

BABERGH DISTRICT COUNCIL

FROM: Director of Finance

REPORT NUMBER: **J90**

TO: OVERVIEW AND SCRUTINY
(STEWARDSHIP) COMMITTEE

DATE OF MEETING: 22 September 2009

EXTERNAL AUDIT ANNUAL GOVERNANCE REPORT

1. **PURPOSE OF REPORT**

- 1.1 The external auditors, PKF, will present their Annual Governance Report for 2008/09. This covering report provides further officer views and comments.

2. **RECOMMENDATION**

- 2.1 That the contents of the Auditor's Annual Governance Report and the Action Plan outlined in Appendix A of the Auditor's report be noted.

The Committee is able to resolve this matter.

3. **FINANCIAL IMPLICATIONS**

- 3.1 The cost of auditing grant claims has exceeded the estimate and the budget. Officers will endeavour to find savings elsewhere to offset this cost.

4. **RISK MANAGEMENT**

- 4.1 The report relates to Significant Business Risk No.7 – Financial, Performance and Risk Management. Key risks are set out below:

Risk Description	Likelihood	Seriousness or Impact	Mitigation Measures
Significant issues arise with the Council's accounts, internal audit assurance arrangements or Use of Resources assessment.	Very Low	Marginal	The Management Action Plan that was put in place following last year's report has been successful. Internal Audit continue to provide the necessary assurances to Members and external audit. Detailed evidence has been provided on the Use of Resources Assessment.

5. **Key Supporting Information**

- 5.1 The annual Governance Report sets out the external auditor's views and key findings on the accounts for the year, accounting and internal control systems and the latest position on the Use of Resources Assessment.

5.2 This year's report concludes that:

- The Accounts were prepared with only a few areas requiring amendment that, subject to the clearance of a few review points, will result in an unqualified opinion being issued
- There was an improvement in the quality of working papers that supported the accounts
- More time was needed to audit the 2007/08 grant claims, resulting in increased costs
- Accounting and Internal Control Systems are generally adequate.

5.3 Clearly, this year's accounts show a marked improvement on last year and a very positive 'direction of travel'. It is pleasing, therefore, that the efforts of officers have resulted in a positive outcome for the year. The issues highlighted in Appendix A of the auditor's report will be actioned by officers.

5.4 In terms of more detailed comments on the PKF report, these are set out below:

Section	Area	Comments
1.2	Summary of Findings and Conclusions Additional creditors work	As indicated in Section 3.6 of the report, the further testing proved that our systems are sound.
	Amendments to the Financial Systems	All of these have been minor in nature.
2.7	Grant claims work	The issue of audit trails and incomplete working papers has been addressed for this year.
3.13	Reconciliations/aged debtor list	See Management Response in Action Plan – reconciliations are carried out monthly and access to aged debtors information can be made easily available.
3.15	Adequacy of disclosures	Members will note that there were only a small number of departures.

6. **APPENDICES**

PKF Annual Governance Report 2008/09 attached.

7. **BACKGROUND PAPERS REFERRED TO**

None.

CONTACT: Barry Hunter,
Director of Finance

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Accountants &
business advisers

Babergh District Council

Annual Governance Report
2008/09

September 2009

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Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members or officers. They 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 We report to you in accordance with the provisions of International Auditing Standard 260, which requires us to report to “those charged with governance”, prior to issuing our opinion on the financial statements and giving our conclusion on the adequacy of your arrangements for securing economy, efficiency and effectiveness in your use of resources (our VFM conclusion).

Findings and conclusions

1.2 A summary of audit findings and conclusions is included in the table below:

Area of audit	Findings & Conclusion
Accounts	
Key financial systems	The key financial systems are adequate as a basis for preparing the financial statements and no significant control weaknesses were identified that impacted on our opinion. Additional work was undertaken in relation to expenditure and creditors because of the control weaknesses identified by Internal Audit to provide sufficient assurance for audit purposes on these balances.
Financial statements	No material errors were identified as a result of audit work. There were no non-trivial errors that have not been adjusted for. A number of amendments have been made to the version of the financial statements approved by the full Council. A general improvement in the quality of the working papers provided to support the financial statements was noted. Some of our internal review points are still outstanding at the time of drafting this report. Should these result in any significant issues, we will give a verbal update to Members at the Overview and Scrutiny (Stewardship) Committee. We are satisfied that the Annual Governance Statement (AGS) is not inconsistent or misleading with other information we are aware of from our audit of the financial statements. Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified opinion on the financial statements.
Use of resources	
Use of resources assessment	We have completed sufficient work at this stage to issue our VFM conclusion. However, reporting of our work and related draft scores is embargoed during the National Quality Assurance process which remains on-going at the time of drafting this report in respect of managing finances, governing the business and managing resources scores.
VFM conclusion	We anticipate issuing an unqualified value for money conclusion.

Acknowledgement

1.3 We would like to thank the staff of the Council for the co-operation and assistance provided to us during the audit.

2 Introduction

- 2.1 This report summarises the results of our audit work completed to date in respect of the financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.
- 2.2 Our report is presented to Members in accordance with the provisions of International Auditing Standard 260 (“ISA 260”) which requires us to report key findings from the audit to “those charged with governance”, prior to issuing our opinion on the financial statements.
- 2.3 It is also presented in accordance with Audit Commission’s Code of Audit Practice which requires us to report key findings from the audit of the Council’s Use of Resources to “those charged with governance”, prior to issuing our VfM conclusion.

Findings

- 2.4 Detailed recommendations in response to the key findings identified by our audit are provided in the action plan at Appendix A. These recommendations have been discussed with appropriate officers and responses are included in the action plan where appropriate.
- 2.5 We would highlight that in this report we do not provide a comprehensive statement of all weaknesses that may exist in the accounting and control systems, but only those matters which have come to our attention as a result of the audit procedures performed. We have not restated recommendations already made by Internal Audit.

Fee outturn

- 2.6 The Audit Commission’s *Standing Guidance for Auditors* requires us to report the outturn fee position for the year against the budgeted fee included within your Annual Audit and Inspection Plan. The table below sets out this analysis:

Audit plan 2008/09	Planned fees £	Actual fees £
Code of Audit Practice		
Accounts	61,950	61,950*
Use of Resources	33,600	33,600
Planning and reporting	11,080	11,080
Subtotal audit	106,630	106,630
Grants	30,000	41,492
Questions and objections	-	-
Total	136,630	148,122

*At the time of drafting the audit remains in progress therefore the outturn against planned cost has not been finalised.

- 2.7 The outturn for grant claims is in respect of those for the year ended 31 March 2008 compared to our original estimate. At the time of planning our work grants fees are always stated as an estimate because the actual fee is determined by the time actually spent. The increase of actual cost compared to our estimate related to mandatory audit scope increases introduced by the Audit Commission for benefits grants work under their “HBCOUNT” approach not forecast at the time of estimating the original grant fee as the scope was unclear, and because a number of difficulties experienced with the housing related grant claims due to incomplete audit trails and working papers resulting in a number of amendments to these claims being required. For grants work we act as agents for the Audit Commission.

Independence

- 2.8 We confirm that we are not aware of any relationships that may bear on our independence and objectivity as auditor and that our independence declaration, included in the Annual Audit and Inspection Plan 2008/09, has remained valid throughout the period of the audit.

3 Accounts

Requirements

- 3.1 We are required to provide an opinion on whether your financial statements present fairly the financial position of the Council and its income and expenditure for the year, and whether they have been prepared properly in accordance with appropriate legislation.
- 3.2 We carry out procedures designed to obtain sufficient appropriate audit evidence to determine with reasonable confidence whether the accounts are free from material misstatement and evaluate the overall presentation in order to ascertain whether they have been prepared in accordance with relevant legislation and accounting standards.
- 3.3 We identify the principal areas of risk of material misstatement from our knowledge of the Council, of the environment in which it operates and from discussions with management. We address these risks by carrying out appropriate audit procedures.
- 3.4 We apply an appropriate level of materiality and as such the audit cannot be relied upon to identify all risks or potential and actual misstatements. Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole.
- 3.5 We set a triviality level of £25,000 for the 2008/09 accounts audit and have not reported to you any matters arising below this level.

