

Report to: Audit Governance and Improvement Review Committee

Date: 27th September 2007

Subject: Annual Governance Report

Report of: Audit Commission

Contact officer: Helen Stevenson 2232

Purpose / summary: To report to Members a summary of the work carried out during the audit of the 2006/7 accounts, the conclusions reached and the recommendations made to discharge the statutory audit responsibilities to those charged with governance.

Alternative options considered and reason for selecting the one recommended: None – this is a requirement under accounting standards

Recommendation / decision: To agree the recommendations as set out in the report.

Key Decision: This report does not involve a key decision. The decision made as a result of this report will be published within **48 hours** and cannot be actioned until **seven working days** have elapsed, i.e. before

Risks / Implications:

Financial:
Staffing:
Policy:
Equal Opportunities - Has a Diversity Impact Assessment been conducted?
Wards affected:

Property – Does the proposal involve a reduction, addition or change to the Council’s asset base or its occupation?

No

Does this proposal have significant implications for the Council and the local population?

A diversity impact assessment is not necessary at this stage, however, equality and diversity implications have been considered when producing this report.

Does this proposal involve a new policy or procedure or significant changes to an existing policy or procedure?

A diversity impact assessment is not necessary at this stage, however, equality and diversity implications have been considered when producing this report.

Has the Director of Legal and Property Services confirmed that the recommendations within this report are lawful and comply with the Council’s Constitution? **N/A**

Has the Director of Finance and IT confirmed that any expenditure referred to within this report is consistent with the Council’s budget? **Yes**

Are any of the recommendations within this report contrary to the Policy Framework of the Council? **No**

* delete which applicable

For Cabinet reports only :

Categorisation of the report:	X
Discussion leading to a decision	
Monitoring	
Sharing for corporate understanding	

	X
Discussion	
Decision	
Information	

Tracking/Process:

	Consultation	Ward Members	Partners
Panel	Overview & Scrutiny	Cabinet	Council

There are no Background Papers to this Report within the meaning of Section 100D of the Local Government Act 1972.

Proper Officer

David Smith

Date

20th September 2007

Annual Governance Report

Date

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Annual Governance Report

Wigan Council

Audit 2006/07

- Audit Commission descriptor to be inserted by Publishing-

Document Control

Author Helen Stevenson

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Status of our reports

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

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

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Contents

Purpose of this document	4
Key messages	5
Accounts	5
Use of Resources	5
Accounts and Statement on Internal Control	6
Status of the audit	6
Unadjusted misstatements	6
Adjustments to the financial statements	6
Accounting practices	7
Systems of internal control	8
Next Steps	8
Use of resources	9
Work performed	9
Audit fee update	10
Appendix 1 – Action plan	11
Appendix 2 – The Audit Commission’s requirements in respect of independence and objectivity	12
Appendix 3 – Audit reports issued	13
Appendix 4 – Proposed auditor’s report	14
Independent auditor’s report to the Members of Wigan Council	14
Opinion on the financial statements	14
Respective responsibilities of the Chief Finance Officer and auditors	14
Basis of audit opinion	15
Opinion	15
Appendix 5 – Management representation letter	18
Appendix 6 – Value for money conclusion	21

Purpose of this document

- 1 In accordance with the Audit Commission's Code of Audit Practice (the Code), this report provides a summary of the work we have carried out during our 2006/07 audit of accounts, the conclusions we have reached and the recommendations we have made to discharge our statutory audit responsibilities to those charged with governance at the time they are considering the financial statements. For Wigan Council the body constituting 'those charged with governance' is the Audit, Governance and Improvement Review Committee.
- 2 In preparing our report, the Code requires us to comply with the requirements of International Standards on Auditing (United Kingdom & Ireland) – ISA (UK&I) - 260 'Communication of Audit Matters to Those Charged With Governance', by reporting to you matters relating to the audit of the financial statements. Other auditing standards require us to communicate with you in other specific circumstances including:
 - where we suspect or detect fraud;
 - where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
 - non-compliance with legislative or regulatory requirements and related authorities.
- 3 We are also required to communicate to you the Audit Commission's requirements in respect of independence and objectivity, and these are set out at Appendix 2.
- 4 This report has been prepared for presentation to the Audit Committee on 27 September 2007. Members are invited to:
 - consider the matters raised in the report before the financial statements are approved;
 - approve the representation letter on behalf of the Authority and those charged with governance before we issue our opinion; and
 - consider amending the financial statements for unadjusted misstatements, significant qualitative aspects of financial reporting and any recommendations for improvement in the action plan.
- 5 Our work during the year was performed in line with the plan that we have previously agreed with the Council. A summary of the outputs from this work is listed in Appendix 3. There have been no special reports issued under the auditors powers set out within the Audit Commission Act 1998.
- 6 The Council has taken a positive and constructive approach to our audit and we would like to take this opportunity to express our appreciation for the Authority's assistance and co-operation.

