 23 March 2011; ■ the December payroll reconciliation had not been undertaken when requested by the audit team at the end of January 2011; ■ the year end payroll reconciliation had not been undertaken due to a changeover in staff responsibilities and had not been completed when requested by the audit team in August 2011; ■ authorisation limits were breached in respect of the BACS transfer of housing benefits on 8 November 2010. Authorisation limits were revised in April 2011 to address this instance. 	<p>Timely reconciliations are essential for a strong control environment and to identify any issues prior to the preparation of the financial statements.</p> <p>Authorisations should be carried out on a prompt basis and in line with specified limits for authorised staff. There is a risk that transactions could be made in error if procedures are not followed or that errors could be missed.</p>	<p>The matters noted should be addressed as a priority.</p> <p>The Annual Governance Statement has been updated to show actions relating to a new control to ensure all reconciliations have been carried out in line with procedures on a timely basis.</p>
<p>3. Section 106 balances</p> <p>Our last two annual governance reports have contained a recommendation to address weaknesses in section 106 balances. The Council's Annual Governance Statement notes that this issue remains as a significant control weakness.</p>	<p>There is a risk that material errors in the financial statements may arise due to controls weaknesses regarding section 106 balances. Officers have provided further evidence to address accounting issues relating to section 106 balances. The audit of this area resulted in the need for material adjustments.</p>	<p>For a second year, in its annual governance statement, the Council has recognised that it has remaining weaknesses in controls regarding section 106 amounts. Section 106 balances are material for the Council and plans that are in place to resolve this matter should be implemented as a matter of importance.</p>

Description of weakness	Potential effect	Management action
<p>4. Annual Governance Statement</p> <p>Last year, we reported that we had seen an improvement in the process to obtain evidence to support the disclosures in the annual governance statement including minutes of meetings and supporting summaries from Heads of Service, but that evidence of the process for determining the inclusion of control weaknesses, such as IT security issues, in the statement could be improved. This improvement has been maintained. Corporate governance days are held, including senior management, to discuss governance issues. However, we were again unable to obtain evidence of the process for inclusion and exclusion of issues, following review of supporting evidence, in the Annual Governance Statement for 2010/11. This year a serious control weakness was omitted from the draft statement.</p>	<p>Further improvements, in line with the improvements made in gathering evidence, are needed to support the disclosures in the Council's Annual Governance Statement. Minutes of meetings or other documentation would provide evidence of how senior management considered the issues raised, weaknesses identified and identified actions to address issues to support the disclosures in the Annual Governance Statement. Minutes of these meetings would provide clarity on how matters identified were assessed in terms of the internal control environment.</p>	<p>Further details of the significant control weaknesses relating to section 106 balances have been included in the revised Annual Governance Statement.</p> <p>Officers should ensure that, along with the information gathered for the Annual Governance Statement, evidence of their consideration of the content of the annual governance statement is available for audit. This should include their evaluation of the issues raised by heads of service and internal audit in their review of the control environment.</p> <p>Full disclosure and actions relating to the BACS control weakness and disclosure of controls relating to the group have been added to the revised Annual Governance Statement for full Council, along with details of the control environment relating to the group.</p> <p>Recommendation:</p> <p>R6 Ensure that evidence is available to support the inclusion of issues in the Annual Governance Statement.</p>

Description of weakness	Potential effect	Management action
<p>5. Escrow account</p> <p>An additional disclosure on an investment confirmation letter from Barclays provided for our audit has shown that the Council has a joint account with British Telecom containing £67,858. The account was opened in 1998 and contains a sum for the disputed cost of laying a cable on Council land.</p> <p>A review of correspondence with BT regarding this matter has not clarified the ownership of the cash in the joint account or any related transactions.</p> <p>Since the closure of the Council's main accounts with Barclays, a number of transactions relating to the Council have gone through this joint account. The transactions are identified by officers from a review of the quarterly bank statements and transferred into the Council's main bank account. There are no disclosures relating to the joint account in the Council's financial statements.</p>	<p>The Council had not disclosed the joint account in its draft financial statements.</p> <p>The Council have not resolved the legal position on the cash in the joint account and any payments due to the Council or BT relating to this issue are yet to be determined.</p> <p>Transactions are taking place through an account that should not be used for this purpose and the ownership of the amount, held in the account since 1998, has not been determined.</p>	<p>Management should resolve the legal ownership of the cash in the account as a priority and determine any further amounts due to the Council or BT in respect of the original issue.</p> <p>Controls should be improved to ensure that all bank accounts are reviewed and managed by senior officers.</p> <p>The bank account balance has been disclosed as a contingent asset (narrative disclosure) in the revised financial statements.</p>

