



CORPORATE GOVERNANCE COMMITTEE

YOU ARE REQUESTED TO ATTEND A MEETING OF THE CORPORATE GOVERNANCE COMMITTEE TO BE HELD IN THE PRINCIPAL COMMITTEE ROOM, THE DEANE HOUSE, BELVEDERE ROAD, TAUNTON ON MONDAY 25TH SEPTEMBER 2006 AT 18:15.

AGENDA

1. Apologies
2. Minutes of the meeting of the Corporate Governance Committee held on 28 June 2006 (attached)
3. Public Question Time
4. Declaration of Interests - To receive declarations of personal or prejudicial interests in accordance with the Code of Conduct
5. Risk Management Strategy - An exercise to be carried out with Members to identify high level strategic risks. Pete Weaver
6. Annual Governance Report - Audit 2005/2006 (attached). Shirlene Adam/Terry Bowditch
7. Internal Audit - A report by the Group Auditor updating progress made (attached). Chris Gunn

G P DYKE
Member Services Manager
15 September 2006

Corporate Governance Committee Members:-

Councillor Williams (Chairman)

Councillor Mrs Lewin-Harris (Vice-Chairman)

Councillor Beaven

Councillor Denington

Councillor Hall

Councillor Lisgo

Councillor Meikle

Councillor Prior-Sankey

Councillor Mrs Smith

Councillor Wedderkopp

Councillor Mrs Whitmarsh



Members of the public are welcome to attend the meeting and listen to the discussion. Lift access to the main committee room on the first floor of the building is available from the main ground floor entrance. Toilet facilities, with wheelchair access, are also available. There is a time set aside at the beginning of the meeting to allow the public to ask questions



An induction loop operates to enhance sound for anyone wearing a hearing aid or using a transmitter. If you require any further information, please contact Greg Dyke on:



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Website: www.tauntondeane.gov.uk (Council, Executive, Review Board & Review Panel Agenda, Reports and Minutes are available on the Website)

Corporate Governance Committee – 28 June 2006

Present: Councillor Williams (Chairman)
Councillor Mrs Lewin-Harris (Vice-Chairman)
Councillors Beaven, Hall, Lisgo, Meikle, Paul, Mrs Smith, Stuart-Thorn
and Wedderkopp.

Officers: Ms S Adam (Strategic Director)
Mrs G Croucher (Review Support Officer)
Mr D Greig (Parish Liaison Officer)
Mr C Gunn (Internal Audit Manager)
Mr S Murphy (Principal Accountant)
Mr P Weaver (Head of Environment and Leisure)

Also Present: Councillor Coles and Mr T Bowditch

(The meeting commenced at 6.15 pm)

1. Appointment of Chairman and Vice-Chairman

RESOLVED that:-

1. Councillor Williams be appointed Chairman of the Committee for the remainder of the Municipal Year; and
2. Councillor Mrs Lewin-Harris be appointed Vice-Chairman of the Committee for the remainder of the Municipal Year.

2. Apologies/Substitutions

Apologies: Councillors Denington, Prior-Sankey and Mrs Whitmarsh

Substitution: Councillor Paul for Councillor Prior-Sankey and Councillor Stuart-Thorn for Councillor Denington.

3. Minutes

The minutes of the meeting held on 9 November 2005 were taken as read and were signed.

4. Audit and Inspection Plan 2006/2007

Mr Terry Bowditch, Audit Manager, the Audit Commission (AC), introduced Taunton Deane Borough Council's Audit and Inspection Plan 2006/2007.

The plan set out the audit work proposed to be undertaken by the AC. It had been drawn up from the AC's risk based approach to audit planning and reflected:-

- the Code of Audit Practice;

- audit and inspection work specified by the Audit Commission for 2006/2007;
- the Council's local risks and improvement policies; and
- current national risks relevant to the Council's local circumstances.

The total fee estimate for the audit and inspection work planned was £79,672. Details as to how this fee had been determined were submitted.

Following the Council's classification as an "excellent" Council in the 2004 Comprehensive Performance Assessment (CPA), the AC had applied the principles of strategic regulation recognising the key strengths in the Council's performance. A Direction of Travel Report had been produced which provided a review of the Council's progress since the CPA inspection and highlighted areas still in need of improvement. The review found many positive developments and progress in key areas which included:-

- Improving strategic planning and leadership with greater clarification of priorities, improving access to services, delivering better value for money and progress in building capacity;
- Consistently high public satisfaction in many service areas; and
- Improvement plans which were driving continuous improvement.