Key messages

Accounts

- 7 Our work on the financial statements is substantially complete. There are a number of amendments which are required to the accounts which are summarised later on in this report.
- 8 We propose issuing an unqualified audit opinion on 27 September 2007 (a draft report is attached at Appendix 4).

Use of Resources

- 9 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. We propose issuing an unqualified conclusion on the use of resources on 27 September 2007 (a draft report is attached at Appendix 4).

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Accounts and Statement on Internal Control

Status of the audit

- 10 Our work on the financial statements is substantially complete. Before an audit report is finalised auditors are required to obtain written confirmation of certain representations from management and those charged with governance as acknowledgement of responsibility for the fair presentation of the financial statements in accordance with the applicable financial reporting framework and responsibility for the design and implementation of internal control to prevent and detect error.
- 11 The auditor should also obtain written representations from management on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist.
- 12 We have discussed the above with officers and the final draft of the letter of representation has been attached as Appendix 5. The Audit, Governance and Improvement Review Committee is invited to approve this letter.

Unadjusted misstatements

- 13 We are required to report to you all unadjusted misstatements that we have identified during the course of our audit, other than those that are clearly trivial. There are no unadjusted misstatements for us to bring to the attention of members.

Adjustments to the financial statements

- 14 We are also required to bring to your attention misstatements that have already been corrected by management where we consider them relevant to your wider governance responsibilities. These are summarised below.

- Fixed assets misstatement £7.663m - land at Manchester Airport

The land was transferred in 1993/94 and accounted for initially as a deferred charge in line with the practice adopted by the other Greater Manchester authorities and subsequently the deferred charge was written out of the accounts in line with the recommended accounting practice. Following a recent review of Financial Reporting Standards the Audit Commission has recommended and the Greater Manchester Treasurers have agreed that that the accounts of the other 9 Greater Manchester authorities should be adjusted to achieve consistent financial accounting and reporting with the position recorded in the accounts of Manchester City. The adjustment has been accounted for as a prior year adjustment and has no impact on the General Fund balances.

- Additional Provision £776k - Westwood Park contractor claim

The contractor claim was originally recognised in the Statement of Accounts submitted to Members in June as a contingent liability as at 31st March 2007. Subsequent to this a settlement has been agreed and there is a requirement under the recommended accounting practices that adjustments should be made to the accounts if events after the balance sheet date provide additional evidence of conditions existing at that date and the amounts involved are material.

Recommendation

R1 The Audit, Governance and Improvement Review Committee should approve the adjustments to the accounts (referred to above) which have been agreed with officers.

Accounting practices

- 15 Our audit includes consideration of the qualitative aspects of the financial reporting process, including matters that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. Matters that we would like to bring to the attention of the Audit, Governance and Improvement Review Committee are summarised below. A complete list of all amendments has been agreed with officers.

- Disclosure notes to the statements

Some of the disclosure notes required amendment because the detail was incorrectly reported (for example, Statement of Total Recognised Gains and Losses (STRGL), I&E prior period adjustment, group accounts court costs). The introduction of completely new core statements in 2006/07 inevitably led to a number of possible interpretations and presentational issues in this first transitional year.

- Disclosure notes which provide further information

Some changes and additional notes have been agreed to improve various disclosures (for example, accounting policies for fixed assets and Local Authority Trading Scheme (LATS), related companies notes, contingent liabilities for equal pay)

- Housing revenue account disclosures

Changes were made to the presentation of the corporate and democratic core and supervision and management costs. This had no impact on the balance on the account.

Recommendation

R2 The Audit, Governance and Improvement Review Committee should approve the changes to the financial statements and disclosure notes (referred to above) which have been agreed with officers.