Financial statements

Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

These are the issues I want to raise with you.

Accounting practices, policies, estimates and financial disclosures

Issue	Findings and recommendations
<p>1. Quality of the accounts</p> <p>The financial statements submitted for audit contained a high number of missing disclosure requirements.</p>	<p>There were a high number of disclosure errors and omissions in the draft financial statements and some incorrect terminology and references were amended by officers. The inclusion of a balancing items column in the note to the movement on reserves statement to make the financial statements balance, as referred to earlier in this report, was of concern. Officers have now restated this note to remove the column and we have reviewed the changes made. Management should put in place an effective review process to resolve these issues before the financial statements are submitted for audit. This would reduce audit costs and improve efficiency. The audit team required considerable time to review the financial statements against the disclosure requirements of the Code, document the significant number of issues identified, report this to officers and check that all the required amendments had been made.</p> <p>Recommendation:</p> <p>R7 Ensure the management review of the financial statements confirms that the disclosure requirements of the Code have been met.</p>

Issue

2. Other matters

Improvements have been noted with regards to working paper structure, especially non-current asset working papers. However there were a significant number of working papers that did not adequately support the disclosures in the financial statements. This meant that the audit team needed to refer matters to officers to obtain the necessary evidence for audit tests. This led to delays in the audit process as officers lacked capacity to deal with audit queries.

Findings and recommendations

Following the final accounts workshop held between external audit and officers in January 2011, a new working paper structure has been implemented to add narrative explanations of how figures have been calculated. This narrative explanation makes reference to supporting working papers. The supporting working papers did not, in a number of cases, adequately support the figures within the financial statements. This has resulted in a large number of audit queries being passed back to finance staff, who have lacked capacity to deal with these issues as noted in page 10 of this report. This led to inefficiencies in audit testing as work was started and delayed while waiting for further evidence, increasing the cost of the audit process.

Recommendation:

R8 Ensure all working papers provided to the audit team show how the figures within the financial statements have been calculated and are supported by source documentation.

Financial statements

Other significant matters relevant to the reporting process

Objection to the accounts

We have received an objection from a local elector to the 2010/11 Statement of Accounts. I have liaised with Council officers and the local elector on this matter. I am investigating this issue and expect to provide an interim update to the local elector with my findings to date before the end of October 2011. At this stage, I am minded to conclude that the issues raised do not have an impact on my 2010/11 audit opinion and value for money conclusion. However, there will be a delay in the certification of completion of the audit due to the time required to investigate matters raised by the objection. I will conclude the audit following the completion of my investigation into this matter.

Audit Fees

When I set my 2010/11 audit fee, this was based on a number of assumptions, as detailed in my Audit Plan presented to the Audit and Governance Committee on 29 June 2011. I will reassess whether these assumptions for my opinion audit have been met at the end of the audit process.

Correspondence from a local elector

I have discussed the process I follow when I receive correspondence from local electors with Members of the Audit and Governance Committee. I first assess whether the matters raised fall within my responsibilities. I then assess the work required to address the issue in a proportionate way. I then assess the impact on my fee of undertaking the work. I have discussed the issue below with the Monitoring Officer and Head of Finance and other officers, set out the work I need to undertake to meet my responsibilities and I am reporting progress and the impact on my fees to officers and Members regularly, most recently providing an update to the Audit and Governance Committee on 21 September 2011.

I am incurring additional costs of my time and of my own in-house legal and technical advice team to review matters relating to correspondence and the subsequent objection to the 2010/11 accounts received from a local elector. My fee did not include any assumptions that I would undertake work in this area.