Accounts risks

- 3.6 The findings from our review of accounts risks identified in our audit plan are summarised as follows:

Risk area	Overall conclusion
Fixed asset valuation	The impairment review was completed as part of the revaluation exercise undertaken by the Valuation Office on the Council's behalf. The values have been agreed to supporting documentation and the appropriate accounting treatment has been reflected in the accounts.
Bad debt provision	The Council has been more prudent in providing for old debts than in the prior year and we have reviewed the methodology to ensure this is reasonable. Sundry debtors are not provided for despite showing debts over 6 months old but this does not materially affect the accounts.
Cut-off testing	No errors have been identified in this years cut-off testing.
Concessionary fares	We have undertaken sufficient assurance work to satisfy ourselves that the accounts are not materially misstated in relation to this expenditure.
Impact of 'Unacceptable' internal audit opinion	We have undertaken additional substantive testing on 56 invoices and increased our sample sizes on creditors testing to ensure we gained sufficient assurance that only valid expenditure was recorded in the accounts. No errors were identified during our testing in these areas.

Reporting to those charged with governance

3.7 In accordance with the requirements of International Standard on Auditing 260 ("ISA 260"), auditors are required to communicate relevant matters relating to the audit with those charged with governance. In particular we are required to report:

- qualitative aspects of **accounting practices and financial reporting**
- final draft **letter of representation** to be agreed by management and those charged with governance
- **uncorrected misstatements**
- expected modifications to the **audit report**
- material weaknesses in **accounting and internal control systems** identified during our work
- **matters required to be reported by other auditing standards**
- any **other audit matters of governance interest**.

3.8 Our comments in each of these areas are set out below:

Accounting practices and financial reporting

Application of accounting policies

3.9 The key changes introduced by the 2008 SORP were:

- the replacement of deferred charges with revenue expenditure funded from capital under statute
- the prohibition of revaluing fixed assets on disposal
- the clarification of Financial Reporting Standards 25, 26 and 29 relating to the accounting treatment for financial instruments

3.10 The Council has dealt with the implementation of these changes in an appropriate manner and assisted the audit in the review of the changes required.

The accounts preparation process

3.11 The draft financial statements were approved by Members on 25 June 2009 which was in line with the deadline of 30 June 2009. As part of our planning for the audit, we prepared a detailed document request which outlined the information that we would require to complete the audit. The Council provided us with files of working papers on 4 August 2009 and draft accounts on 1 July 2009.

3.12 We noted the general improvement in the quality of working papers compared to last year and electronic working papers were additionally provided at the start of the second week of the audit which were helpful. Analytical review queries had been provided to the finance staff in advance of the audit and narrative responses were provided by the finance team at the start of the audit with some supporting documentation, which again shows improvement from prior year.

3.13 There were some gaps in the supporting working paper files and documents were requested and received during the course of the audit. In particular, a payroll reconciliation was not provided in advance of the audit, the bank reconciliation had to be re-produced as it was done as at the 1 April 2009, an aged debtors listing was provided late and this has led to additional audit time costs being incurred. Further improvement to the process will be discussed and agreed with finance staff, but discussions have been on-going throughout the audit via our weekly liaison meetings and through the "Audit Log" process so staff are already aware of improvement areas.

Testing of transactions and balances

- 3.14 As part of our audit approach, all material balances were subject to audit testing and agreement, on a sample basis, to supporting documentation. No significant issues arose during our work that we wish to bring to your attention:

Adequacy of disclosures

- 3.15 We identified a small number of departures from the expected presentation of the financial statements or where notes and other disclosures had not been presented in accordance with the SORP. These have been amended by the Council:
- various narrative presentational amendments;
 - amendment of the split between the Revenue Support Grant and NNDR distribution amounts receivable in sourcing of financing at the bottom of the Income and Expenditure Account
 - amendments to the FRS17 pension disclosures to ensure the notes to the accounts agreed to the balance sheet;
 - additional financial instrument disclosures for completeness; and
 - removal of the amortisation of debt premia from the face of the Housing Revenue Account in line with the changes to the SORP.