Systems of internal control

- 16 Our audit has not identified any material weaknesses in systems of accounting and financial control which we should report to you. We have also reviewed whether the Council's Statement on Internal Control has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit. There are no matters arising from this review.
- 17 We have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed.

Next Steps

- 18 We are drawing the matters in this report to the Audit, Governance and Improvement Review Committee's attention so that:
 - you have the opportunity to agree the adjustments to the accounts referred to above (in Tables 1 and 2) before the financial statements are finally approved and certified, and
 - the representation letter can be signed on behalf of the Authority and those charged with governance, before we issue our opinion on the financial statements.
- 19 Subject to the satisfactory resolution of any outstanding matters and agreement on the amendments to the accounts we anticipate being able to issue an unqualified opinion by 27 September 2007. A draft report which includes this unqualified opinion is attached at Appendix 4.
- 20 The recommendations in this report are summarised in the Action Plan at Appendix 1. We will issue a more detailed final accounts memorandum which we will agree with officers in due course.

Use of resources

Work performed

- 21** The Code requires us to reach a conclusion on whether we are satisfied that the Council has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources – the value for money conclusion. In meeting this responsibility, we review evidence that is relevant to the Council's corporate performance management and financial management arrangements across a range of criteria specified by the Audit Commission. Our work to support our conclusion comprised the following elements:
- use of resources assessment;
 - data quality work; and
 - the best value performance plan
 - the direction of travel statement (reported in the Annual Letter in March 2007).
- 22** We are satisfied from our assessment that the Council has met each of the specified criteria for 2006/07. There are therefore no matters which we wish to draw to the attention of the Audit, Governance and Improvement Review Committee.
- 23** Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. We propose issuing an unqualified conclusion on these arrangements by 27 September 2007. A draft report which includes this unqualified conclusion is attached at Appendix 4.
- 24** Details of our conclusion for each of the criteria specified by the Audit Commission are set out in Appendix 6.

Audit fee update

- 25 We reported our fee proposals as part of the Audit Plan for 2006/07. The table below reports the outturn fee against that plan.

	Plan 2006/07	Actual 2006/07
Financial statements and Statement on Internal Control	180,846	180,846
Use of Resources	73,993	73,993
Total Audit Fees	254,839	254,839
Additional services work:		
Integrated Special Needs Transport	5,000	5,000
Children's Placements	5,000	5,000

- 26 The analysis above shows that our audit fee has been contained within the totals previously agreed.
- 27 The outturn on inspection and grant certification fees will be reported in the annual audit and inspection letter.

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Appendix 1 – Action plan

Page	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation Date
	R1. The Audit, Governance and Improvement Review Committee should approve the adjustments to the accounts (referred to in Table 1) which have been agreed with officers.	3	Audit, Governance and Improvement Review Committee	Subject to meeting on 27/9/07		27/9/07
	R2. The Audit, Governance and Improvement Review Committee should approve the changes to the financial statements and disclosure notes (referred to in Table 2) which have been agreed with officers.	3	Audit, Governance and Improvement Review Committee	Subject to meeting on 27/9/07		27/9/07

Appendix 2 – The Audit Commission’s requirements in respect of independence and objectivity

- 1 We are required to communicate the following matters to those charged with governance:
 - the principal threats, if any, to objectivity and independence identified by the auditor, including consideration of all relationships between the Authority, directors and the auditor;
 - any safeguards adopted and the reasons why they are considered to be effective;
 - any independent partner review;
 - the overall assessment of threats and safeguards; and
 - information about the general policies and processes for maintaining objectivity and independence.
- 2 We are not aware of any relationships that may affect the independence and objectivity of the audit team and which are required to be disclosed under auditing and ethical standards.

Appendix 3 – Audit reports issued

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit and inspection plan 2006/07	March 2006	March 2006	Management
Procurement report	September 2006	November 2006	Management
BVPP report	December 2006	December 2006	The Authority
Data quality report	November 2006	January 2007	Management
Annual governance report	September 2007	September 2007	Audit, Committee
Opinion on financial statements	September 2007	September 2007	The Authority
Value for money conclusion	September 2007	September 2007	The Authority
Final accounts and regularity memorandum	November 2007		Management
Annual audit and inspection letter	March 2008		Management

Appendix 4 – Proposed auditor’s report

Independent auditor’s report to the Members of Wigan Council

Opinion on the financial statements

I have audited the financial statements of Wigan Metropolitan Borough Council and its Group for the year ended 31 March 2007 under the Audit Commission Act 1998, which comprise the Explanatory Foreword, Income and Expenditure Account, Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Collection Fund, the Group Accounts and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Wigan Metropolitan Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer’s responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and I) and to report to you my opinion as to whether the financial statements present fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006.