For this reason, I have informed the Head of Finance that I will need to charge additional audit fees to cover the costs of this extra work. Once I have issued my audit opinion on the Council's 2010/11 financial statements and concluded my work in response to the objection received, I will confirm my additional fee with the Head of Finance and then report this to the next Audit and Governance Committee. At this stage, I am unable to determine the amount of my additional fee.

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements.

We have included a specific representation in the letter relating to management's confirmation that there are no escrow, shared or other bank accounts or income due to the Council that has not been disclosed in the financial statements. We have also included a specific representation regarding management's intention regarding the determination of the ownership status of the amounts held in the shared bank account with BT.

The letter of representation is provided separately to this report.

Value for money

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

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for money criteria and our findings

Criterion	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</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>The Council had a savings and efficiency plan in place for 2010/11. This identified in-year efficiency savings, with an additional £0.572 million in budget savings. The focus has been on longer term financial solutions rather than short term financial fixes. There is no evidence of dependency on reserves and investment income to balance budgets, or the use of reserves to fund recurrent expenditure.</p> <p>The Council completed some scenario planning at the initial budget planning stage. This contributed to the longer term service and financial planning documents which highlighted a funding gap going forward.</p> <p>The Council reviewed its priorities in light of increased financial pressures. Linked to this is good communication to staff and external stakeholders of the medium- to long-term financial strategy, current financial position and likely financial challenges.</p>

Criterion	Findings
	<p>Accurate in-year forecasting enabled the Council to deliver a small revenue underspend of £0.726 million at the end of 2010/11, increasing Earmarked Reserves by £0.572 million and increasing the general fund balance carried forward by £0.154 million.</p> <p>Our previous assessment indicated that monitoring arrangements were strong, with good finance and performance links via the quarterly Integrated Performance and Finance monitoring report. These arrangements have been maintained in this period.</p>
<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 2010/11:</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>There is evidence of strong leadership from senior management and Members to ensure that resources are prioritised and there is a focus on spending reductions. Resources have been reallocated to meet changing needs as part of this process.</p> <p>Review arrangements are in place to ensure that strategic priorities are delivered. The Council also consulted with stakeholders during the year.</p> <p>There is a good understanding of costs and how these relate to performance. The Council is prepared to investigate longer term options in order to secure reductions, for example via shared working with Waveney District Council and partnership working with other providers.</p> <p>The Council uses performance and financial monitoring to ensure ongoing efficiency and productivity. There is good use of benchmarking by the Council, combined with peer assessment, stakeholder feedback and review of indicators. Staff are engaged in the efficiency savings programme via individual service delivery plans and via monitoring of outturn by service managers.</p> <p>There is use of outsourcing and commissioning to challenge the way that activities are delivered.</p>

Appendix 1 – Draft auditor’s report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF SUFFOLK COASTAL DISTRICT COUNCIL

Opinion on the Authority and Group accounting statements

I have audited the Authority and Group accounting statements of Suffolk Coastal District Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow Statement, 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 Suffolk Coastal District 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 Head of Finance and auditor

As explained more fully in the Statement of the Head of Finance’s Responsibilities, the Head of Finance is responsible for the preparation of the Authority and Group’s Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice’s 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 accounting statements sufficient to give reasonable assurance that the accounting 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 and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority and Group; and the overall presentation of the accounting statements. I read all the 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 accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Suffolk Coastal District Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended;
- give a true and fair view of the state of the Group's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

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

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on Authority's 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 to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Suffolk Coastal District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Delay in certification of completion of the audit

There is likely to be a delay in the certification of completion of the audit. This is due to an objection received from a local elector. I will conclude the audit following the completion of my investigation into this matter.

Neil A Harris

Officer of the Audit Commission

Audit Commission, Crown House, Crown Street, Ipswich IP1 3HS

30 September 2011

Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Management have adjusted all errors identified in the audit of the financial statements.

