

HUNTINGDONSHIRE DISTRICT COUNCIL
Annual Report to those Charged with Governance

October 2007

Our Ref - HDC/LS/PW

Your Ref -

The Corporate Governance Panel
Huntingdonshire District Council
Pathfinder House
St Mary's Street, Huntingdon
Cambs PE29 3TN

9 October 2007

Dear Sirs

HUNTINGDONSHIRE DISTRICT COUNCIL - ANNUAL REPORT TO THOSE CHARGED WITH GOVERNANCE

This Annual Report to those Charged with Governance has been prepared in order to record the key matters arising from our audit. We have discussed our report with the Head of Financial Services who confirms its factual accuracy, although the views expressed are those of Grant Thornton. The purpose of the document is further detailed in Section 1.

We would like to take this opportunity to thank the officers of the Council for the co-operation and assistance afforded to us during the course of our audit.

Yours faithfully

Grant Thornton UK LLP

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1 Executive Summary

1.1 Background and purpose of the report

Huntingdonshire District Council (the Council) is responsible for the preparation of accounts which record its financial position as at 31 March 2007 and its income and expenditure for the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Council's accounts 'present fairly' the financial position of the Council. Our detailed findings are set out in section two.

Under the Audit Commission's Code of Audit Practice we are also required to reach a conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (VFM conclusion). The pieces of work that have informed our VFM conclusion, and our detailed findings, are set out in section three.

The Audit Commission's Statement of Responsibilities, which sets out the respective responsibilities of the Council and the auditor in relation to the accounts and arrangements for securing economy, efficiency and effectiveness in the use of resources, have been reproduced in full in Appendices G and H and reflect the scope of our audit.

This report summarises the principal matters arising from our audit. The issues raised have been discussed with the head of Financial Services, his team and other officers as appropriate. Auditing standards require us, as the Council's external auditors, to report to those charged with governance certain matters before giving an opinion on the accounts and the Code of Audit Practice requires us to report key matters relating to our VFM conclusion. For the Council, this function was carried out by the Corporate Governance Panel at its meeting on 25 September 2007.

1.2 The accounts opinion – current status and key issues

We have performed our audit of the 2006/07 accounts in accordance with the Audit Commission's Code of Audit Practice and applicable auditing standards. Our approach follows that set out in the Audit and Inspection Plan 2006/07, agreed with the Council.

An **unqualified opinion was given on the Council's accounts** on 28th September in accordance with the 30 September deadline.

The Council's 2006-07 accounts had to be prepared in accordance with a new Statement of Recommended Practice (SORP) which is significantly different from the SORP used in previous years. The accountancy team has developed a good understanding of the new SORP and has implemented the new reporting format.

Recommendations arising from our audit are set out in the Action Plan at Appendix A. The key issues to report to those charged with governance are set out below.

Accounts adjustments

A number of adjustments to the accounts have been identified as a result of the audit. Details of these adjustments are set out in Appendix B.

The most significant adjustments identified included:

- The Council has included a contingent asset of £208,000 in the draft accounts in relation to LABGI funding withheld by the Government. Subsequently the Council

has been informed that it is to receive £400,000 of LABGI grant. As this transaction is considered material to the presentation of the accounts, a post balance sheet adjustment has been made. This has had the effect of increasing income and the general fund surplus by a further £400,000.

- £6m of investments have been misclassified as long term rather than short term as part of the CDCM investments mature within one year of 31 March 2007
- fixed asset disposals - the Council has accounted for capital grants and contributions within fixed assets as disposals. These should have been accounted for as deferred credits.
- amounts being inappropriately netted off against each other. An amount of £420,000 owing to the Government was netted of sums the Government owed the Council. Similarly the balances on the Council's bank accounts were included as a net figure of nil, rather than showing separately the total in surplus and overdrawn.

We discussed these adjustments with Council officers to agree the action needed to finalise the accounts.

Adjustments not processed

In addition to the adjustments set out above we have discussed an adjustment relating to accruals which we have agreed with management are not significant enough to warrant adjustment. Details are set out in Appendix B to the report.