I review whether the statement on internal control reflects compliance with CIPFA’s guidance ‘The statement on internal control in local government: meeting the requirements of the Accounts and Audit Regulations 2003’ issued in April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the finances and capital information within the Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority and its Group as at 31 March 2007 and its income and expenditure for the year then ended.

Gill Eastwood

District Auditor

Audit Commission,
2nd Floor, Aspinall House, Aspinall Close,
Middlebrook,
Horwich,
Bolton BL6 6QQ

Date 27 September 2007

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

Authority’s Responsibilities

The authority 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 regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority’s assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor’s Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the authority 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 in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the authority’s best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, Wigan Metropolitan Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2007.

Best Value Performance Plan

I issued my statutory report on the audit of the authority’s best value performance plan for the financial year 2006/07 on 12 December 2006. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

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.

Gill Eastwood

District Auditor

Audit Commission,
2nd Floor, Aspinall House, Aspinall Close,
Middlebrook,
Horwich,
Bolton BL6 6QQ

Date 27 September 2007

Appendix 5 – Management representation letter

To: Gill Eastwood

District Auditor

Audit Commission,
2nd Floor, Aspinall House, Aspinall Close,
Middlebrook,
Horwich,
Bolton BL6 6QQ

Wigan Metropolitan Borough Council

Audit for the year ended 31 March 2007

We confirm to the best of our knowledge and belief, having made appropriate enquiries of other officers of Wigan Metropolitan Borough Council, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31st March 2007.

We acknowledge our responsibility under the relevant statutory authorities for preparing the financial statements which present fairly the financial position of the Authority and its Group as at 31 March 2007 and its income and expenditure for the year then ended, and for making accurate representations to you.

The Authority has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Authority have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all committee meetings, have been made available to you.

Related party transactions

We confirm the completeness of the information provided regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and,
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements;
- no financial guarantees have been given to third parties.

Law, regulations and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Authority.

Irregularities

We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements;
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

Post balance sheet events

Since the date of approval of the financial statements by Members of the Authority, no additional significant post balance sheet events that have occurred, other than the provision included for Westwood Park, which would require additional adjustment or disclosure in the financial statements.

Signed on behalf of Wigan Metropolitan Borough Council

Signed M Winstanley

Name Councillor Michael Winstanley

Position Chairman of the Audit, Governance and Improvement Review Committee

Date 27 September 2007

Signed D Smith

Name Dr David Smith

Position Director of Finance and Information Technology

Date 27 September 2007

Appendix 6 – Value for money conclusion

- 1 The Audit Commission has published, in accordance with the Code of Audit Practice, 12 criteria on which auditors are required to reach a conclusion on the adequacy of an audited body's arrangements for economy, efficiency and effectiveness in its use of resources.
- 2 The Code criteria are linked to the use of resources assessment (UoR) key lines of enquiry (KLoEs). A score of Level 2 or higher under the KLoEs will result in an assessment that the Authority has adequate arrangements in place for the purposes of the Code criteria. The Code criteria and the linked KLoEs are show in the table below.

Code Criteria	Description	Associated UoR KLoE	VFM Conclusion
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	N/A	Adequate
2	The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	N/A	Adequate
3	The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	N/A	Adequate
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	LG DQ KLoEs	Adequate
5	The body has put in place arrangements to maintain a sound system of internal control.	4.2	Adequate

22 Annual governance report | Appendix 6 – Value for money conclusion

6	The body has put in place arrangements to manage its significant business risks.	4.1	Adequate
7	The body has put in place arrangements to manage and improve value for money.	5.2	Adequate
8	The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	2.1	Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	3.1	Adequate
10	The body has put in place arrangements for managing performance against budgets.	2.2	Adequate
11	The body has put in place arrangements for the management of its asset base.	2.3	Adequate
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	4.3	Adequate