

**AUDIT COMMITTEE
26 SEPTEMBER 2013**

REPORT OF CORPORATE DIRECTOR (CORPORATE SERVICES)

A.3 EXTERNAL AUDIT – AUDIT RESULTS REPORT 2012/13

(Report prepared by Richard Barrett)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To present:

- The External Auditor's Audit Results Report 2012/13 and Letter of Representation for consideration and approval to enable a final opinion on the accounts and value for money arrangements to be formally issued by the External Auditor.
- A revised Annual Governance Statement 2012/13 for approval.

EXECUTIVE SUMMARY

- The External Auditor has substantially completed the audit of the 2012/13 accounts with their associated Audit Results Report attached.
- The External Auditor plans on issuing an unqualified audit opinion on both the Council's financial statements and value for money arrangements.
- Two amendments relating to reclassifications were identified via the audit process.
- Overall the report is a welcomed outcome from the work of the Council's External Auditor given the complexity of the accounting and preparation processes involved in the production of the Statement of Accounts.
- The Council's audited Statement of Accounts, which reflect the two amendments mentioned above along with a small number of minor changes, are attached and subject to the approval of the Audit Committee are required to be published by the end of September 2013.
- Following the wider review that forms part of the audit process, the Annual Governance Statement 2012/13, that was previously considered by the Committee at its 27 June 2013 meeting, has also been subject to a relatively small amendment to reflect the Council's most up to date approach to data / information security.

RECOMMENDATIONS

1. That in respect of the Audit Results Report , the Audit Committee:

- (a) Considers and notes the contents of the External Auditor's Audit Results Report 2012/13 including the required adjustments to the Financial Statements as set out in Appendix 1 to that report.**

(b) Subject to (a) above, approves the Letter of Representation set out as Appendix B.

(c) Subject to (b) above, authorises the Finance and Procurement Manager to sign the Letter of Representation for forwarding to the External Auditor.

(d) Subject to (b) and (c) above, approves for publication the audited Statement of Accounts for 2012/13, amended for the adjusted items identified.

2. That in respect of the Council's Annual Governance Statement 2012/13, the Audit Committee:

(a) Approves the revised Annual Governance Statement set out in Appendix A.

(b) Authorises, subject to 2(a) above, the Chief Executive and Leader of the Council to sign the Annual Governance Statement set out in Appendix A.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES
Careful planning to ensure financial stability underpins the Council's capacity and ability to deliver against its objectives and priorities. Both the capital and revenue budgets of the authority are prepared and monitored with the aim of supporting these key objectives. The outturn position and associated Statement of Accounts reflects this process and supports the successful financial planning process which includes communicating and consulting with relevant stakeholders.
FINANCE, OTHER RESOURCES AND RISK
Finance and other resources There are no direct financial implications with the audit expected to be completed within the approved budget.
Risk The preparation, reporting and publishing of the Statement of Accounts follows a relatively tight timescale with various milestones along the way. Therefore against this backdrop, the production of the accounts is required to be completed to the necessary standards and deadlines with the aim of preventing any significant issues arising from the audit process.
LEGAL
The Statement of Accounts 2012/13 complies with the requirements of the Account and Audit Regulations 2011 along with other associated legal requirements. The closure of accounts process, the preparation of the Statement of Accounts and their subsequent audit along with the arrangements to secure value for money reflect the requirements and responsibilities of the Council.
OTHER IMPLICATIONS
Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

There are no direct implications from this report. However in respect of equality and diversity, the Council ensures that the Statement of Accounts and associated governance reports are accessible to all by advertising their availability and publishing them electronically on the Council's website.

PART 3 – SUPPORTING INFORMATION

BACKGROUND

The pre-audited Statement of Accounts for 2012/13 were approved for publication by the Council's S151 Officer (Finance and Procurement Manager) at the end of June 2013.

Each year the Council's External Auditors are required to prepare an annual report setting out the outcomes from their review of the Statement of Accounts and the Council's value for money and governance arrangements. The Audit Committee is required to consider the contents of this annual report and approve for publication the final audited Statement of Accounts.

A draft Letter of Representation which sets out certain management representations is included as **Appendix B**. The Audit Committee are also required to separately approve this letter and authorise the Finance and Procurement Manager to sign it before it is forwarded onto the External Auditor.

Once the above tasks are completed the External Auditor can conclude the audit by finalising and formally issuing the audit opinion along with the certification of the accounts.

