

Annual governance report

Stockton on Tees Borough 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

As at 6 September I expect to issue an unqualified audit opinion.

The accounts were prepared to a good standard before the 30 June deadline and my audit did not identify any material errors. The audit found some non-material errors, some of which have been corrected and some which management has chosen not to correct. None of the errors found have had an impact on the Council's general fund balances. Corrected errors have increased the Council's net worth by £1.8 million, uncorrected errors would reduce cost of service and other operating expenditure by £118,000.

Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources because:

- the Council continues to maintain arrangements to secure financial resilience through ongoing medium term financial plan updates and detailed consideration of changes in funding and service provision; and
- the Council continues to maintain arrangements to secure economy, efficiency and effectiveness through its review of services. The three-year efficiency, improvement and transformation review programme has come to an end and predicted savings are being achieved. The Council is now focusing on the three big service areas of adults' services, children's services and energy, alongside cross-cutting issues such as procurement.

At this stage there are no matters arising from my VFM work that I need to report.

Before I give my opinion and conclusion

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's Audit Practice has not undertaken any non-audit work for the Council during 2011/12.

I ask the Audit Committee to:

- take note of the adjustments to the financial statements included in this report (appendices 2 and 3); and
- approve the letter of representation (appendix 4), on behalf of the Council 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 elected 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

Subject to satisfactory clearance of outstanding matters, 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.

Uncorrected errors

I found some non-material errors identified in your financial statements which management have chosen not to correct because they do not have any impact on general fund balances and no material impact on net worth. The errors are detailed in appendix 2 and summarised below.

- Creditors and debtors are understated by £223,000 because some invoices paid in advance in March 2012 have been excluded.
- Depreciation for Billingham Forum has been overcharged by £118,000 because an incorrect asset life was used in the calculation.
- Two depreciation and impairment entries totalling £743,000 have been accounted for on a net rather than gross basis.
- Cash sale proceeds in the movement in reserves statement include £2.2 million capital receipts transferred from reserves which should have been shown as revenue contributions to capital expenditure.

I ask members of the Audit Committee to either agree to adjust the errors or set out the reason for not amending them in the letter of representation.

Corrected errors

I found some non-material errors identified in the financial statements which have now been corrected. The errors are detailed in appendix 3 and key issues summarised below.

- Prior's Mill CE controlled primary school was not included in the Council's property, plant and equipment. It has now been included at a value of £1.8 million.

- Revaluations of £7.5 million were initially shown as additions and have been reclassified.
- Grant income of £2.1 million was incorrectly classified as housing subsidy instead of other grant income.

Opinion risks and my findings

I reported to you in my January 2012 audit plan the risks that I identified relevant to my audit of your financial statements. In table 2, I report to you my findings against each of these risks.

Table 1: **Risks and findings**

Risk	Finding
<p>Pension fund assets and liabilities</p> <p>The Council's financial statements include information based on actuarial assumptions and estimates. The valuation of pension fund assets and liabilities may be materially misstated as small changes to the assumptions used can result in material changes to the estimates.</p>	<p>I evaluated the Council's approach to pension fund estimates as part of my audit planning. As this remains a significant risk, I then designed and performed procedures on pension fund transactions.</p> <p>I carried out specific work on the accuracy of the information sent by the Council to the Pension Fund which forms the basis of the actuary's estimates. I sought assurance from the Pension Fund auditor about controls in place at the Pension Fund and their year-end accounts. I also placed reliance on a review of the actuary carried out by PwC for the Audit Commission.</p> <p>My testing has not identified any significant issues to bring to your attention.</p>
<p>Valuation of property, plant and equipment (PPE)</p> <p>The Council is required to value PPE at fair value (with some exceptions). The valuations reported in the financial statements may be materially misstated as errors have occurred in previous years.</p>	<p>I evaluated the Council's approach to PPE valuation as part of my audit planning. As this remains a significant risk, I then designed and performed procedures on PPE valuations.</p> <p>I carried out specific work to test material additions and revaluations. I sought assurance from the Council's valuer about his approach to revaluations. I also placed reliance on a review of national property valuation trends carried out by Gerald Eve for the Audit Commission.</p> <p>My testing has not identified any significant issues to bring to your attention.</p>

Risk	Finding
<p>Heritage Assets</p> <p>The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets. The Council may be unable to identify and account for all heritage assets.</p> <p>A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and kept principally for its contribution to knowledge and culture. For Stockton this is likely to include the collections at Preston Park Museum and civic regalia.</p>	<p>I reviewed the Council's approach to identifying, valuing and disclosure of heritage assets. The Council has identified, valued and disclosed heritage assets of £6,047,000 mostly relating to the collections at Preston Park Museum and civic regalia.</p> <p>My work has not identified any issues to bring to your attention.</p>
<p>Existing PFI schemes</p> <p>Ingleby Barwick community campus PFI scheme includes the secondary school, primary school and library. The secondary school is seeking academy status and this would alter the way the Council accounts for the school as an asset.</p>	<p>All Saint's secondary school will become an academy school in September 2012. Therefore there was no impact on the accounting treatment for the PFI scheme in 2011/12. The Council has disclosed the school's change of status as a subsequent event in note 55 to the accounts.</p>
<p>Schools</p> <p>Schools are managed through various governance arrangements and these can have implications for the accounting treatment. The Council may materially misstate its PPE because of the incorrect inclusion or omission of schools in its balance sheet.</p>	<p>I have evaluated the Council's consideration of schools valuations and the IAS 16 recognition criteria and consistency with the accounting policy. The Council now includes voluntary-controlled schools and exclude voluntary-aided schools in their PPE valuations.</p> <p>My work has not identified any significant issues to bring to your attention other than the omission of Prior's Mill CE controlled primary school already reported above.</p>

The international auditing standards also identify management override of controls as a significant fraud risk at all audited bodies. This does not imply that I suspect actual or intended manipulation but that I approach the audit with due professional scepticism. To mitigate the audit risk I evaluated internal control processes and procedures as part of my audit planning. This evaluation included completion of a fraud risk assessment and the consideration of information from the Audit Committee and management setting out the processes for assessing the risk of fraud in your financial statements and arrangements in place to identify, respond to and report fraud. I then performed procedures to satisfy myself that, taking account of materiality, no manipulation has occurred. In particular, I tested:

- material adjustment journals;
- recognition of income and expenditure; and
- the appropriateness of estimations of liabilities.

My testing has not identified any material issues to bring to your attention.

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 the systems of internal financial control are both adequate and effective in practice.

I have tested the controls 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 the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; 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 during the audit that I need to bring to your attention.

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 financial reporting process including:

- 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; and
- other audit matters of governance interest.

Although the quality and accuracy of the financial statements was much better than last year, there were still some minor inconsistencies and errors identified in the narrative and numbers included in the draft statements. I am aware the timetable for preparing the financial statements continues to be tight, but the draft statements could be improved by a detailed review for accuracy and consistency before presentation for audit.

Whole of Government Accounts

Alongside my work on the financial statements, I review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office. This work is still outstanding but is expected to be completed before I give my opinion on the accounts.

Value for money

I am required to conclude whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.

I assess your arrangements using criteria specified by the Commission. In my January 2012 audit plan I reported to you the significant risks that were relevant to my conclusion. My findings are set out below.

I intend to issue an unqualified conclusion stating I am satisfied that, in all significant respects, the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in appendix 1.

Table 2: Value for money conclusion criteria and my findings

Criteria	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</p> <p>The systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p> <p><i>Overall, the Council has again managed the significant financial challenges it has faced and has successfully delivered planned savings and efficiencies.</i></p>	<p>The Council continues to maintain arrangements to secure financial resilience through ongoing medium term financial plan updates and detailed consideration of changes in funding and service provision.</p> <p>The Council's total available reserves have increased by £11.9 million to £135.1 million in 2011/12 mainly because of increases in capital funding earmarked for regeneration schemes. The majority of the reserves are committed to deliver the Council's capital programme, which includes major investment in Stockton town centre, or have been identified in the 2012/13 budget report as available to support investments that deliver revenue savings and help to address future budget pressures.</p> <p>The medium term financial plan is balanced for the next two years with a budget gap of £11.6 million identified in 2016/17. The plan is routinely reviewed and will be revisited in December 2012 when more details of government funding are announced.</p>

Criteria	Findings
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2011/12:</p> <p>How resources are used within tighter budgets, for example, by achieving cost reductions and by improving efficiency and productivity.</p> <p><i>Efficiency savings and other cuts in 2011/12 totalled £8.3 million. The Council has estimated that it needs to make more cuts of about £8.6 million for 2012/13 to balance its budget with further cuts needed to address a projected budget gap of £7.9 million in 2015/16. The Council has made progress in taking action to achieve the required savings for 2012/13 and is actively looking for ways to address future budget gaps.</i></p>	<p>The Council continues to maintain arrangements to secure economy, efficiency and effectiveness through its review of services. The three-year efficiency, improvement and transformation review programme has come to an end and predicted savings are being achieved. The Council is now focusing on the three big service areas of adults' services, children's services and waste and energy, alongside cross-cutting issues such as procurement.</p>

In my January 2012 audit plan I reported to you the risks that were relevant to my conclusion. I have set out below the findings of my work addressing each of the risks I identified.

Table 3: Value for money risks

Risk	Finding	Impact on VFM conclusion
<p>The Council has several regeneration and capital schemes planned. Some of these are being affected by changes in government funding.</p>	<p>The Council monitors capital expenditure against budgets and reports quarterly to members. Overall there was an underspend of £3.274 million on a capital budget of £36.474 million for 2011/12 because of some expenditure slipping into 2012/13.</p>	<p>No impact on the VFM conclusion, work confirms the Council has appropriate arrangements in place.</p>

Risk	Finding	Impact on VFM conclusion
<p>The Council is facing continuing decreases in funding over the next three years. There are also continuing pressures on budgets in 2011/12 around children's social care spending and planning income.</p>	<p>The Council continues to:</p> <ul style="list-style-type: none"> ■ monitor budgets; ■ review the medium term financial plan; and ■ make efficiencies. <p>Partnership working, including potential shared services, is considered for each service review.</p>	<p>No impact on the VFM conclusion, work confirms the Council has appropriate arrangements in place.</p>

Fees

I reported my planned audit fee in the January 2012 audit plan.

I will complete the audit within the planned fee.

Table 4: Fees

	Original scale fee (£)	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	279,900	279,900	257,504
Claims and returns		40,565	40,565
Non-audit work		Nil	Nil
Total		320,465	298,069

The Audit Commission has paid a rebate of £22,392 to reflect attaining internal efficiency savings, reducing the net audit fee payable to the Audit Commission to £257,504.

Appendix 1 – Draft independent auditor’s report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF STOCKTON ON TEES BOROUGH COUNCIL

Opinion on the Council financial statements

I have audited the financial statements of Stockton on Tees Borough Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Stockton on Tees Borough 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 Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Corporate Director of Resources and auditor

As explained more fully in the Statement of the Corporate Director of Resources’ Responsibilities, the Corporate Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. 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 Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director of Resources; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword 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 Stockton on Tees Borough Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword 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 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- 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 Council 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.

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

Respective responsibilities of the Council and the auditor

The Council 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 to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Stockton on Tees Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

I certify that I 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.

Mark Kirkham
District Auditor

Nickalls House
Metro Centre
Gateshead
NE11 9NH

September 2012

Appendix 2 – Uncorrected errors

I identified the following errors during the audit which management have not addressed in the revised financial statements.

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Creditors and debtors	Social services invoices totalling £223,000 paid in advance in March 2012 have not been included in creditors and payments in advance	-	-	223	223
Property, plant and equipment	The depreciation calculation for Billingham Forum was based on an asset life of 40 years rather than 50 years. Depreciation has been overcharged by £118,000	118	118	118	-
Property, plant and equipment	Depreciation and impairment in note 6 to the accounts totals £17,859,000 which does not agree to note 15 with £11,903,000 depreciation and £6,699,000 impairment. The difference of £743,000 is due to excess depreciation over historic cost and the movement in fair value of investments being accounted for net	-	-	743	743
Note 6 cash sale proceeds	Cash sale proceeds includes £2.2 million capital receipts transferred from reserves which should be included as revenue contributions	2,200	2,200	-	-

Appendix 3 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Property, plant and equipment	Prior's Mill CE controlled primary school was omitted from the asset register	-	-	1,800	1,800
Consolidated income and expenditure statement	Some service expenditure had been incorrectly netted off income	7,977	7,977	-	-
Note 15 Property, plant and equipment	Revaluations of £7,485,000 were included as additions	-	-	-	-
Note 42 Grant income credited to services	Grant income of £2.1 million was incorrectly classified as housing subsidy instead of other grant income	-	-	-	-
Note 42 Grant income credited to taxation and non specific grant income	The capital grant income was incorrectly analysed between headings but was correct in total	-	-	-	-
Note 6 Adjustments between accounting basis and funding basis	Capital grants and contributions of £22,678,000 was incorrectly analysed between the amount reversed through the CAA and the amount adjusted through the capital grants unapplied account	-	-	-	-

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Note 40 Finance leases	Future minimum lease payments due had been incorrectly analysed	-	-	-	-
Note 35 related party transactions	Some of the entries disclosed in note 35 did not agree to supporting information. Services from a company in which two members have a controlling interest was changed from £33,400 to £17,670. Total payments to the PFI contractor were changed from £2.3 million to £2.5 million.	-	-	-	-
Note 28 short term creditors	The analysis between headings was amended to separately disclose revenue grants received in advance.	-	-	-	-

Appendix 4 – Draft letter of management representation

Stockton on Tees Borough 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 directors of Stockton on Tees Borough 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.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Council Accounting in the United Kingdom 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.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows.

- creditors and debtors;
- depreciation;
- depreciation and impairment; and
- cash sale proceeds.

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.

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.

For property, plant and equipment and pension fund accounting estimates, I confirm:

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the method;
- the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council, where relevant to the accounting estimates and disclosures;
- the disclosures relating to the accounting estimate are complete and appropriate under the Code; and
- that no subsequent event requires the Council to adjust the accounting estimate and related disclosures included in the financial statements.

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 Code.

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 Stockton on Tees Borough Council

Neil Schneider

Chief Executive

I confirm that the this letter has been discussed and agreed by the Audit Committee on 24 September 2012

Councillor Barry Woodhouse

Audit Committee Chair

26 September 2012

Appendix 5 – Glossary

Annual Audit Letter

Letter 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 financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Council's systems of internal control that supports the achievement of the Council's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by 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.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

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 statement of accounts that the Council is required to prepare, which report the financial performance and financial position of the Council in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Council and its subsidiaries, associates and jointly controlled entities.

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 financial 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 financial 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 financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial 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 financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Council. This term includes the members of the Council and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Council must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

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

