

Report title: **Annual Governance Report – to consider the statutory report of the Audit Commission**

Report of: **Acting Director of Finance**

Ward(s) affected: All

Report for: Decision

1. Purpose

1.1 To present the statutory Annual Governance Report of the Audit Commission which reports on their annual audit of the Council's statutory accounts, Value for Money and other relevant information.

2. Recommendations

2.1 That the Committee note the contents of this report and the actions proposed that arise from the statutory report of the Audit Commission.

Report authorised by: Gerald Almeroth – Acting Director of Finance

**Contact officer: Graham Oliver – Head of Finance – Accounting and Control
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3. Executive Summary

3.1 The statutory report of the Audit Commission on certain matters relating to the Council's governance responsibilities This needs to be considered before a final opinion of the Council's financial statements for 2005/06 is given and a concluding statement on the Council's arrangements for securing economy, effectiveness and efficiency in the use of resources. The actions proposed arising from the report are detailed.

4. Reasons for any change in policy or for new policy development (if applicable)

4.1 None.

5. Local Government (Access to Information) Act 1985

The following background papers were used in the preparation of this report:

Report of Director of Finance to General Purposes Committee on 29 June 2005 – Statement of Accounts 2005/06

6. Background

6.1 The purpose of this report is for the Audit Commission to present certain matters relating to their audit of the Council's financial statements 2005/06 and their review of the Council's use of resources. This reporting requirement is in accordance with the Audit Commission's statutory Code of Practice for Local Government bodies. It requires auditors to report to those charged with governance before the audit of the accounts is finalised.

6.2 The attached report from the Audit Commission sets out findings of the auditors so far under various headings. The report does not quantify specific amounts, but the Audit Commission use the following definitions as a guide to categorisation and sizing of comments:

- Overall materiality – over £9.3m and change to accounts required – opinion on accounts will be qualified.
- Adjusted misstatements – below materiality level (£9.3m) but judged to be a large enough variance to require a change to the accounts but does not result in qualification.
- Trifling – minor issues that do not result in changes being required to the accounts or qualification.

- 6.3 This report does not include trifling items.
- 6.4 We have worked closely with the Audit Commission to improve our 2005/06 accounts which has included a jointly agreed action plan, arising from the 2004/05 audit, jointly delivered training sessions to finance staff to ensure improvements in the accounts closure process and working closing together throughout the audit process to ensure a smooth and efficient audit.
- 6.5 Over the past two years considerable efforts have been made to ensure that any items reported to this Committee by the auditors have been rectified and no new items appearing, whilst also adhering to the tighter closing deadlines for each of the past three years. In 2004/05 the only significant item reported on was the qualification relating to the Council's treatment of the Alexandra Palace debt, which has now been removed.
- 6.6 For 2005/06 the report from the Audit Commission also includes comments on the Council's Use of Resources and a conclusion on whether the Councils has adequate arrangements for delivering value for money.
- 6.7 For 2005/06 there are no significant items being reported on by the Audit Commission.

7. Annual Governance Report

- 7.1.1 The detailed Annual Governance report from the Audit Commission is attached.
- 7.1.2 The Acting Director of Finance has worked closely with the Audit Commission during the audit process to resolve any issues that have arisen. The response from the Acting Director of Finance to the recommendations raised in the report is set out in the table below:

No.	Audit Commission recommendation	Acting Director of Finance response
R1	Improvements should be made to the qualitative aspects of the Council's related party transactions note in the future.	The note in the accounts will be reviewed to ensure that there is sufficient quality information disclosed in the accounts.
R2	The Council should continue to review its closedown processes so that relevant deadlines are met and working papers continue to improve.	Following the conclusion of the audit a full review of the closing process will be undertaken, in conjunction with the Audit Commission, to ensure the continuous improvement of the process.
R3	Improve the quality of the Council's arrangement for allocations and lettings.	An action plan is already in place and being implemented as part of the Housing Improvement Plan to achieve 2 stars.

R4	Maintain budgetary control to deliver financial balance for 2006/07 and the medium to longer-term.	The Council will continue to operate the sound processes for budget management and preparation.
R5	Continue to implement the action plan in response to our review of the Tech Refresh project.	The action plan has been implemented, but will be reviewed further following receipt of the Audit Commission's phase 1 follow up request.
R6	Continue to embed the challenge for value for money Council-wide.	The council has made significant improvements over the past year in embedding value for money and will continue to identify further improvements in the business planning process.

8. Next Steps

- 8.1 The Audit Commission will ask for a written response to the comments made in the Annual Governance report. The Director of Finance can respond on the basis of this report, after taking into account any comments from Members at this meeting.
- 8.2 The Audit Commission is required to give their opinion on the accounts by 30 September so any outstanding work on the audit needs to be completed before then.
- 8.3 The Acting Director of Finance is required to sign a letter of representation to acknowledge the responsibility for the fair presentation of the financial statements and as audit evidence on matters material to the financial statements. A proposed Audit Commission draft of this letter is contained in appendix 6 of their report.
- 8.4 The Audit and Inspection Letter needs to be completed and agreed with officers and the Leader of the Council by 31 January. It should then be made available to all Councillors and reported to an appropriate Member meeting. The final letter will contain references to the final opinion and a summary of the Annual Governance report issues.

9. Revisions to the financial statements for 2004/05

- 9.1 Further to General Purposes Committee on 29 June 2006 when the Council's financial statements were approved it has been necessary to make some amendments mainly for non-trifling misstatements. The changes are explained in table 1, page 9 of the Audit Commission's report.

10. Financial Implications

- 10.1 There are no direct financial implications arising from the recommendations in this report; however, any adjustments to the accounts as a result of this process will be taken into account in the future financial planning process.

11. Recommendations

- 11.1 That the Committee note the contents of this report and the actions proposed that arise from the statutory report of the Audit Commission.

12. Head of Legal Services comments

- 12.1 There are no specific legal implications.