Control issues identified

We have also made recommendations in respect of three control issues identified from the accounts audit and these are summarised in Appendix A.

1.3 The VFM conclusion – current status and key issues

We have substantially completed our work on the Council's arrangements for achieving economy, efficiency and effectiveness in its use of resources.

We have completed a review to update our 2006/07 use of resources work for significant events up to the date of signing our conclusion.

There are no significant issues arising from our review and therefore we have issued an **unqualified VFM conclusion** on 28th September, in accordance with the 30 September deadline.

There are no significant issues we wish to draw to Members' attention. We did, however, make a number of recommendations in our June 2007 Use of Resources report. These recommendations have been followed up as part of our use of resources key lines of enquiry assessment (KLoE) for 2007. This work, which is nearing completion, confirms that arrangements, in each of the areas assessed remain at least adequate. The key messages arising from this work are summarised in Section 3. Following national submission of scores and Audit Commission quality assurance we will write to the Council confirming 2007 KLoE scores, in November 2007.

1.4 Use of this report

This report has been prepared solely for use by the Council to discharge our responsibilities under the Audit Commission Code of Audit Practice and relevant auditing standards. This report should not be used for any other purpose or copied to third parties without our written consent. We assume no responsibility to any other person. This report should be read in conjunction with the Council's draft letter of representation, which is included at Appendix F.

This report includes only those matters that have come to our attention as a result of performance of the audit. An audit of the accounts and use of resources is not designed to identify all matters that may be relevant to those charged with governance. Accordingly the audit does not ordinarily identify all such matters.

We would like to take this opportunity to remind the Corporate Governance Panel of the need to monitor implementation of the recommendations arising out of this report (see Appendix A) and other reports issued during the year (see Appendix D).

1.5 Independence

We are able to confirm our independence and objectivity as auditors and note the following:

- we are independently appointed by the Audit Commission
- the firm has been assessed by the Audit Commission as complying with its required quality standards
- the appointed auditor and client service manager are subject to rotation periodically

- we comply with the Auditing Practices Board's Ethical Standards. We have not undertaken any non-audit work for the Council (Appendix E)

1.6 Acknowledgments

We would like to record our appreciation for the co-operation and assistance provided to us by the Council's management, officers and members during the course of our audit.

2 Accounts Opinion

2.1 Introduction

We summarise in this section matters arising from our audit of the Council's 2006/07 accounts which we are required, under auditing standards, to report to those charged with governance.

2.2 Approach to the Audit

Our approach to the audit was set out in our 2006/07 audit plan. We have planned our audit in accordance with auditing standards and the Audit Commission's Code of Audit Practice. Other key factors to highlight include:

- we consider the materiality of items in the accounts both in determining the audit approach and in determining the impact of any errors
- we have been able to place appropriate reliance on the key accounting systems operating at the Council for final accounts audit purposes. We provide details in Appendix A of recommended improvements to systems arising from our accounts audit
- we have been able to place reliance on the work of internal audit in respect of the key accounting systems
- no significant changes have been made to our audit approach in the year.

2.3 Key audit findings

We summarise our key audit findings below:

Accounting policies and practices

We consider that the Council has adopted appropriate accounting policies in the areas covered by our testing. The accounting policies adopted are in accordance with the 2006 Local Authority Statement of Recommended Practice (SoRP).

Material risks and exposures

Our audit procedures have not identified any significant risks and exposures to the Council, to date, which should be reflected in the accounts.

The Council is asked to confirm in its letter of representation that it has no material risks and exposures, to date, which should be reflected in the accounts.

This review will be updated on the date the Council signs the final letter of representation and we sign our audit opinion.

Audit adjustments

A number of adjustments to the accounts have arisen as a result of the audit. Details of the adjustments made to the accounts are set out in Appendix B to this report.

The most significant adjustments have been highlighted in the executive summary.

In addition we have recommended a number of presentational adjustments to improve the clarity of disclosure in the accounts.

