

Annual governance report

Great Aycliffe Town Council

Audit 2011/12



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Key messages

This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

I expect to issue an unqualified audit opinion.

Value for money (VFM)

I expect to conclude that there are no matters arising from my VFM work that I need to report.

Before I complete my audit

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) – Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you...

The Audit Commission has not undertaken any non-audit work for the Council during 2011/12.

I ask the Council to:

- take note of my report before approving the financial statements; and
- approve the letter of representation (appendix 2) before I issue my opinion and conclusion.

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Errors in the financial statements

Once again this year we were able to undertake most of our work on the financial statements at an early stage, and prior to approval of the financial statements by the Council on 27 June 2012. Our work did identify a very small number of very minor issues, but there was time for officers to address these issues prior to the accounts being submitted for approval. There are no amendments to the approved financial statements arising from the audit.

Significant risks and my findings

I reported to you in my Audit Plan (February 2012) that I had not identified any significant risks relevant to my audit of your financial statements.

Subsequently, we identified that auditing standards require auditors to always consider the management override of controls as a fraud risk and a significant risk. In table 1 I report to you my findings against this significant risk.

Table 1: **Risks and findings**

Risk	Finding
<p>Risk of fraud including financial misreporting, noting auditing standards require us to presume that there is always a fraud risk in respect of potential management override of controls.</p>	<p>The strong financial position means that there is no incentive for financial misreporting. I have considered the design and operation of financial systems. I have considered the controls in place, including Internal Audit. I have also carried out testing of journals and other posts statements procedures. I have not identified any significant issues from this work.</p>

Significant weaknesses in internal control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Council only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with ‘Governance and Accountability for Local Councils: A Practitioners’ Guide (England) 2010’ issued by the Joint Practitioners Advisory Group (JPAG) and jointly published by the National Association of Local Councils (NALC) and the Society of Local Council Clerks (SLCC) in 2010; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I have not identified any significant weaknesses in internal control that are relevant to preparing the financial statements.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council’s financial reporting process including the following.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

I have no matters I wish to report.

Annual Report

I have reviewed the Annual Report and have found that it is consistent with the audited financial statements.

Value for money

I am required to consider the Council's arrangements to secure economy, efficiency and effectiveness.

For 2011/12 the Commission has determined that the scope of my work on value for money at the Council is limited to:

- reviewing the Annual Governance Statement (AGS);
- reviewing the results of the work of other relevant regulatory bodies or inspectorates, to consider whether there is any impact on my responsibilities; and
- other risk-based work as suitable.

As I reported in my Audit Plan (February 2012):

- I am not aware of any relevant work of other relevant regulatory bodies or inspectorates; and
- I have not identified any significant risks requiring specific risk-based work.

I have reviewed your AGS and I have no matters that I need to report.

Fees

I reported my planned audit fee in the Audit Plan issued in February 2012.

I will complete the audit within the planned fee.

Table 2: Fees

	Planned fee 2011/12 (£)	Actual fee 2011/12 (£)
Audit	12,750	12,750 *
Non-audit work	0	0
Total	12,750	12,750 *

* The Audit Commission has paid a rebate of £1,020 to reflect attaining internal efficiency savings, reducing the net amount paid to the Audit Commission to £11,730.

Appendix 1 – Draft independent auditor’s report

Opinion on the Authority financial statements

I have audited the financial statements and related notes of Great Aycliffe Town Council for the year ended 31 March 2012, under the Audit Commission Act 1998. The financial statements comprise the Income and Expenditure Account, the Statement of Movement of Reserves, the Balance Sheet and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies. The financial reporting framework that has been applied in their preparation is applicable law and the Financial Reporting Standard for Smaller Entities (Effective April 2008).

This report is made solely to the members of Great Aycliffe Town Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Finance Manager and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Finance Manager is responsible for the preparation of the Authority’s Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in relevant legal and regulatory requirements and the Financial Reporting Standard for Smaller Entities (Effective April 2008). My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the financial statements. I read all the information in the explanatory foreword and the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Great Aycliffe Town Council as at 31 March 2012 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Financial Reporting Standard for Smaller Entities (Effective April 2008).

Opinion on other matters

In my opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Governance and Accountability for Local Councils: A Practitioners' Guide (England) 2010' issued by the Joint Practitioners Advisory Group (JPAG) and jointly published by the National Association of Local Councils (NALC) and the Society of Local Council Clerks (SLCC) in 2010;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

Other matters on which I am required to conclude

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am also required by the Audit Commission's Code of Audit Practice to report any matters that prevent me being satisfied that the audited body has put in place such arrangements.

I have undertaken my audit in accordance with the Code of Audit Practice and, having regard to the guidance issued by the Audit Commission in October 2011, I have considered the results of my review of the annual governance statement.

As a result, I have concluded that there are no matters to report.

Certificate

I certify that I have completed the audit of the accounts of Great Aycliffe Town Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Signed

Date 28 June 2012

Gavin Barker
Officer of the Audit Commission

Nickalls House
Metro centre
Gateshead
Tyne and Wear
NE11 9NH

Appendix 2 – Draft letter of management representation

To the auditor:

Great Aycliffe Town Council – Audit for the 2011/12 year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of officers, the following representations given to you in connection with your audit of the Council's financial statements for the 2011/12 year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with applicable law and the Financial Reporting Standard for Smaller Entities (Effective April 2008), which give 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.

Supporting records

I have made available all relevant information and access to persons within the Council for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Council.

Going Concern

I am satisfied that it is appropriate to adopt the going concern basis in preparing 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 the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

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 the Council's 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 requirements of the FRSSE.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Great Aycliffe Town Council

I confirm that this letter has been discussed and agreed by the Council on 27 June 2012.

Signed

Name Andrew Bailey
Position Town Clerk
Date 27 June 2012

Signed

Name Dan Austin
Position Finance Manager
Date 27 June 2012

Appendix 3 – Glossary

Annual Audit Letter

Report issued by the auditor to the Council after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the accounting statements presented to those charged with governance before the auditor issues their opinion and conclusion.

Annual Governance Statement (AGS)

The governance statement records the stewardship of the Council to supplement the accounts. It gives a sense of how successfully it has coped with the challenges it faces and of how vulnerable the organisation's performance is or might be. This statement draws together position statements and evidence on governance, risk management and control, to provide a more coherent and consistent reporting mechanism.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual accounts that the Council is required to prepare, which report the financial performance and financial position of the Council. The financial statements are produced in accordance applicable law and the Financial Reporting Standard for Smaller Entities (Effective April 2008).

Internal control

The whole system of controls, financial and otherwise, that the Council establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term 'materiality' applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

Significance

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the accounting statements. Significance has both qualitative and quantitative aspects.

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