AUDIT RESULTS REPORT 2012/13

The auditors have issued their Audit Results Report for 2012/13, a copy of which is attached. The External Auditors work is now substantially complete and it is planned to issue an unqualified audit opinion in respect of both the Financial Statements and value for money conclusion.

Following the external audit process two adjustments have been made with further details set out in **Appendix 1** of the Audit Results Report attached. The opportunity has also been taken to reflect a small number of minor adjustments before finalising the Statement of Accounts for 2012/13.

To conclude the Statement of Accounts process for 2012/13, the Audit Committee is required to consider the Audit Results Report, approve the Letter of Representation and approve the final Statement of Accounts which include the amendments made. Therefore subject to the agreement of the recommendations above, the final Statement of Accounts for 2012/13 will be published by the end of September 2013 deadline.

ANNUAL GOVERNANCE STATEMENT 2012/13

The Audit Committee originally considered the Annual Governance Statement at its 27 June 2013 meeting. However as part of the audit and review process an amendment to the Annual Governance Statement 2012/13 is proposed.

Given the opportunity that the audit process provides in ensuring the most up to date information is captured, the proposed amendment reflects the Council's current approach to information and data security.

Appendix A sets out the revised Annual Governance Statement 2012/13 with the amendment highlighted in italic font and shaded (page 2 of the Statement).

This issue has been discussed with the External Auditors who are able to support the proposed approach.

As the Statement has been amended it is being presented to the Committee for further consideration and approval along with seeking the necessary agreement to the Chief Executive and the Leader to sign it, which has been reflected in the recommendations above.

BACKGROUND PAPERS FOR THE DECISION

None

APPENDICES

Appendix A – Annual Governance Statement 2012/13

Appendix B – Letter of Representation

Attached – External Auditor's Audit Results Report 2012/13

Attached – The Council's Final Audited Statement of Accounts 2012/13 for Publication

TENDRING DISTRICT COUNCIL

ANNUAL GOVERNANCE STATEMENT 2012-13

1. SCOPE OF RESPONSIBILITY

Tendring District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the authority's code is available to be viewed or downloaded from the Council's website (www.tendringdc.gov.uk) or can be obtained by contacting the Council's Corporate Services Department. This statement explains how the Council has complied with the code and also meets the requirements of the Accounts and Audit Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, culture and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place in the Council for the year ended 31 March 2013 and up to the date of approval of the statement of accounts.

3. THE GOVERNANCE FRAMEWORK

The key elements of the systems and processes that comprise the Council's governance arrangements as reflected in the Code of Corporate Governance for 2012/13 were:

- A Corporate Plan which sets out the Council's vision and goals.
- A Financial Strategy, Capital Strategy and Asset Management Plan, and Treasury Strategy links financial planning to enable the Council to balance the delivery of quality

services along with its priorities and aspirations and maximise the effectiveness of its assets.

- A Performance Management Framework which includes financial and non-financial information.
- A Risk Strategy and Strategic Risk Register which sets out the risk management framework and identifies and manages risks faced by the Council.
- The Council's Constitution which covers roles and responsibilities, delegated powers, along with key areas such as financial and procurement procedure rules.
- An Audit Committee that provides scrutiny of the governance framework.
- Whistleblowing and complaints procedures that provide individuals with opportunities to report issues with the Council.
- Business Continuity Plans to ensure the Council can maintain an appropriate level of service.
- Clear Codes of Conduct which set behavioural expectations for all individuals representing the Council.
- A Human Resources Framework that covers a range of practices and policies.
- Overview and Scrutiny Committees which carry out an annual programme of work to review and scrutinise Council functions and consider any matter affecting the District.
- Statutory Officers such as the Chief Executive, S151 Officer and Monitoring Officer.
- Robust governance arrangements for working, engaging with and consulting our stakeholders and partners.
- *The Council's Information Security Policy establishes and devolves legislative, technical, structural and operational change responsibilities to an Internal Information Policy Governance Unit. The unit is chaired by the Portfolio Holder for Planning and Corporate Services and has established an action plan for a range of identified operational improvements.*

The Council's key governance processes are subject to internal audit on a cyclical / risk based approach. This work forms part of the Head of Internal Audit's annual opinion on the overall adequacy and effectiveness of the Council's internal control environment.