Unadjusted errors

Details of unadjusted errors are set out in Appendix C.

The unadjusted items do not have a material effect on the presentation of the accounts, and we are satisfied with management's decision not to adjust.

Those charged with governance confirmed at the meeting on 25 September 2007 that they are satisfied with the decision not to adjust for these items.

Other matters

The overall quality of the Council's working papers to support the 2006/07 accounts was adequate.

Following completion of the audit, we will undertake a review of the audit process with the Council to identify opportunities for further improving the flow of information during the audit process.

We were presented with draft accounts on 20 June 2007. The Corporate Governance Panel approved these draft accounts on 26 June 2007.

The appointed day for electors to ask the auditor questions on the accounts this year was 12 September 2007. No questions were raised by members of the public.

Having considered the Council's medium term financial strategy and 2007/08 budgets it is considered appropriate for the Council to account on a going concern basis. We ask that this is confirmed in the letter of representation.

We have not identified any matters, that we have not already reported, that require the attention of the Corporate Governance Panel.

We have discussed these and other matters arising with the Head of Financial Services and his team and have reflected their responses to the matters raised in the Action Plan attached at Appendix A.

Next Steps

We are required to provide an audit opinion on the consolidation pack that is to be completed as part of Whole of Government Accounts. This work is not covered by our opinion on the Council's accounts. We will complete this work once the accounts audit has been finalised.

The Corporate Governance Panel should monitor implementation of the recommendations arising from this report.

3 VFM Conclusion

3.1 Background

The Code of Audit Practice requires us to reach a conclusion on whether the Council has proper arrangements in place for securing economy, efficiency and effectiveness in the use of its resources ('VFM conclusion'). Our conclusion is supported by an assessment of arrangements against twelve criteria specified in the Code of Audit Practice ('Code criteria').

The following pieces of work have informed our assessment against the Code criteria:

- assessment of the Council's arrangements for financial reporting, financial management, financial standing, internal control and value for money, using the Commission's key lines of enquiry (KLoE)
- assessment of the Council's data quality management arrangements, using criteria prescribed by the Audit Commission
- statutory audit of the Council's 2006/07 Best Value Performance Plan (BVPP)
- review of relevant findings from the Council's Comprehensive Performance Assessment (CPA) corporate assessment, as updated by the latest Direction of Travel statement.

Our conclusions for each of the twelve Code criteria are set out in Table 1:

Table 1 – Use of resources conclusions

No.	Code criteria – arrangements required	Arrangements adequate?
1	Setting, reviewing and implementing strategic and operational objectives	Yes
2	Communication with service users and other stakeholders including partners, and monitoring arrangements to ensure that key messages about services are taken into account	Yes
3	Monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members	Yes
4	Monitoring the quality of published performance information, and reporting the results to members	Yes
5	Maintaining a sound system of internal control	Yes
6	Managing significant business risks and objectives	Yes
7	Managing and improving value for money	Yes
8	Maintaining a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver strategic priorities	Yes
9	Ensuring that spending matches available resources	Yes
10	Managing performance against budgets	Yes
11	Managing the asset base	Yes
12	Promoting and ensuring probity and propriety in the conduct of business	Yes

A summary of our audit work, relating to the above Code criteria, is set out overleaf.

3.2 Overall use of resources findings

We reported interim Use of Resources findings and recommendations in our Use of Resources report 2006/07 in June 2007. The overall report was positive, with the Council making good progress in improving its performance management and data quality arrangements. The Council also received above average scores in all five themes assessed by our key lines of enquiry work.

The report included a number of recommendations and suggestions for action. The key areas for action, and follow up on progress to date, can be found in Table 2.

Table 2 – Key use of resources findings and follow up on progress to date

Key Finding (June 2007)	Scores 2006	Follow up on progress (September 2007)
KLOE 1 – Financial Reporting: In order for the Council to progress to a Level 4 it would be required to ensure that working papers submitted for audit were exemplary and that any errors submitted in the draft accounts were trivial. The Council does not publish an annual report, again, this prohibits it from achieving a Level 4 judgement.	KLOE 1.1: 3 KLOE 1.2: 3	A small number of significant adjustments to the accounts have been identified during the 2006/07 audit.
KLOE 2 – Financial Management: The budget monitoring in place at the Council along with an absence of monitoring on savings and efficiency gains prevented the achievement of a Level 3 judgement for KLOE 2.2	KLOE 2.1: 3 KLOE 2.2: 2 KLOE 2.3: 3	There were no changes to budget monitoring processes up to 31 March 2007. Savings now form part of mainstream budget monitoring.
KLOE 3 – Financial Standing, it was found that if the Council wished to progress to a level 4 marking then they would have to provide strong evidence of members monitoring key financial health indicators and setting challenging targets.	KLOE 3.1: 3	There were no changes in this area up to 31 March 2007.

Key Finding (June 2007)	Scores 2006	Follow up on progress (September 2007)
KLOE 4 - The Council performs adequately across all three KLoEs relating to internal control. To improve on this score would require additional processes and systems being introduced, such as the implementation of an assurance framework and the roll out of training on risk management to appropriate officers and members.	KLOE 4.1: 2 KLOE 4.2: 2 KLOE 4.3: 2	The assurance framework was not introduced as at 31 March 2007. Some elements of risk management training have been delayed into 2007/8.
KLOE 5 – The assessment of the Council against KLOE 5, Value for Money judged that the Council was performing well in this area. In particular benchmarking data indicated a positive relationship between the cost of the Council’s services and the quality provided to local residents and local satisfaction data showed that the Council is well regarded by local people, with an apparent strong increase in public perception of value for money between 2005 and 2006.	KLOE 5.1:3 KLOE 5.2:3	There are no significant changes from the arrangements in place at the time of our previous review.

Scores interpretation

- 1 = below minimum requirements – inadequate performance
- 2 = only at minimum requirements – adequate performance
- 3 = consistency above minimum requirements – performing well
- 4 = well above minimum requirements – performing strongly

More detailed findings can be found under the key lines of enquiry judgements section below.

3.3 Corporate assessment, performance management arrangements and BVPP audit

We are required to review the Council's latest corporate assessment in order to satisfactorily conclude on Code criteria 1 to 3 (see Table 1). In completing this work we are not required to re-perform the work of the corporate assessment team and the relationship manager, rather we are looking to place reliance on this work.

Our assessment for criteria 1 to 3 has therefore been based on the latest Direction of Travel statement issued by the Relationship Manager (March 2007), checked against our existing assessment of the Council's arrangements in these areas (reported most recently in our Use of Resources report of June 2007).

Based on this work, we assess the Council as having adequate arrangements for Code criteria 1 to 3, based on well-developed arrangements for objective setting, consultation and performance management.

3.4 Data Quality Audit Work

The audit work that we have used to reach our conclusion in respect of Code criteria 4 is our 2006 audit of the Council's corporate management arrangements for data quality.

Our audit concluded that the Council's management arrangements for data quality are adequate.

We are currently undertaking our 2007 review of data quality management arrangements, to support our conclusion on the Council's arrangements. No significant issues have arisen from this work.

We will update our assessment, as required, following completion of our testing of a sample of the Council's performance indicators and will write to management with results of this work, in November 2007.

3.5 Key lines of enquiry judgements

We draw upon and update the findings from our key lines of enquiry (KLoE) audit work in order to satisfactorily conclude on the Code criteria five to twelve above.

Our 2007 KLoE assessment is almost complete. We are not able to formally report scores to the Council until after the Audit Commission's national quality assurance processes are complete. We can, however, share key messages from our work and these are outlined in Table 2 above. At the time of writing, we do not anticipate that the overall score for any of the themes will change from the 2006 assessment. We will share the confirmed scores with the Council in November 2007.

3.6 Next Steps

We have issued an **unqualified VFM conclusion**.

The Corporate Governance Panel should monitor implementation of use of resources recommendations arising from this and other reports issued during the year.