Areas identified as still in need of improvement included workforce planning, providing a consistent approach to managing equality and diversity, being more specific about the role and objectives of the Council for economic regeneration activity and using the results of consultation more effectively.

An in depth study of the inspection of the Council would be undertaken based on the following summary:-

Inspection activity	Reason/impact
Relationship manager role	To act as the Commission's primary point with the Council and the interface at the local level between the Commission and the other inspectorates, Government offices and other key stakeholders
Direction of Travel review	To provide focus for continuous improvement. Likely to be included in CPA scorecard

The AC would also be carrying out an audit of the 2006/2007 financial statements and follow the International Standards on Auditing.

The Statement of Internal Control would be reviewed to ensure it had been presented in accordance with relevant requirements. On the basis of preliminary work, three “opinion risks” had been identified which would be actioned.

Noted that the audit of the 2005/2006 financial statements had yet to be undertaken and the 2006/2007 financial statements audit planning would continue as the year progressed. This would take account of:-

- the 2005/2006 opinion audit;
- the AC’s documentation and initial testing of material information systems;
- the AC’s assessment of the 2006/2007 closedown arrangements; and
- any changes in the financial reporting requirements.

The areas of audit risk to be addressed were identified as:-

- Provision of regular assurance that the key corporate business risks were being managed effectively;
- The impact of the ISiS project on management arrangements; and
- The Housing Stock Options Project and tenants ballot proposals.

RESOLVED that the report be noted.

5. Strategic Risk Management

Submitted report previously circulated, updating the Committee on the progress that has been achieved in embedding Risk Management within the organisation since the last meeting.

Risk Management was the basis of decision making where consequences and likelihood of outcomes was assessed prior to and during actions. In large and complex organisations it was necessary to provide a format for “common sense thinking” to ensure that a corporate and consistent approach was taken to the management of risk. This provided a baseline to judge the acceptability of a risk and to identify how it could be controlled and to identify opportunities that might otherwise have been dismissed.

Risk Management was recognised to be an essential and integral part of good management practice and governance. To be most effective it should become part of the Council’s culture and be integrated into the philosophy, practices and service planning process rather than being viewed as a separate initiative.

A robust system needed to be in place as failure to do so would lead to spiralling insurance costs and the danger that insurance companies would not be prepared to insure the Council.

As Risk Management was now an important part of the Comprehensive Performance Assessment (CPA) for the Council to retain its “excellent” status it was necessary to demonstrate that there was a system in place to monitor and manage risk. This included a requirement for this Committee to:-

- Consider and approve the Council’s framework for risk management; and
- Monitor progress on risk management and receive reports from the Risk Management Group.

Reported that significant progress had been made in introducing and implementing Risk Management throughout the organisation. This included:-

- Since December 2002 the Risk Management Team (RMT) had been working with the Chief Executive, Directors and Heads of Service to identify and manage high level corporate risks across the Authority and to start cascading and embedding the risk assessment process throughout the Council;
- Strategic Risk Registers had been put in place at corporate level and for each Head of Service area;
- The Corporate Risk Register had been reviewed and would be repeated at 6 monthly intervals;
- The Heads of Service Risk Management Registers would be incorporated into the Heads of Service Plans and reviewed as part of the planning and monitoring process;
- All large projects had been assessed for risk and Management Actions Plans had been put in place;
- A number of officers had been trained in the methodology to assist in the facilitation of Risk Management workshops;
- Work had now been completed to assess the risks at operational level throughout the Council and every unit had produced Management Action Plans to control the risks identified;
- Risk Management had now been included in the Corporate Staff Induction day; and
- The Risk Management Strategy was currently being revised and was at first draft stage.

Members of the Committee viewed the “Hearts and Minds” presentation usually given to officers.

It was reported that future actions planned to ensure that the system was maintained included:-

- a) Registers and Management Action Plans to be reviewed on a regular basis;
- b) A mechanism to be devised to ensure that risks can move between the plans to ensure they were being managed at the appropriate level;
- c) The Risk Management Strategy was to be revised and presented to the next Corporate Governance Committee meeting. A risk identification exercise would be carried out with Members of the Committee to identify high level strategic risks from their perspective.

RESOLVED that:-

1. The progress made so far in Risk Management within the Council be noted;
2. The actions that were planned for the future be noted; and
3. An exercise at the next meeting of the Corporate Governance Committee be undertaken to identify high level strategic risks from the Members’ perspective.

