

**CANNOCK CHASE COUNCIL**

**AUDIT AND GOVERNANCE COMMITTEE**

**25 SEPTEMBER 2012**

**REPORT OF HEAD OF FINANCE**

**EXTERNAL AUDIT OF THE STATEMENT OF ACCOUNTS 2011-12 AND MANAGEMENT  
REPRESENTATION LETTER**

**1. Purpose of Report**

- 1.1 To report the process for the approval of the audited statement of accounts for the financial year ended 31 March 2012.

**2. Recommendation**

- 2.1 That members note the contents of the report and refer to separate items on the Agenda covering :
- a) Annual Governance Report (Audit commission) – External Auditors Report
  - b) Statement of Accounts 2011-12

**3. Conclusions and Reasons for Recommendations**

- 3.1 The accounts are required to be published by 30 September (Post Audit).

**4. Summary**

- 4.1 The authority is required to publish its accounts, including the Auditors Report or Opinion, by the 30 September each year.
- 4.2 The accounts are no longer required to be approved by a Committee of the Council before submission for External Audit. Instead the approval process requires the accounts to be certified by the 30 June by the Section 151 Officer (Head of Finance) as providing a true and fair view of the financial position of the Council as at the 31 March 2012. The accounts are then audited and considered by Audit and Governance Committee alongside the Auditors report by the 30 September.
- 4.3 External Auditors are required to report the findings of their audit via the Annual Governance report to Audit and Governance Committee before they are able to provide an opinion and hence enable the Accounts to be published.
- 4.4 A number of minor amendments have been made in respect of the presentation and classification of information as contained in the notes to the accounts and errors corrected however they again do not affect the financial position of the Council.

4.5 The approval process for the accounts also requires the Committee charged with governance, and consideration of the audited Accounts, to discuss and approve the management representation letter (Appendix A).

**5. Background**

5.1 The Accounts and Audit Regulations were revised in 2011 so that Member Approval related to the Audited Accounts having due regard to the Auditors Report. The pre-audited accounts no longer have to be reported to Committee for approval but are approved by the Council in the form of certification by the Section 151 Officer that the Statement of Accounts provided a true and fair view of the position of Cannock Chase Council as at 31 March 2012 and its Income and expenditure for the year ended 31 March 2012.

5.2 External Auditors are required to report the findings of their audit via an Annual Governance Report to Audit and Governance Committee before they are able to provide an opinion and hence enable the Accounts to be published.

5.3 In addition the Committee charged with governance, and consideration of the audited Accounts, is required to discuss and approve the management representation letter.

5.4 The audited accounts for 2011-12, including the Auditor's opinion are to be submitted to Council on the 26 September 2012.

**6. Annual Governance Report**

6.1 The Council's external auditors have a duty to report to those charged with governance those issues arising from the audit of the financial statements of Cannock Chase District Council.

6.2 The auditors who must provide a representation in terms of their integrity, objectivity and independence will review and report on the following issues :

- a) Qualitative aspects of accounting practices and financial reporting
- b) Misstatements within the Accounts
- c) Material weaknesses in Internal control

6.3 The contents of the report and in particular any misstatements and recommendations for future improvements are discussed with officers following the audit and the accounts amended accordingly.

6.4 If the auditor identifies any misstatements in the accounts and officers refuse to correct them, these misstatements should be reported to those charged with governance, with a request that the adjustments are made. In the event of the Audit and Governance Committee refusing to make such adjustments, a written representation is then required by the auditors detailing the reasons for not making the adjustments as required.

- 6.5 A number of minor amendments have been made in respect of the presentation and classification of information as contained in the notes to the accounts and errors corrected however they again do not affect the financial position of the Council.
- 6.6 The Annual Governance Report forms a separate item on the agenda and details the corrections implemented, recommendations for performance improvement and any outstanding adjustments for consideration.
- 6.7 Members should note that the report also provides an assessment of the arrangements put in place to secure Value for Money - economy, efficiency and effectiveness in the use of resources, and to ensure proper stewardship and governance.