Letter of representation

- 3.16 The draft letter of representation has been attached as Appendix B. We do not anticipate any changes being required before providing our opinion on the financial statements.

Uncorrected misstatements

- 3.17 There are no uncorrected misstatements included within Appendix C.

Audit report

- 3.18 Subject to satisfactory resolution of the following outstanding issue and final clearance of the audit, we anticipate issuing an unqualified audit opinion on the accounts:
- clearance of internal review points.
- 3.19 We will provide a verbal update on this outstanding issue at the Overview and Scrutiny (Stewardship) Committee.

Accounting and internal control systems

- 3.20 We have reviewed the key financial systems, which contribute to the preparation of materially accurate financial statements, to assess the extent to which we can place reliance on them for this purpose. In carrying out this work we consider:
- the extent to which your accounting and internal control systems are a reliable basis from which to prepare the financial statements
 - the robustness of your accounts preparation processes.
- 3.21 In assessing the reliability of systems as a basis for providing financial information that is free from material misstatement, we prepared systems notes for each financial system and we evaluated the controls within those systems, with particular focus on assessing whether the controls in place to mitigate significant risks are suitably designed and operating as intended to meet their objective.
- 3.22 Your key financial systems are:
- Main accounting
 - Cash and bank
 - Payments and creditors
 - Non-contracting income and debtors
 - Payroll and employment costs
 - Information technology
 - Council tax
 - Housing and council tax benefits
 - NNDR
 - Housing rents income
 - Investments and investment income
- 3.23 We also have a responsibility to give specific consideration to the potential risk of material misstatement of your financial statements due to fraud and error, including the risk of fraudulent financial reporting. This requires us to:
- review internal controls that are designed to prevent, or detect and correct, misstatements in the accounts
 - review the arrangements for preparing the financial statements
 - select and test transactions and balances, including review of significant balances against expectations and substantiate individual items
 - assess the significant estimates and judgements made by officers in preparing the accounts
 - consider the adequacy of presentation and disclosures included in the financial statements.
- 3.24 The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect material fraud and corrupt practices lies with management and those charged with governance.
- 3.25 Where possible, we have placed reliance on Internal Audit's work and thereby avoided unnecessary duplication of audit effort. To ensure this approach was valid, we have undertaken the following:
- reviewed Internal Audit's working papers and reports
 - considered the robustness of the key financial systems on the evidence of this work
 - re-performed Internal Audit's evaluation of controls and a sample of their testing of the effectiveness of controls, to ensure that their conclusions are soundly based.

- 3.26 In order to identify the fraud risks, and the controls you have put in place to mitigate those risks, we have:
- discussed your anti fraud and corruption arrangements with officers, and those charged with governance
 - considered the extent to which the work of Internal Audit is designed to detect material misstatements in the accounts arising through fraud
 - made enquiries regarding instances of actual fraud you have identified.
- 3.27 We were able to place reliance on Internal Audit's work for the testing of the effectiveness of specific controls.

Conclusions

- 3.28 As a result of our work, we have concluded that the key financial systems are generally adequate as a basis for preparing the financial statements and no significant control weaknesses were identified as a result of our audit. We have included in Appendix A any recommendations arising from issues identified during our work.
- 3.29 We did not identify any significant fraud risks that affected our audit programme for the financial statements.

Matters required to be reported by other auditing standards

- 3.30 There are no other matters arising from our work that we are required by other auditing standards to bring to the attention of those charged with governance.

Other audit matters of governance interest

Annual Governance Statement

- 3.31 The Council has a responsibility to publish a Governance Statement, including the outcome of a review of its effectiveness, with its 2008/09 financial statements.
- 3.32 We have reviewed the Annual Governance Statement and the supporting review of effectiveness that has been undertaken and we are satisfied that the Statement is not inconsistent with the evidence provided in the review of effectiveness and our knowledge of the Council.

International Financial Reporting Standards

- 3.33 International Financial Reporting Standards (IFRSs) will be adopted in local government from 2010/11 and will require transitional arrangements to be put in place by the Council. Entities adopting IFRSs need to commence work to restate the balance sheet two years' prior to the first year of reporting, that being a restatement of the balance sheet at 31 March 2009.
- 3.34 Management should prepare for the adoption of IFRSs based on the Treasury timescales and ensure that staff have sufficient knowledge of IFRSs to restate the current financial statements.

4 Use of resources

4.1 The Audit Commission’s Code of Audit Practice (‘the Code’) requires us to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (sometimes referred to as value for money (VFM)) and to reach and report a conclusion on whether proper arrangements have been made. We refer to this as our VFM conclusion. The conclusion is reported in our Auditors’ Report included in the Statement of Accounts.

4.2 We are also required by the Code to undertake a use of resources assessment, the results of which are used to inform our VFM conclusion. The conclusion also draws on the results of local risk based audit, as well as consideration of the Council’s processes underpinning its review of the effectiveness of its controls as described in the Annual Governance Statement.

Use of resources risks

4.3 The findings from our review of use of resources risks identified in our audit plan are summarised as follows:

Risk area	Findings and Conclusion
South Suffolk Leisure	Partnership working is one of the key strands within the current Use of Resources assessment and the results of our work will be reported separately. We have not identified any issues from our work that would have an impact on our proposed opinion.

Use of resources assessment

4.4 The Audit Commission have specified that auditors review councils’ arrangements to secure economy, efficiency and effectiveness against their “Specified Key Lines of Enquiry for 2008/09” contained with the use of resources framework. This assessment comprises three themes that focus on:

- sound and strategic financial management
- strategic commissioning and good governance
- the management of natural resources, assets and people.

4.5 The use of resources assessment scoring mechanism is defined as follows:

Score	Judgement	Conclusion
1	Failure to meet minimum requirements	Performing inadequately
2	Meets only minimum requirements	Performing adequately
3	Exceeds minimum requirements	Performing well
4	Significantly exceeds minimum requirements	Performing excellently

4.6 The results of this work are used in forming our overall conclusion on VFM, as the KLOE for the scored use of resources assessment also form the criteria for the VFM conclusion. There are a number of criteria which make up the three themes and a score of 1 for any criteria on each of the themes will normally result in a qualification of the VFM conclusion as the criterion is not deemed to be met and therefore the result is judged inadequate.

4.7 Whilst we have completed our work on the Use of Resources assessment we are unable to report the scores at this time because they are subject to the results of the Audit Commission’s national quality assurance processes to ensure that auditor judgements have

been applied consistently. Once these processes are complete, we will issue a separate report on the detailed findings from our use of resources assessment including the final scores. We are satisfied that the Council will achieve a score of at least 2 on each theme and can therefore be said to be performing at least adequately for the purposes of our VFM conclusion.

4.8 The results of our work are set out in the table below:

Theme	Code criterion	Criterion met
Managing Finances	The organisation plans its finances effectively to deliver its strategic priorities and secure sound financial health	Yes
	The organisation has a sound understanding of its costs and performance and achieves efficiencies in its activities	Yes
	The organisation's financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people	Yes
Governing the business	The organisation commissions and procures quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money	Yes
	The organisation commissions and procures quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money	Yes
	The organisation promotes and demonstrates the principles and values of good governance	Yes
	The organisation manages its risks and maintains a sound system of internal control	Yes
Managing Resources	The organisation is making effective use of natural resources	N/A
	The organisation manages its assets effectively to help deliver its strategic priorities and service needs	N/A
	The organisation plans, organises and develops its workforce effectively to support the achievement of its strategic priorities	Yes