4. REVIEW OF EFFECTIVENESS

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of managers within the Authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

In practice, the review of effectiveness is an on-going process throughout the year. However set against the backcloth of significant reductions in Government Funding and associated savings targets, restructuring and reorganisation was on-going within the Council in 2012/13 to provide a sustainable and long term basis against which to deliver services. Such significant changes in themselves present governance challenges and risks which have been recognised as part of the managing change and usual processes undertaken during the year.

Building on the approach in previous years but acknowledging the fundamental changes that remain on-going, the activities and mechanisms in place include:

- Review of overall performance, incorporating financial and non-financial information, and change management by Management Team and Members.

- The translation of the corporate plan objectives into corporate goals to enable targeting of work by departments.
- Review of the Council's Constitution on a regular basis with changes made where appropriate to reflect operational experience and changes in legislation, with all Corporate Directors / Head of Department and Management Team contributing to this review. The scheme of delegated powers forms part of such reviews. Updates have been made to reflect the requirements of The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 and changes to the officer structure and portfolios.
- Regular meetings of Management Team which include the Chief Executive, all Corporate Directors / Head of Department in attendance to discuss relevant matters, issues and strategic challenges facing the Council and to help to take the organisation forward.
- Three Overview and Scrutiny committees, Corporate Management, Service Development and Delivery, and Community Leadership and Partnerships which met in total on 28 occasions during 2012/13.
- An Audit Committee which met on four occasions during 2012/13 to enable it to fulfil its statutory, regulatory and governance responsibilities including the monitoring of Internal and External Audit recommendations, the monitoring of the development and operation of risk management, the approval of the Statement of Accounts for publication, and review of counter fraud and anti-corruption arrangements.
- Staff updates by the Chief Executive covering issues from the reorganisation to staffing matters and service changes.
- Compliance with accounting and auditing codes and standards.

A number of activities and actions were also undertaken during the year in reviewing and strengthening the Council's Governance Framework. These are set out below against the six core governance principles included in the Council's Code of Corporate Governance.

Focusing on the purpose of the Authority and on outcomes for the community and creating and implementing a vision for the local area

- A process of continual improvement is maintained in terms of both financial and non-financial monitoring.
- The Officer Structure of the Council was revised and Departmental Fundamental Service Reviews were undertaken during the year identifying improvements based on both qualitative and quantitative measures to facilitate service delivery within the resources available.
- The Council continued to be engaged in a number of big partnership projects such as the Whole Essex Community Budget Pilot to bring about sustained system change in local services, to recast collective activity around the needs of local communities and citizens, and to deliver the conditions for growth that supports businesses and residents.

Members and officers working together to achieve a common purpose with clearly defined functions and roles

- The development of corporate goals by members to provide high level guidance to Departments as to how to target their work to deliver on the main aims of the Corporate Plan.
- The setting up of a Portfolio Holder's Working Party to increase the transparency of funding allocations made from the Council's Big Society Fund.

Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

- The Council adopted a new Members' Code of Conduct compliant with the requirements of the Localism Act 2011.
- A Statutory Officer's Conduct Panel (Officer Panel) was established to receive complaints regarding Members and assess complaints against assessment criteria. A Conduct Committee was established to consider those complaints referred by the Officer Panel.
- A review is on-going in respect of effective arrangements for Member conduct and complaints.

Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

- The Council continues to embrace transparency and openness by including transaction details published on the Council's website each month to all transactions not just those over £500.
- The Council continues to embrace transparency and openness by publishing summary salary information on the Council's website each month for all grades within the officer structure, and now extended to include Members Allowances.
- Revision of the Council's Complaints Procedure
- Initiation of development of a revised approach to risk management within the Council.

Developing the capacity and capability of Members and officers to be effective

- The Council continues to hold Investors in People accreditation.
- Fundamental Service Reviews undertaken to challenge and improve on the delivery of services and development of capacity to continue to strive for continuous improvement.
- Revised approach to personal target setting for officers, capturing personal development opportunities.

Engaging with local people and other stakeholders to ensure robust public accountability

- The ongoing use of an interactive budget consultation tool to obtain the views of the public on where the Council spends its money with the information considered by Members during the setting of the 2013/14 budget.
- The introduction of question time events enabling members of the public to raise questions with a panel of cabinet members.
- Amendment to the Public Speaking Scheme for Planning Committee meetings to address inequalities in existing scheme.
- The ongoing development of the Council's website

In respect of specific actions identified as part of last years Annual Governance Statement, actions undertaken include:

- Member Representation on Outside Bodies – A review has been undertaken of the Council's representation on outside bodies, and a feedback process introduced.
- Identifying and delivering against corporate priorities – Corporate goals have been introduced to provide high level guidance.
- Risk Management – Revised risk management processes were being piloted in 2012/13, with a view to being rolled out across the Council in 2013/14.
- Financial Resilience – Work has continued to review the delivery of services by the Council to provide savings required to enable the Council to achieve a sustainable financial position in the long term.