**7. Cannock Chase District Council Management**

- 7.1 External auditors are required to obtain written representations from management in relation to the following areas :
- Related Party Disclosures
  - Compliance with Laws and Regulations
  - Unadjusted Audit Differences
  - Fraud
  - Contingent Liabilities
  - Post Balance sheet events
- 7.2 The representation letter should be completed and signed by the Responsible Financial officer (Head of Finance) following completion of the audit and discussed and approved by this Committee.
- 7.3 A copy of the letter is attached as Appendix A and Committee are requested to approve this representation following consideration of the Annual Governance Report .

**Appendix A**

**Please ask for:** Mr R.Kean  
**Phone:** 01543 464334  
**E-Mail:** bobkean@cannockchasedc.gov.uk

**Your Ref:**

**My Ref:**

Mr Grant Patterson  
District Auditor  
Audit Commission  
Opus House  
Priestley Court  
Stafford Technology Park  
Beaconside  
Stafford  
ST18 0LQ

Dear Mr. Patterson,

**Cannock Chase District Council - Audit for the year ended 31 March 2012**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other Officers of Cannock Chase District Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2012. All representations cover the Council's accounts included within the financial statements.

***Compliance with the statutory authorities***

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom, United Kingdom Generally Accepted Accounting Practices and International Financial Reporting Standards which gives a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you and for making accurate representations to you.

***Uncorrected misstatements***

I confirm that I believe that the effects of the uncorrected misstatements listed in the attached schedule are not material either individually or in aggregate to the financial statements. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows;

## ENCLOSURE 4.5

<b><u>Unadjusted Misstatement</u></b>	<b><u>Reason for Non Adjustment</u></b>
<p><i>The Council has used the same methodology for calculating its 'Item 8 Determination' as previous years but this is not in line with the Government's formula.</i></p>	<p>This issue was raised initially in relation to the 2009-10 accounts and is still applicable for 2011-12. Debits and credits made to the Housing Revenue Account (HRA), including the split of interest payable between the HRA and the General Fund is determined by a statutory calculation known as the 'Item 8 Determination'. The Council makes an internal transfer to reflect the cost of borrowing between the General Fund and HRA, based upon the consolidated rate of interest. The Council has used an interest figure which represents the true cost of borrowing for the HRA to ensure that the costs are borne in the correct section of the financial statements.</p> <p>The Council's approach is not in line with the Government formula but the Section 151 officer is of the view that this is a true and fair view of the costs, on the basis that the Council's outstanding borrowing can be linked to HRA capital expenditure and it considers that it is right to charge additional interest to the HRA. In particular the use of the Government Formula would result in an interest rate of 1.00% being applied for internal borrowing compared with current borrowing costs of 5.93%. The issue was referred to in the Treasury Management Strategy to Cabinet and Council in February 2010 Amending for this would reduce the charge to the HRA, i.e. tenants of Council dwellings, and increase the charge to the General Fund, i.e. increase the net cost of services which impacts on the Council Tax calculation. The requirement for the Council to use such a rate will terminate when External Borrowing matches the Capital Financing requirement.</p>
<p><i>Completeness of the Asset Register</i></p>	<p>The Council will review the recommendations as part of the 2012-13 accounts.</p>

### ***Supporting records***

All relevant information and access to persons within the entity has 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 financial statements

### ***Irregularities***

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;

- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

***Law, regulations, contractual arrangements and codes of practice***

To the best of my knowledge

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements. Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

***Accounting estimates including fair values***

- I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

***Related party transactions***

I confirm that I have disclosed the identity of Cannock Chase District Council related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

***Subsequent events***

To the best of my knowledge all events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

The Council maintains a detailed list of the individual items of land that have not been included within the asset register. These do not have an individual values associated with them. Your valuer has formally certified that, in their professional view, in total the individual items of land have a collective value below £1m. The Council has considered the list and is satisfied that the balance sheet is not materially mis stated.

Signed on behalf of Cannock Chase Council

ENCLOSURE 4.7

I confirm that this letter has been discussed and agreed by the Audit and Governance Committee on 25 September 2012.

Signed:

Bob Kean  
**Head of Finance**

Date: