

Gosport Borough Council

Report to those charged with governance 2005/06

**Report to the Standards and Governance Committee meeting on
14 September 2006**

Report date: 8 September 2006

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Statement of responsibilities

Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies, issued by the Audit Commission.

Reports prepared by appointed auditors and addressed to Members or Officers are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or Officer in their individual capacity, or to any third party.

1 Executive summary

1.1 Financial statements

- 1.1.1 Our work on Gosport Borough Council's Statement of Accounts is now substantially complete and we expect to issue an unqualified audit opinion on 21 September 2006. If any further matters arise between the date of this report and the signing of the audit opinion that require to be reported to those charged with governance, we will communicate these directly to the Chairman of the Standards and Governance Committee.

1.2 Use of resources

- 1.2.1 Our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. We expect to issue a value for money conclusion on 21 September 2006. Based on our audit work, there was one area where performance is below the minimum requirement specified by the Audit Commission. This is explained in section 4 of this report.

2 Background to the report

2.1 Purpose of report

- 2.1.1 Mazars LLP are the external auditors appointed by the Audit Commission to undertake the audit of the Statement of Accounts of Gosport Borough Council (the Council) for the financial year ended 31 March 2006. Our Audit and Inspection Plan outlining the scope of the audit was reported to the Audit and Risk Sub-Committee in July 2005.
- 2.1.2 We are now in the process of completing our audit work and are required by the Audit Commission's statutory Code of Audit Practice for local government bodies (the Code) to issue a report to those charged with governance summarising the significant matters arising. The Standards and Governance Committee is considered to fulfil the role of those charged with governance for the Council and references to the Standards and Governance Committee in this report should be read as such.
- 2.1.3 We are also required by International Standard on Auditing (ISA) (UK & Ireland) 260: "Communication of audit matters with those charged with governance", to report to the Standards and Governance Committee certain matters before we give our opinion on the Statement of Accounts. Section 3 of this report, covering the Statement of Accounts, fulfils this requirement.

2.2 Scope of the report

- 2.2.1 In undertaking our audit, we comply with the statutory requirements of the Audit Commission Act 1998 and the Code. Auditors' responsibilities are to review and report on, to the extent required by the relevant legislation and the requirements of the Code:
- The Council's Statement of Accounts; and
 - Whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 2.2.2 This report covers the audit of the Council for the year ended 31 March 2006 and includes the significant findings, conclusions and recommendations arising from our work.

3 Statement of Accounts

3.1 Respective responsibilities of the Council and the external auditors

3.1.1 The Statement of Accounts, which comprises the published accounts of the Council, is an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. It is the Council's responsibility to:

- Put in place systems of internal control to ensure the regularity and lawfulness of financial transactions;
- Maintain proper accounting records; and
- Prepare financial statements that present fairly the financial position of the Council and its expenditure and income.

3.1.2 The Council is also responsible for preparing and publishing a Statement on Internal Control with its financial statements.

3.1.3 In accordance with the Audit Commission Act 1998 and the Code, the external auditors are required to audit the financial statements and to provide an opinion on whether the Council has met its statutory and regulatory responsibilities.

3.2 Status of the audit

3.2.1 Our work on the Council's financial statements is substantially complete and we expect to issue our audit opinion on 21 September 2006. If any matters arise between the date of this report and the signing of the audit opinion that require to be reported to those charged with governance, we will communicate these directly to the Chairman of the Standards and Governance Committee.

3.3 Matters to be reported to those charged with governance

3.3.1 Under ISA 260, the auditor is required to communicate the following findings from the audit to those charged with governance:

- The auditor's views about the qualitative aspects of the Council's accounting practices and financial reporting;
 - The final draft of the representation letter that the auditor is requesting management to sign;
 - Uncorrected misstatements;
 - Expected modifications to the auditors' report;
 - Material weaknesses in internal control identified during the audit;
 - Matters specifically required by other ISAs (UK and Ireland) to be communicated to those charged with governance; and
 - Any other audit matters of governance interest.
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3.3.2 The matters that we wish to draw to your attention are outlined below.