- External Audit – The external audit role transferred from the Audit Commission to Ernst and Young during 2012/13. Meetings have been held to develop and embed the new arrangements / relationship to maximise the benefit of working with our external auditor to identify opportunities for further improvements.

The Council also draws assurance on its governance arrangements from independent sources, in particular:

Internal Audit

The Internal Audit function undertakes a risk based programme of audits each year to provide the Council with assurance on the adequacy of its system of internal control.

A summary of the issues identified in the audits completed during the year were included in periodic reports to the Audit Committee, with the Committee's attention drawn to any significant issues where the level of assurance was classified as Limited. The committee were made aware of unscheduled assignments / investigations undertaken during the year.

Taking into account the issues identified during the year and reviews by other assurance providers, it was possible to provide reasonable assurance that the systems of internal control were generally operating adequately and effectively.

External Audit

The Council is subject to an annual programme of external audit work associated with the Council's Statement of Accounts and value for money arrangements.

Each year the auditor's overall findings are brought together in an Annual Governance Report and Annual Audit Letter (available on the Council's website). Action is taken on issues identified with recommendations monitored by the Council's Audit Committee on a regular basis.

5. REVIEW OF EFFECTIVENESS AND SIGNIFICANT GOVERNANCE ISSUES

We have been advised on the implications of the result of the **review of the effectiveness of the governance framework** by the Audit Committee, and that the arrangements **continue to be regarded as fit for purpose in accordance with the governance framework**.

To support the Council in addressing some of the key issues and improvements that have emerged from the annual review of effectiveness, including any items identified as part of the work of the External Auditor, the following actions have been identified.

Governance Issue	Action
Risk Management	To roll out and embed the revised risk management framework across the Council
Financial Resilience	Via the Financial Strategy process, maintain a strong and robust approach to identifying savings and respond to new or additional burdens against the additional backcloth of the potential for further cuts in Government funding.

Ethical Governance	The Leader of the Council to work with all members and the senior management team to continue to embed a culture of strong ethical governance at all levels, and specifically to implement effective revised arrangements for Member conduct and complaints.
Council's Constitution	Complete a comprehensive review of the Council's Constitution to ensure that it is fit for the future.
Other Major Issues	To manage the financial and reputation risks of the changes arising from Local Council Tax support and business rates.
	To ensure that adequate and effective management and procurement arrangements are put in place to support key projects such as the Clacton to Holland Haven coast defence scheme.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the needs for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Ian Davidson
Chief Executive

Peter Halliday
Leader of the Council

Date

Date

APPENDIX B

Neil Harris
Ernst and Young
XXXXXX
XXXXXX
XXXXXX

Corporate Services
Town Hall
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Tel: (01255) 686521
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Our Ref: RJB/DLW
Your Ref:
Please ask for: Richard Barrett

XX September 2013

TENDRING DISTRICT COUNCIL – AUDIT FOR THE YEAR ENDED 31 MARCH 2013

This representation letter is provided in connection with your audit of the financial statements of Tendring District Council (“the Council”) for the year ended 31 March 2013. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of the Council as of 31 March 2013 and of its expenditure and income for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records¹

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations (England) 2011 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.
2. We acknowledge, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, and of its expenditure and income of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United

Kingdom 2012/13 and are free of material misstatements, including omissions. We have approved the financial statements.

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. We believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. 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.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

C. Compliance with Laws and Regulations

1. We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
 - Additional information that you have requested from us for the purpose of the audit and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

3. We have made available to you all minutes of the meetings of the Council, and committees held through the year.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties where relevant.

F. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Accounting Estimates

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. Accounting estimates recognised or disclosed in the financial statements:
 - We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
 - The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
 - The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
 - No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

H Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours Faithfully

Finance and Procurement Manager (S151 Officer)

I confirm that this letter has been discussed and agreed at the Audit Committee on 26 September 2013.

Chairman of Audit Committee