

AUDIT COMMITTEE

25 SEPTEMBER 2013

ANNUAL GOVERNANCE REPORT 2012/13

Report from: Mick Hayward, Chief Finance Officer

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Summary

This report considers the issues raised in the Council's external auditor's Annual Governance Report which incorporates the findings following the 2012/2013 audit of the Statement of Accounts.

This report needs to be considered as a matter of urgency as the Accounts and Audit Regulations 2003 (as amended) require that Committee consider these issues prior to 30 September.

1. Budget and Policy Framework

- 1.1 The Audit Commission's Code of Audit Practice and International Standard of Auditing (ISA 260) requires the results of the audit to be reported to those charged with governance. This Committee has been delegated with the responsibility for considering these reports and agreeing the Council's response. In addition, the Committee, on behalf of the Council, must explain reasons for not adjusting the Statement of Accounts for the issues raised within the auditor's report, all factual adjustments have been adjusted.
- 1.2 This report needs to be considered as a matter of urgency as the Accounts and Audit Regulations 2003 (as amended) require that Committee consider these issues prior to 30 September.

2. Background

- 2.1 The draft Statement of Accounts for 2012/2013 were considered and approved by this Committee on 11 July 2013. At that stage the accounts were subject to final verification and Members were advised that any proposed changes as a result of the audit would be reported at a later stage.
- 2.2 The audit commenced in mid July and together with the audits of various grant claims has continued to September. A number of issues are still being reviewed by BDO these are detailed within the overview of The Auditor's Annual Governance Report page 4 attached at Appendix 1. The Auditor will update Audit committee on progress on the 25 September.

3. Auditors Report 2012/2013

3.1 The Auditor's Annual Governance Report (AGR) is attached at Appendix 1 and contains:

- Financial Statements;
- Control Environment
- Use of Resources; and
- Associated appendices.

3.2 The Council's response to the issues identified, as proposed by officers, is included at Appendix IV to the AGR (Appendix 1).

4. Financial Statements

4.1 The overview of the Annual Governance Report states that, subject to satisfactory conclusion of outstanding work as detailed within the AGR at page 4, an **unqualified** audit opinion will be issued in relation to the financial statements. The main issues arising from the audit are summarised in paragraph 4.2 below.

4.2 Accounting practices and financial reporting

4.2.1 Material errors. There were no material errors within the Statement of Accounts.

4.2.2 Non-Trivial errors There were no non-trivial errors within the Statement of Accounts.

4.2.3 Trivial errors The AGR does not set out trivial errors found during the audit. However, officers have adjusted the accounts to recognise all trivial errors.

4.2.4 A revised set of accounts will follow this report as Appendix 2, with the significant amendments highlighted. We have not highlighted all the changes within the statements, as the trivial errors would result in a significant quantity of alterations to disclosures as well as the main statement of accounts.

4.3 Annual Governance Statement

4.3.1 The auditors are in the process of reviewing the Annual Governance Statement and will update Audit Committee on the 25 September.

5. Value for Money

5.1 Auditors are required to review the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources (value for money). This is based upon the following two Audit Commission criteria:

- The organisation has proper arrangements in place for securing financial resilience;
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

5.2 BDO will be issuing an unqualified value for money conclusion as indicated at page 27 of the AGR.

5.3 However BDO have highlighted within the Use of Resources section that the Ofsted findings in relation to Children's Services represent a significant additional matter which they consider to be relevant to the establishment of proper arrangements to secure economy, efficiency and effectiveness in the use of resources. There are recommendations within the action plan at Appendix IV of the AGR which deal with these findings both in terms of financial resilience and performance.

6. Management Representations Letter

6.1 To comply with regulations, the Chief Finance Officer of each local authority must provide the external auditors with a signed declaration which supports their work in relation to the audit of the annual accounts.

6.2 The Draft Management Representations Letter is attached at Appendix VII of the AGR and the Committee is required to consider the content of the letter in the context of the issues raised in this report. Once agreed, the letter will be submitted to BDO.

7. Audit Fees

7.1 The final audit fee is £231,410 which agrees with the fee as set out within the External Audit Annual Audit Plan 2012/13 reported to this committee on 21 March 2013.

8. Financial and Legal Implications

8.1 The financial implications are contained within the body of the report.

8.2 Auditors are required to comply with the Statement of Auditing Standards, and thus provide an opinion on the Council's Statement of Accounts.

8.3 The Legal implications are set out in the body of the report.

9. Audit Completion

9.1 Work to complete the audit outlined in Section 4 is ongoing. However, BDO have indicated that the audit certificate will be given by 30 September.

10. Risk Management

10.1 There remains a low risk that the Auditor may find material errors or misstatements in the accounts as a result of the continuing work highlighted in Section 4 of this report and which may not be identified prior to the adoption by this committee. Due regard has been had to the regulations and accounting requirements in producing the statements and the position put before the Audit Committee is the officers' interpretation of these requirements.

11. Recommendations

11.1 That Committee notes the issues raised and judgements made by the Auditor as presented in Appendix 1, and agrees the proposed response as set out at Appendix IV to the AGR.

- 11.2 That Committee agrees the revised Statement of Accounts as set out in Appendix 2 (to follow)
- 11.3 That Committee agree the Management Representations Letter, attached at Appendix VII of the AGR.

Background papers

Medway Council's draft statement of accounts for 2012/2013
Report on Draft Statement of Accounts to this Committee 11 July 2013
Copies of these documents are available from the Lead Officer Contact

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