The Council will also need to prepare for changes to the use of resources KLoE criteria in 2008 and the wider changes to the VFM assessment framework which will take effect from 2009, as part of the Comprehensive Area Assessment.

A Action Plan - Accounts

Finding	Action required for 2006/07 accounts	Other system improvement required	Management response	Implementation date and responsibility
Issues relating to proposed adjustments				
<p><u>Netting off balances</u></p> <p>The Council should ensure that in future years it does not net-off debtors and creditors or cash and bank and overdrafts unless specific arrangements are in place as per the SORP.</p>	Adjustments to be made to balances (Appendix B).	This should be reviewed as part of the preparation of the final accounts.	Agreed.	Accountancy Manager 2007/08 Final Accounts
Wider control issues identified during the audit				
<p><u>Bank Reconciliations</u></p> <p>Preparers of bank reconciliations are not required to sign and date reconciliations; further, there is no evidence of independent review of the reconciliations taking place. This provides a weak audit trail and may result in errors not being identified.</p>	None	<p>All bank reconciliations should be signed and dated by the preparing officer.</p> <p>Where independent review has taken place this should be evidenced by the reviewers' signature.</p>	<p>There is clarity on who undertakes each bank reconciliation but some are electronic rather than hard copy so there would be disadvantages in requiring signed hard copy in addition to the email details.</p> <p>The Head of Financial Services is informed if any reconciliations are not completed by the end of the following month.</p> <p>All bank reconciliations are independently reviewed by a Senior Accountant quarterly in carrying out the overall reconciliation..</p> <p>Consideration will be given to where signatures can be recorded if they will not reduce efficiency.</p>	Accountancy Manager December 2007

Finding	Action required for 2006/07 accounts	Other system improvement required	Management response	Implementation date and responsibility
<p><u>Creditor payments exception reports</u> There is no exception reporting of payments made to creditors. This may result in duplicate, unusual, large or incorrect payments being made.</p>	None	The Council should consider developing exception reporting which is subject to independent officer review.	<p>There is independent review of all payments over £100k by a senior manager.</p> <p>System will be examined to see if any automated reporting can be developed cost effectively.</p>	Accountancy Manager December 2007
<p><u>Journals</u> We note that there is no authorisation or review process in place at the Council in respect of journals which can be posted by all accountancy staff.</p> <p>There is therefore an increased risk of errors or other misstatement arising from journal processing.</p>	None	We consider that journal entries should be subject to independent review and approval.	<p>Not Agreed.</p> <p>Journals can only be processed by accountancy staff who work in small teams under the supervision of a Principal Accountant. They are experienced and competent staff. In the circumstances and given the number of journals processed per year the level of risk is low and the resources required for effective checking not warranted</p>	

B Accounts Adjustments Agreed

Finding	I+E account Dr £000	I+E account Cr £000	Balance sheet Dr £000	Balance sheet Cr £000
Accounting adjustments that affect the reported surplus/ deficit on the Income and Expenditure account				
<p><u>LABGI Funding</u> The Council has included a contingent asset note for £208,000 relating to LABGI funding withheld pending a court case. The Council has now been notified that it will receive £400,000 following completion of the court case. As this represents a material sum, adjustment is required to reflect the income in 2006/7. This has the effect of increasing the General Fund surplus by £400,000.</p>		400	400	
Accounting adjustments that do not affect the reported surplus/ deficit on the Income and Expenditure account				
<p><u>Investment classification</u> The accounts include £6million of investments which mature in 2007/8 but which have been misclassified as long term. The should be reclassified as short term investments.</p>			Short term investments: 6,000	Long term investments: 6,000
<p><u>Cashflow statement</u> Some classification errors relating to government grants need to be corrected.</p>	N/A	N/A	N/A	N/A