Value for money conclusion

4.9 Our conclusion is that adequate arrangements are in place to secure value for money.

Appendix A: Action plan

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
Working papers					
<p>A number of issues were experienced during the course of the audit in relation to reconciliations:</p> <ul style="list-style-type: none"> Cash & bank reconciliation was dated 1 April and was completed prior to completion of all year end adjustments so it did not agree to the accounts The year end payroll reconciliation had not been provided in advance of the audit in line with our records required listing 	<p>The year end bank reconciliation should be reviewed to ensure the figures agree to the final accounts balance prior to being submitted to audit.</p> <p>The payroll reconciliation should be provided as part of the Council's closedown process.</p>	<p>High</p> <p>High</p>	<p>Bank reconciliations are carried out on regular basis. Further checks will be put in place to ensure they are reconciled to the year balances when the yearend work is complete. This recommendation will be addressed as part of the yearend review work and appropriate actions will be taken.</p> <p>As above. Payroll reconciliations are carried out routinely on a monthly basis – Finance will ensure these are included in the audit working papers.</p>	<p>Corporate Finance Manager</p>	<p>March 2010</p>
<p>Collection fund and cash flow statement working papers are still held in a separate file and are not referenced making them difficult to follow.</p>	<p>Collection fund and cash flow workings should be in the same style as other improved working papers provided this year and should be reference to facilitate an efficient audit.</p>	<p>Medium</p>	<p>Whilst every effort will be made to make the required changes to the style of Collection fund and cashflow working papers, any additional work will only be carried out if the added value is proven to exceed the work involved and the required resourcing (especially in view of other priorities).</p>	<p>Corporate Finance Manager</p>	<p>March 2010</p>
<p>The Council had provided narrative responses to the analytical review queries raised in advance of the audit, and some supporting evidence was included however this was not complete.</p>	<p>Supporting evidence should be provided to substantiate narrative explanations for analytical review queries.</p>	<p>Medium</p>	<p>This will be reflected as part of the Yearend review process.</p>	<p>Corporate Finance Manager</p>	<p>March 2010</p>

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
An aged debtor listing to support the figure included within the accounts is requested as part of our Records Required Listing. This was not included in the original working paper files and took over a week to be provided.	The Council should ensure that a year end aged debtor listing is produced during the closedown process.	High	The aged debtor listing was produced during the closedown process. In addition the audit team were given viewing access to the Council's debtor system. Finance will work towards producing this listing in the format and style preferred by the audit team. This will be reflected in the yearend review process.	Corporate Finance Manager	March 2010
Debtors					
The Council has not provided for any sundry debts despite some debts being over 6 months old.	The Council should review the aged debtors listing to ensure that all debts are recoverable	Medium	The council carries out regular reviews of the aged debtors and has a policy of recovering all debts unless uneconomic to do so. Finance will evaluate improving the aged debtor reports where proven beneficial.	Corporate Finance Manager	
Systems					
Reconciliations between IBS and Agresso are only undertaken at the year end.	Reconciliations should be undertaken on a monthly basis to reduce the burden at the year end.	Medium	This process has already been put in place and monthly reconciliations will be carried out	Corporate Finance Manager	Oct 2009
Pay rate changes such as PAYE and NI rates are not independently checked after being uploaded onto the Delphi system. Internal Audit performed this check during their audit work as no control existed.	Pay rate changes should be independently reviewed after upload to ensure they are accurate.	Medium	This will be reviewed as part of the yearend review work.	Corporate Finance Manager	Dec 2009
Trade waste do not maintain a log of contract variations so that there is no control in place to ensure all changes to pricing received have been sent to finance for invoicing purposes.	A log should be maintained of all contract variations received and should be evidenced to show these have been sent to finance so that invoices are raised at the correct rate.	Medium	Will be discussed with the Head of Contract and Asset Management and addressed	Head of CAM	Oct 2009

Appendix B: Draft letter of representation

PKF (UK) LLP
Farringdon Place
20 Farringdon Road
London
EC1M 3AP

XX September 2009

Dear Sirs

Financial statements of Babergh District Council for the year ended 31 March 2009

Representations of the Director of Finance

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of other officers and members of the Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2009.