Qualitative aspects of accounting practices and financial reporting

3.3.3 Our audit includes consideration of the qualitative aspects of the financial reporting process, including matters that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided in the Statement of Accounts. There is one matter that we are required to draw to your attention in relation to the 2005/06 Statement of Accounts.

3.3.4 The Council relies on the work of its actuaries (Hewitt, Bacon and Woodrow Ltd) to prepare figures for inclusion in the Statement of Accounts in relation to pensions. In carrying out their work, the actuaries were required to make an assumption regarding the level of take-up of the commutation of benefits (lump sum) following changes to the Local Government Pension Scheme from April 2006. The approach they adopted in relation to disclosure was not consistent with advice issued by CIPFA's Local Authority Accounting Panel (LAAP), in that they treated the effect of the commutation as a negative past service cost within the Statement of Total Movements in Reserves (STMR) rather than as non-distributed costs within the Consolidated Revenue Account (CRA). The impact of the commutation is an overall reduction in FRS 17 liabilities in the STMR of less than 3% and this does not impact on either the overall value of FRS 17 liabilities at the year-end, or on the bottom line of the CRA.

Letter of representation

3.3.5 It is necessary for us to obtain written representations from management as an acknowledgement of its responsibility for the fair presentation of the financial statements and as audit evidence on matters material to the financial statements. We have provided a draft of the letter of representation for the 2005/06 audit from the Deputy Chief Executive and Borough Treasurer, the text of which is included at Appendix A.

Uncorrected misstatements

3.3.6 A number of misstatements in the draft Statement of Accounts were identified during the course of the audit. None of these were material and, in all cases, they were corrected.

3.3.7 A full listing of all of the corrected misstatements, other than those that were clearly trivial in nature, will be included in our report to management on the results of our audit. The most significant corrections were as follows:

Description of misstatement	Consolidated Revenue Account		Balance Sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
Net cost of services	203	-	-	-
Fixed Asset Restatement Account	-	-	-	203
Revaluation of fixed assets	-	-	-	203
Impairment of fixed assets	-	-	203	-
<i>To correct the classification of a property which burned down during the year. Initially treated as a revaluation but should have been an impairment.</i>				
Creditors	-	-	228	-
Debtors	-	-	-	228
<i>To correct a 2006/07 payment which had been treated as paid in 2005/06 and included as a debtor in error</i>				
Investments	-	-	54	-
Debtors	-	-	-	54
<i>To correct the treatment of interest on the Money Market Fund which had been treated as a debtor rather than increasing the value of the investment</i>				

Expected modifications to the auditors' report

- 3.3.8** On the basis of our audit work, we currently propose to issue an unqualified audit opinion on the financial statements. Our draft audit report is attached at Appendix B.

Material weaknesses in internal control identified during the audit

- 3.3.9** Our audit did not identify any material weaknesses in internal control which require to be reported to those charged with governance. However, we identified a number of areas where there was scope for improvement in procedures and controls and these have been included in a detailed report to management.

Matters specifically required by other ISAs to be communicated

3.3.10 Other auditing standards require us to communicate with those charged with governance in a number of specific circumstances, for example:

- Where we suspect or detect fraud;
- Where there is inconsistency between the financial statements and other information in documents containing the financial statements; and
- Where we believe there may be non-compliance with legislative or regulatory requirements.

3.3.11 There are no such matters that we require to report to you in relation to this year's audit.

Any other audit matters of governance interest

3.3.12 There are no other matters arising from our audit work which we feel are of governance interest.

3.4 Action required by those charged with governance

3.4.1 We are drawing the above matters to the attention of those charged with governance so that:

- you can consider them before the audit opinion is signed; and
- the letter of representation can be approved for signing on behalf of the Council by the Deputy Chief Executive and Borough Treasurer before we issue our audit opinion.