APPENDIX B

Finding	I+E account Dr £000	I+E account Cr £000	Balance sheet Dr £000	Balance sheet Cr £000
<p><u>Fixed asset disposals</u> The Council has included capital grants and contributions as disposals in fixed asset disclosures. These should have been recorded as Deferred Credits. At the time of writing we are working with officers to identify the adjustments to the accounts.</p>			Fixed Assets 408 Deferred Credits 408	
<p><u>Debtors</u> Government debtors have been netted off against government creditors in respect of a payment of £420,000 due to the DWP in respect of overclaimed housing benefit subsidy for the year. These balance should not be netted off.</p>			Government Debtors: 420	Government Creditors:420
<p><u>Cash and Bank</u> The Council has not disclosed its balance for cash and bank, this has been netted off against its overdraft. Bank balances should not be netted off unless formal set off arrangements are in place.</p>			Cash & Bank: 108	Bank overdraft: 108

C Accounts Adjustments not processed

Finding	I+E account Dr £000	I+E account Cr £000	Balance sheet Dr £000	Balance sheet Cr £000
Accounting adjustments that would affect the reported surplus/ deficit on the Income and Expenditure account				
<u>Accruals</u> Two separate amounts totalling £28,600 were found not to have been accrued for as creditors. On the basis of invoices tested as part of the audit and the total value of invoices and payments raised in April 2007, it has been estimated that creditors could have been underestimated by £50,000 in the balance sheet. Whilst this is not material, it is considered to be significant.	50			Creditors: 50
Accounting adjustments that would not affect the reported surplus/ deficit on the Income and Expenditure account				
None				

D Reports Issued

Report title	Date issued
Audit and inspection plan 2006/07	Revised January 2007
Annual report to those charged with governance (accounts and use of resources)	September 2007
BVPP Opinion	December 2006
Use of Resources report 2006/07	June 2007
Grants audit report	To be issued **

** Grants audit report will be issued in the new year, if required, when all the 2006/07 grant claims have been certified.

E Audit Fee Update

Audit Area	Plan 2006/07	Actual 2006/07
Inspection	£6,300	£6,300
Accounts	£41,000	£41,000
Use of resources	£33,500	£33,500
Challenge	£0	£0
Sub-Total for Hunts DC	£80,800	£80,800
Leisure Centre Audit Fees	£17,950	£17,950
Total Code of Audit Practice fee	£98,750	£98,750

Code of Practice audit

As shown in the table above, the 2006/07 actual fee equalled the planned fee.

Grant claims audit

Grant claim certification work will be completed between August and December 2007. The audit fee was originally estimated at £25,000.

Our work is charged to the Council based on the cost of auditing each claim and the overall fee normally varies from estimate, depending on the number and complexity of claims to be audited, as well as the quality of claim compilation and supporting documentation.

Non audit work

We have not carried out any audit work outside of the Code of Audit Practice audit and have not provided any non audit services to the Council.

F Management Letter of Representation

DATE TO BE INSERTED

Grant Thornton UK LLP
Daedalus House
Station Road
Cambridge
CB1 2RE

Dear Sirs

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007

We confirm to the best of our knowledge and belief, and having made appropriate enquiries of other directors and officials of Huntingdonshire District Council (the Council), the following representations given to you in connection with your audit of the Council financial statements for the year ended 31 March 2007.

General

We acknowledge our responsibility for preparing financial statements which present fairly the financial position of the Council and for making accurate representations to you.

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 member meetings, have been made available to you.

Going concern

We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that as at {INSERT DATE OF APPROVAL OF ACCOUNTS} no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Accounting estimates

We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Where it was necessary to choose between estimation techniques that comply with UK GAAP, we selected the estimation technique considered to be the most appropriate to the Council's particular circumstances for the purpose of giving a true and fair view. Those estimates reflect our judgement based on our knowledge and experience about past and current events and are also based on our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made:

- a) to reduce debtors to their estimated collectable amounts;
- b) to reduce obsolete, damaged or excess stocks to their estimated net realisable value;
- c) for any impairment losses identified in relation to tangible fixed assets;
- d) for uninsured or unfunded losses attributable to events occurring by 31 March 2007.