Responsibility for the financial statements

I acknowledge as the Director of Finance and s151 Officer my responsibilities for the financial statements.

Completeness of information

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and committee meetings (held during the year and up to the date of this letter) have been made available to you.

Internal control

I acknowledge my responsibility for the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that are free from misstatement, whether arising from fraud or error.

Fraud

I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated as a result of fraud.

I am not aware of any fraud or suspected fraud affecting the financial statements, nor have any allegations of fraud or suspected fraud affecting the financial statements been communicated to me by employees, former employees, councillors, regulators or others.

Compliance with law and regulations

I am not aware of any possible or actual instances of non-compliance with laws or regulations whose effects should be considered when preparing financial statements of the Council.

Transactions with related parties

I confirm that I have put in place appropriate arrangements to identify related party transactions.

I am satisfied that the disclosure in the financial statements of related party transactions is appropriate and complete and contains all the elements necessary for an understanding of the financial statements.

Contingent liabilities

I am not aware of any significant contingent liabilities, including pending claims, proceedings or litigation involving the Council.

Pension fund assumptions

I confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) scheme liabilities, as applied by the scheme actuary, are reasonable and consistent with my knowledge of the business. These assumptions include:

- | | |
|--|------|
| • Rate of inflation | 3.1% |
| • Rate of increase in salaries | 4.6% |
| • Rate of increase in pensions | 3.1% |
| • Rate for discounting scheme liabilities | 6.9% |
| • Take up option to convert the annual pension into retirement grant | 25% |

I also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

Subsequent 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 any material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Yours faithfully

Barry Hunter

Director of Finance

Representations of the Council

We confirm to the best of our knowledge and belief, and having made appropriate enquiries of other officers and members of the Council, the following representations given to you in connection with your audit of the Council's financial statements.

Responsibility for the financial statements

We acknowledge our responsibilities to make arrangements for the proper administration of the Council's financial affairs and to approve the financial statements.

Annual Governance Statement

We confirm that the Council has conducted a review during the year of the effectiveness of its system of internal control. We are satisfied that the Annual Governance Statement appropriately reflects the circumstances of the Council and includes an outline of the actions taken, or proposed, to deal with significant internal control issues.

Yours faithfully

Cllr D Busby
Overview and Scrutiny (Stewardship) Committee Chair

Signed on behalf of the Council

Note: Appendix 1 referred to in this letter relates to Appendix C in this report

Appendix C: Uncorrected misstatements

The table below details the potential differences recorded during the audit that have not been adjusted for within the financial statements:

Uncorrected misstatements	Income Over/ (Under) £'000	Expenses (Over)/ Under £'000	Assets (Over)/ Under £'000	Liabilities Over/ (Under) £'000	Reserves (Over)/ Under £'000
Misstatements of fact (specific misstatements) None to report.					
Misstatements of subjective decisions (estimates or application of accounting policy) None to report.					
Likely misstatements (extrapolation of errors) None to report.					
Total net misstatements	-	-	-	-	-
- Net understatement of costs	-	-	-	-	-
- Net overstatement of net assets	-	-	-	-	-

Appendix D: Draft audit report

Independent auditors' report to the Members of Babergh District Council

Opinion on the financial statements

We have audited the Authority accounting statements and related notes of Babergh District Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the [Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Babergh District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Director of Finance and auditors

The Director of Finance responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

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 accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 the financial position of the Authority and its income and expenditure for the year.

We review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE 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 governance statement covers all risks and controls. Neither are we 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 accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounting 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 accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, 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 accounting statements and related notes 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 accounting statements and related notes.

Opinion

In our opinion the financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

Signature: _____ Date: _____

Name: **Richard Bint**
Partner on behalf of PKF (UK) LLP
London, UK

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

Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

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.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, we are satisfied that, in all significant respects, Babergh District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

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.

Signature: _____ Date: _____

Name: **Richard Bint**
Partner on behalf of PKF (UK) LLP
London, UK