Adjusted misstatement	Nature of adjustment	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Balance sheet – cash and cash equivalents Balance sheet – short term creditors	Cash figure incorrectly includes cash of £1.346 million that is not controlled by the Council relating to Cash for Partnerships, therefore the Council cannot recognise this as an asset nor the creditor established to recognise the liability. Presentational adjustment – no impact on the financial position of the Council.	-	-	1,346	1,346

		Comprehensive income and expenditure statement		Balance sheet	
Balance sheet – short term creditor	No creditor was recognised in the financial statements for the voluntary redundancies totalling £0.269 million that were agreed before 31 March 2011.	269	-	-	269
Comprehensive income and expenditure statement – cost of services	This error had an impact on the Council's financial position.				
Comprehensive income and expenditure statement – non-distributed costs	LAAP Bulletin 88 informed officers of an error in the Code, which was not corrected and voluntary redundancies of £0.140 million were incorrectly charged to non-distributed costs.	140	140	-	-
Comprehensive income and expenditure statement – various cost of services	Presentational adjustment – no impact on the financial position of the Council.				
Balance sheet – short term creditors	IFRS restatement work identified that Section 106 monies that are set aside for open space play areas in various Parishes had not been assessed against the Code requirements for Government and non Government grants, meaning that £1.218 million (£1.132 million in 2009/10 and £1.165 million at 1 April 2009) was incorrectly left within short term creditors and not transferred to Capital Grants Unapplied reserve.	-	-	1218	1218
Balance sheet – capital grants unapplied	Presentational adjustment – no				

Comprehensive income and
expenditure statement

Balance sheet

	impact on the financial position of the Council.				
Balance sheet – short term creditors	IFRS restatement work identified that Section 106 monies (excluding those set aside for open space play areas) had not been assessed against the Code requirements for Government and non Government Grants, meaning that £0.837 million (£0.584 million in 2009/10 and £0.614 million at 1 April 2009) was incorrectly left within short term creditors and not transferred to capital grants receipts in advance (split between short term (£0.079 million in 2010/11, £0.176 million in 2009/10 and £0.125 million at 1 April 2009) and long term (£0.758 million in 2010/11, £0.408 million in 2009/10 and £0.489 million at 1 April 2009)).	-	-	837	837
Balance sheet - capital grants receipts in advance					
	Presentational adjustment – no impact on the financial position of the Council.				

Comprehensive income and
expenditure statement

Balance sheet

Balance Sheet – capital grants unapplied	<p>IFRS restatement work identified that unapplied capital contributions had not been assessed against the Code requirements for Government and non Government Grants, meaning £0.169 million (£0.176 million in 2009/10 and £0.537 million at 1 April 2009) was incorrectly written off to the capital adjustment account instead of the capital grants unapplied reserve.</p> <p>Presentational adjustment – no impact on the financial position of the Council.</p>	-	-	169	169
Cash Flow – all cash flow adjustment headings	<p>The cash flow was not constructed in accordance with the requirements of the Code. In addition there was no disclosure of the ‘non cash movements’ as required by the Code. In determining this disclosure adjustments were found to be necessary to this heading and to other headings within the cash flow, as follows:</p> <p>Adjustment for non cash movements from £0.627 million to £2.138 million (2009/10 from -£0.899 million to -£1.312 million).</p>	-	-	-	-

Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities from -£0.176 million to £0.518 million (2009/10 from -£0.438 million to £0.906 million).

Investing activities from £0.308 million to -£2.113 million (2009/10 from -£0.642 million to -£3.664 million)

Financing activities from £2.583 million to £3.953 million (2009/10 from £0.540 million to £2.596 million).

Presentational adjustment – although a primary statement the cash flow is a statement derived from other figures in other statements. No impact on the financial position of the Council.

Note 2 – accounting standards issued, not yet adopted

Narrative disclosure on heritage assets held by the Council was required this year. At the time of

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submitting the financial statements for audit, officers had limited information. Details have now been obtained and are to be disclosed in the final version of the financial statements.

Presentational adjustment – no impact on the financial position of the Council.