Directors and other related party disclosures

We confirm that

- a) registers of interests are complete and up to date in respect of members and key officers
- b) guidance has been issued to make members and key officers aware of the requirement to declare all interests relevant to the Council, including interests of families, partners and entities controlled by them
- c) there are no other relationships of which we are aware that require disclosure in the statement of accounts.

Income Recognition

We confirm that income is accounted for by applying the accruals convention so that income is recognised in the period in which services are provided. Where income has been received for a specific activity to be delivered in the following financial year, that income is deferred.

Fraud and error

We acknowledge our responsibility for the implementation and operation of accounting and internal control systems that are designed to prevent and detect fraud and error. In that regard we confirm that we have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We have disclosed to you all significant facts relating to any frauds or suspected frauds known to us that may have affected the Council and any events during the period of which we are aware that involved dishonest or fraudulent conduct or which resulted from a material weakness or breakdown in the accounting records and related internal controls. There have been no frauds or other irregularities involving management or employees who have significant roles in the accounting and control systems and no irregularities involving other employees that could have a material effect on the financial statements.

We have also disclosed to you our knowledge of any allegations of fraud or suspected fraud affecting the financial statements communicated by employees or others.

Law and regulations

We are not aware of any events that involve possible or actual non-compliance with those laws and regulations, which are central to the Council's ability to conduct its business. Neither are we aware of other events that involve possible or actual non-compliance with laws or regulations whose consequences may have a potentially material effect on the financial statements and which therefore should be considered for disclosure or as a basis for recording a loss or provision.

Commitments and Contingent Liabilities

All claims against the Council of which we are aware have been accounted for through provisions or disclosed under contingent liabilities where appropriate.

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

Except as disclosed in the financial statements:

- a) there are no charges or other encumbrances on the Council's assets

- b) there are no significant financing agreements in respect of provision of assets or services

Post balance sheet events

Other than as disclosed in the accounts 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. In particular, we have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities. In that regard:

- provision has been made to reflect any impairments in asset values
- the Council has no significant amounts of idle property and equipment.

Effects of uncorrected misstatements identified in the audit

We have considered your Summary of Unadjusted Misstatements, as reported under ISA260 and which is attached as an Appendix to this letter, and your request that these misstatements should be adjusted in the financial statements.

Approval

The approval of this letter of representation was minuted by the Corporate Governance Panel at its meeting on 25 September 2007.

Signed on behalf of the Council

Name Name

Position Position

Date Date

G Statement of Responsibilities - Accounts

The accounts, which comprise the published accounts of the audited body, are 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 responsibility of the audited body to:

- put in place systems of internal control to ensure the regularity and lawfulness of transactions
- maintain proper accounting records
- prepare accounts that present fairly the financial position of the body and its expenditure and income.

The audited body is also responsible for preparing and publishing with its accounts a statement on internal control.

Auditors audit the accounts and give their opinion, including:

- whether they present fairly the financial position of the audited body and its expenditure and income for the year in question

- whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards

Subject to the concept of materiality, auditors provide reasonable assurance that the accounts:

- are free from material misstatement, whether caused by fraud or other irregularity or error
- comply with statutory and other applicable requirements
- comply with all relevant requirements for accounting presentation and disclosure.

Auditors examine selected transactions and balances on a test basis and assess the significant estimates and judgements made by the audited body in preparing the statements.

Auditors evaluate significant financial systems, and the associated internal financial controls, for the purpose of giving their opinion on the accounts. Where auditors identify any weaknesses in such systems and controls, they will draw them to the attention of the audited body, but they cannot be expected to identify all weaknesses that may exist.

Auditors review whether the statement on internal control has been presented in accordance with relevant requirements and report if it does not meet these requirements or if it is misleading or inconsistent with other information of which the auditor is aware. In doing so auditors take into account the knowledge of the audited body gained through their work in relation to the audit of the accounts and through their work in relation to the body's arrangements for securing economy, efficiency and effectiveness in the use of its resources. Auditors are not required to consider whether the statement on internal control covers all risks and controls, nor are auditors required to form an opinion on the effectiveness of the audited body's corporate governance procedures or risk and control procedures.