4 Use of resources

4.1 Respective responsibilities of the Council and external auditors

- 4.1.1 It is the responsibility of the Council to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them.
- 4.1.2 The Code requires the external auditors to reach a conclusion on whether we are satisfied that the Council has proper arrangements in place (the value for money conclusion). In meeting this responsibility, we review evidence that is relevant to the Council's corporate performance management and financial management arrangements.
- 4.1.3 Our work in reaching the value for money conclusion is integrated with our work on the use of resources. Use of resources is a qualitative assessment of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. The five areas we make assessments on are:
- financial reporting;
 - financial management;
 - financial standing;
 - internal control; and
 - value for money.

4.2 Status of the audit

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

- 4.2.1 Our audit work on the use of resources assessment for 2005/06 was completed in March 2006. We reported our findings to management and these were summarised in the Annual Audit and Inspection Letter which was presented to the Policy and Organisation Board on 28 June 2006. In overall terms, the Council was assessed as "performing adequately". However, there were several areas where performance was below the minimum requirements specified by the Audit Commission and these were highlighted in our reports.
- 4.2.2 Since March 2006, we have monitored the progress the Council is making to further develop its arrangements in relation to the use of resources. We have also undertaken a review of the Council's overall arrangements for ensuring data quality.

- 4.2.3 On the basis of our audit work, we propose to issue a report that, in all significant respects, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources except for the failure to put in place arrangements for the management of the Council's asset base. The reason for our qualification in respect of this Code criterion is that the Council does not have an up to date corporate capital strategy or asset management plan. Our draft value for money conclusion is attached at Appendix B.

Best Value Performance Plan

- 4.2.4 The Local Government Act 1999 requires the Council to publish an annual Best Value Performance Plan (BVPP) which summarises the Council's assessment of its performance and position in relation to Best Value.
- 4.2.5 The external auditors' responsibilities under the Act require us to consider and report on whether the Council has complied with the statutory requirements in respect of the preparation and publication of the BVPP. Our work involves:
- Consideration of whether the BVPP has been prepared and published in accordance with statutory requirements; and
 - Review of the Council's processes for recording and calculating performance indicators that are included within the BVPP.
- 4.2.6 Our audit work in relation to the 2005/06 BVPP was completed in December 2005 and our statutory report was issued on 16 December 2005. We were satisfied that in all significant respects the BVPP was prepared and published in accordance with the statutory requirements and there were no matters that required to be reported formally to the Council.

Other matters arising from our audit work in relation to the use of resources

- 4.2.7 The key matters arising from our work in relation to the use of resources were reported in June 2006 and there are no further matters which we wish to draw to the attention of those charged with governance.

4.3 Action required by those charged with governance

- 4.3.1 The Standards and Governance Committee is requested to note the findings. There is one matter which requires action as detailed in paragraph 4.2.3. The Committee should ensure that there are plans in place to revise and approve the corporate capital strategy and asset management plan.

5 Other matters

5.1 Integrity, objectivity and independence

5.1.1 As part of our communication with those charged with governance, ISA (UK and Ireland) 260 and the Auditing Practices Board Ethical Standard 1 require us to communicate the following matters to the Standards and Governance Committee:

- the principal threats, if any, to objectivity and independence identified by the auditor, including consideration of all relationships between the Council, Members and the auditor;
- any safeguards adopted and the reasons why they are considered to be effective;
- any independent partner review;
- the overall assessment of threats and safeguards; and
- information about the general policies and processes for maintaining objectivity and independence.

5.1.2 We confirm that we are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing and ethical standards. We would also advise the Standards and Governance Committee that, as in previous years, the audit has been subject to an independent partner review in accordance with our Firm's standard practice for public interest audits. Details of our arrangements in relation to independence and objectivity are included, each year, in our Audit and Inspection Plan.

5.2 Fee information

5.2.1 The fee for the 2005/06 audit is in accordance with the budget outlined in the Audit and Inspection Plan.

Audit area	Budget 2005/06 £	Actual 2005/06 £
Accounts	47,500	47,500
Use of resources	34,750	34,750
Total audit fee	82,250	82,250

5.3 Acknowledgements

5.3.1 During the course of the year, we have received considerable support and assistance from the Council's employees. We would like to take this opportunity to thank them for the time they have made available to help us complete our work and for the positive and constructive approach to the audit.