Note 6 – movements in reserve statement – adjustments between accounting basis and funding basis under regulations

The disclosure note includes a column which is non-compliant with the Code and is included to ensure the financial statement balance. Removal of this column was required and officers have resolved the non-trivial differences of £0.016 million (£0.005 million in 2009/10).
Presentational adjustment – no impact on the financial position of the Council.

-	16	16	-
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Note 15 – financial instruments

Disclosure of £10.771 million in relation to current loans and receivables incorrectly included

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Comprehensive income and
expenditure statement

Balance sheet

£8.360 million of statutory balances (£5.025 million of statutory balances in 2009/10) which should be excluded as they are not financial instruments. Similarly disclosure of £7.359 million in relation to financial liabilities at amortised cost incorrectly included £1.999 million of statutory balances (£1.010 million of statutory balances in 2009/10).
Presentational adjustment to a note – no impact on the financial position.

Note 20 – creditors

The DWP creditor of £0.980 million relating to the outstanding balance on the benefits claim was incorrectly classified as other entities and individuals and should have been classified as central Government bodies.
Presentational adjustment – no impact on the financial position of the Council.

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Note 22 – grant income

Incorrectly includes Council Tax income of £9.532 million within taxation.
Disclosure omitted relating to grant

- - - -

income of £34.761 million that is credited directly to cost of services (such as housing benefit and council tax benefit).

Presentational adjustment – no impact on the financial position of the Council.

Note 32 – Officers' remuneration

The note has been expanded to disclose further details regarding the new shared senior management team arrangements.

Presentational adjustment – no impact on the financial position of the Council.

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Note 33 – external audit costs

2009/10 comparator figures have been restated however this does not qualify as a prior period adjustment. Additional information to be added as a narrative disclosure.

2010/11 figures have been amended to reflect the correct position for the year.

Presentational adjustment – no impact on the financial position of the Council.

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**Comprehensive income and
expenditure statement**

Balance sheet

Note 34 – related parties	<p>Disclosure relating to Suffolk County Council has been calculated incorrectly with £0.483 million relating to 2009/10 included in 2010/11 and £0.130 million omitted from 2010/11.</p> <p>Presentational adjustment – no impact on the financial position of the Council.</p>	-	-	-	-
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Appendix 3 – Action plan

Recommendations

Recommendation 1

Review the resourcing of the finance team to ensure that future audit queries can be addressed promptly.

Responsibility Head of Financial Services

Priority High

Date October 2011

Comments This will be addressed as part of Finance restructure.

Recommendation 2

Improve the quality of the working papers to ensure that adequate evidence is provided.

Responsibility Chief Accountant

Priority High

Date March – June 2012

Comments As part of Joint approach and also service improvement.

Recommendation 3

Ensure that a senior officer review is used to improve the quality of the draft financial statements, and that statements presented for audit are complete.

Responsibility	Chief Accountant/Head of Finance
Priority	High
Date	June 2012
Comments	Allowed for within the final accounts project plan.

Recommendation 4

Adjust the material errors identified in the financial statements.

Responsibility	Chief Accountant
Priority	High
Date	September 2011
Comments	Adjusted as part of audit process.

Recommendation 5

Ensure that future financial statements do not contain balancing figures as this raises the risk of a compensating material misstatement.

Responsibility	Chief Accountant
Priority	High
Date	March 2011
Comments	Balancing column has been removed, and working practices will be improved to ensure no future repetitions.

Recommendation 6

Ensure that evidence is available to support the inclusion and exclusion of issues in the Annual Governance Statement.

Responsibility	Head of Financial Services
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Priority	Medium
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Date	March 2012
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Comments	As part of improvement plan.
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Recommendation 7

Ensure the management review of the financial statements confirms that the disclosure requirements of the Code have been met.

Responsibility	Chief Accountant
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Priority	High
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Date	March – June 2012
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Comments	Will be included with final accounts project plan.
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Recommendation 8

Ensure all working papers provided to the audit team show how the figures within the financial statements have been calculated and are supported by source documentation.

Responsibility	Chief Accountant
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Priority	High
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Date	June 2012
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Comments	Working papers will be further improved as part of joint working.
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Appendix 4 – Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical 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' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

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 I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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