H Statement of Responsibilities - VFM / Use of Resources

It is the responsibility of the audited body 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. Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:

- establishing strategic and operational objectives
- determining policy and making decisions
- ensuring that services meet the needs of users and taxpayers and for engaging with the wider community
- ensuring compliance with established policies, procedures, laws and regulations
- identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working
- ensuring compliance with the general duty of best value, where applicable
- managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body
- monitoring and reviewing performance, including arrangements to ensure data quality
- ensuring that the audited body's affairs are managed in accordance with proper standards of financial conduct, and to prevent and detect fraud and corruption

The audited body is responsible for reporting on these arrangements as part of its annual statement on internal control.

Auditors have a responsibility to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In meeting this responsibility auditors should review and, where appropriate, examine evidence that is relevant to the audited body's corporate performance management and financial management arrangements, as summarised above, and report on these arrangements. Auditors of specified local government bodies (best value authorities) also have a responsibility to consider, and report on, the audited body's compliance with statutory requirements in respect of the preparation and publication of its best value performance plan.

Auditors are responsible for reporting annually their conclusion, having regard to relevant criteria specified by the Audit Commission, as to whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Auditors report if significant matters have come to their attention that prevent them from concluding that the audited body has put in place proper arrangements. However, auditors are not required to consider whether aspects of the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources are effective.

In planning their audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, auditors consider and assess the relevant significant business risks. These are the significant operational and financial risks to the achievement of the audited body's statutory functions and objectives, which apply to the audited body and are relevant to auditors' responsibilities under the Code, and the arrangements it has put in place to manage these risks. The auditor's assessment of what is significant is a matter of professional judgement and includes consideration of both the quantitative and qualitative aspects of the item or subject matter in question. Auditors discuss their assessment of risk with the audited body.

When assessing risk auditors consider:

- the relevance and significance of the potential business risks faced by all bodies of a particular type
- other risks that apply specifically to individual audited bodies
- the audited body's own assessment of the risks it faces
- the arrangements put in place by the body to manage and address its risks.

In assessing risks auditors have regard to:

- evidence gained from previous audit work, including the response of the audited body to previous audit work
- the results of assessments of performance carried out by the Commission
- the work of other statutory inspectorates
- relevant improvement needs, identified in discussion with the Commission or other statutory inspectorates.

Where auditors rely on the reports of statutory inspectorates as evidence relevant to the audited body's corporate performance management and financial management arrangements, the conclusions and judgements in such reports remain the responsibility of the relevant inspectorate or review agency.

In reviewing the audited body's arrangements for its use of resources, it is not part of auditors' functions to question the merits of the policies of the audited body, but auditors may examine the arrangements by which policy decisions are reached and consider the effects of the implementation of policy. It is the responsibility of the audited body to decide whether and how to implement any recommendations made by auditors and, in making any recommendations, auditors should avoid any perception that they have any role in the decision-making arrangements of the audited body.

APPENDIX H

While auditors may review audited bodies' arrangements for securing economy, efficiency and effectiveness in the use of resources, they cannot be relied on to have identified every weakness or every opportunity for improvement. Audited bodies should consider auditors' conclusions and recommendations in their broader operational or other relevant context.

Auditors are not required to report to audited bodies on the accuracy of performance information that the audited bodies publish. Auditors' work is limited to a review of the systems put in place by the audited body to collect, record and publish the information, in accordance with guidance issued by the Commission. Nor are auditors required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by those audited bodies that are required to prepare best value performance plans.

Audit work in relation to the audited body's arrangements to ensure that its affairs are managed in accordance with proper standards of financial conduct, and to prevent and detect fraud and corruption, does not remove the possibility that breaches of proper standards of financial conduct, or fraud and corruption, have occurred and remained undetected. Nor is it auditors' responsibility to prevent or detect breaches of proper standards of financial conduct, or fraud and corruption, although they will be alert to the possibility and will act promptly if grounds for suspicion come to their notice.