Appendix A

Draft letter of representation

Mazars LLP
Regency House
3 Grosvenor Square
Southampton
Hampshire
SO15 2BE

Dear Sirs

Gosport Borough Council – audit for year ended 31 March 2006

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of other Officers of the Council, the following representations given to you in connection with your audit of the Council's Statement of Accounts for the year ended 31 March 2006.

I confirm that the following representations are made on the basis of enquiries by management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy myself that I can properly make each of the following representations to you.

Responsibility for the financial statements and accounting information

I acknowledge, as the responsible finance officer for the Council, my responsibility for preparing a Statement of Accounts that presents fairly the state of affairs, income and expenditure, total recognised gains and losses and cash flows of the Council for the year ended 31 March 2006. All the accounting records have been made available to you for the purpose of your audit and all the transactions of the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and Council meetings have been made available to you.

Responsibility to disclose relevant information

I confirm that I have taken all the necessary steps to make myself aware, as responsible financial officer, of any relevant audit information and to establish that you as auditors are aware of the information.

As far as I am aware, there is no relevant audit information of which, as the Council's auditors, you are unaware.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Financial Reporting Standard 18 and consider them appropriate for the year.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- i. information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- ii. the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention.

Charges on assets

All the Council's assets are free from any charges exercisable by third parties except as disclosed within the statement of accounts.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve actual or possible non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

There have been no frauds or irregularities involving Members, management or employees who have significant roles in the accounting system and internal control structure and which could have a material effect on the Statement of Accounts other than as reported to you.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud

I acknowledge my responsibility as the responsible financial officer for the Council, for the design and implementation of systems of internal control to prevent and detect fraud. We have disclosed to you:

- all the results of our assessment of the risk that the Statement of Accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the Statement of Accounts.

We have made known to you all knowledge of any allegations of fraud, or suspected fraud, affecting the Council's Statement of Accounts communicated by employees, former employees, regulators or others.

Related party transactions

All transactions and balances with related or associated parties, including sales, purchases, loans, transfers, leasing arrangements and guarantees have been made available to you and have, where material and appropriate for presentation purposes, been disclosed in the accounts.

Future commitments

The Council has no plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Post balance sheet events

There have been no events since the balance sheet date which necessitate revision of the figures included in the financial statements or inclusion of a note thereto. Should further material events occur, which may necessitate revision of the figures included in the statement of accounts or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Uncorrected misstatements

I am not aware of any uncorrected misstatements, other than those which are clearly trivial, which require amendment to the Statement of Accounts.

Yours faithfully

Peter Wilson

Deputy Chief Executive and Borough Treasurer

Appendix B

Independent auditors' report to the members of Gosport Borough Council

Opinion on the financial statements

We have audited the financial statements of Gosport Borough Council for the year ended 31 March 2006 under the Audit Commission Act 1998, which comprise the Consolidated Revenue Account, the Housing Revenue Account, the Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Gosport Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Gosport Borough Council for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements present fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005.

We review whether the statement on internal control reflects compliance with CIPFA's guidance "The Statement on Internal Control in Local Government: Meeting the requirements of the Accounts and Audit Regulations 2003" published on 2 April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our 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 financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended.

Mazars LLP

Chartered Accountants and Registered Auditors
Southampton

xx September 2006

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 to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the Authority is required to prepare and publish a Best Value Performance Plan summarising the Authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditors' responsibilities

We are 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 us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We are required by section 7 of the Local Government Act 1999 to carry out an audit of the Authority's Best Value Performance Plan and issue a report:

- certifying that we have done so;
- stating whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making recommendations under section 7 of the Local Government Act 1999.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and we are satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, in all significant respects, Gosport Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006 except for the failure to put in place arrangements for the management of its asset base.

Best Value Performance Plan

We issued our statutory report on the audit of the Authority's Best Value Performance Plan for the financial year 2005/06 on 16 December 2005. We did not identify any matters to be reported to the Authority and did not make any recommendations on procedures in relation to the plan.

Certificate

We certify that we 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.

Mazars LLP

Chartered Accountants and Registered Auditors
Southampton

xx September 2006