6. Internal Audit Annual Report 2005/2006

Submitted for consideration the Annual Report 2005/2006 of the Council’s Internal Audit Services.

Generally, the reviews undertaken had identified only minor areas for improvement and had shown that key controls for the major financial systems were operating well. However, where significant control weaknesses had been identified recommendations for improvement had been acknowledged or adopted.

The following was a summary of the work undertaken during the year:-

27 Risk Registers had been compiled;

19 full systems audits had been planned. Of these 3 were completed from the previous year; 6 had been issued as draft reports; one was in progress and would be completed this year; 12 audits had not completed with the agreement of management.

The Internal Audit Section had also undertaken to support:-

- Participation in the Statement on Internal Control Working Party;
- Use of Resources Review;
- Data Protection and Freedom of Information Advice;
- Review of Final Accounts (Contract Audit);
- General advice to services (financial and internal control issues).

13 managed audits/part system reviews had been undertaken to assist the External Auditor.

23 follow-up reviews were due, with one at draft stage and three outstanding.

The significant areas that remained outstanding included:-

- Quality of systems and procedural documentation;
- Lone worker arrangements;
- Recruitment and selection of staff; and
- Main accounting system.

RESOLVED that the report be noted.

7. Internal Audit Progress Report

Considered report previously circulated, which provided an update on the progress made against agreed audit recommendations from 2005/2006. The report also detailed the activities of the Internal Audit team for the period between November 2005 and June 2006.

Reported that the 20 audit reviews completed during 2005/2006 had resulted in 164 recommendations being made. Although follow up visits had yet to be completed for all of these audit areas, summary details of progress against the recommendations was submitted.

RESOLVED that the report be noted.

8. South West Audit Partnership (SWAP) Financial Performance 2005/2006

The South West Audit Partnership (SWAP) was formed in 2005 and provided an effective internal audit service to Taunton Deane Borough, South Somerset, Mendip and West Somerset District Councils. The Partnership was operated as a Joint Committee. This Council contributed £20,000 towards the start-up funding of £60,000 and it was agreed this would be repaid in four annual instalments starting in 2006/2007. During 2005/2006 the Partnership had out-performed its financial business plan by £7.5k.

It was also noted that the Partnership had generally met its performance targets.

RESOLVED that the report be noted.

9. Statement on Internal Control 2005/2006

Considered report previously circulated, concerning the annual Statement on Internal Control (SIC). The effectiveness of the SIC was required to be reviewed at least once a year and would form part of the 2005/2006 Statement of Accounts. The 2005/2006 review had concluded that there were no significant control issues to be addressed.

The SIC statement was required to be approved by the Corporate Governance Committee and then signed by the Leader of the Council, the Chief Executive and the Chief Finance Officer.

RESOLVED that the Council's Statement on Internal Control be approved.

10. Statement of Accounts 2005/2006

Considered report previously circulated, concerning the annual Statement of Accounts for 2005/2006 which was required to be approved by the Corporate Governance Committee prior to the accounts being signed by the Council's Section 151 Officer and Strategic Director, Shirlene Adam, and by the Chairman of the Committee, Councillor Williams.

The statutory deadline had been moved forward a month to the end of June compared to the end of July in previous years.

The 2005/2006 Accounts presented were subject to Audit which would shortly be undertaken by the Audit Commission.

The format of the Statement of Accounts was largely the same as last year and complied fully with current Local Authority Accounting arrangements. There had been only minor changes to the content of the Annual Accounts when compared to 2004/2005.

A detailed presentation was made to Members by the Principal Accountant, Steve Murphy, on the Statement of Accounts which included information on the following topics:-

- Consolidated Revenue Account;
- Consolidated Balance Sheet;
- Housing Revenue Account;
- Collection Fund; and
- Group Accounts.

Reported that following the conclusion of the audit to be undertaken by the Audit Commission, the Committee would be informed of any significant amendments that arose.

RESOLVED that:-

- (i) The Statement of Accounts for 2005/2006 be approved;
- (ii) Authority be delegated to the Section 151 Officer and Leader of the Council to amend the notes to the Statement of Accounts (in order to comply with Local Authority Accounting Panel (LAAP) 65); and
- (iii) The following determinations in respect of the year ended 31 March 2006 be made:-
 - 1. **Section 42(2)(g)** – that £1,415k of expenditure for capital purposes, which was financed by grant, be capitalised; and
 - 2. **Section 60(2)** – that £390k of useable capital receipts be applied to meet capital expenditure.

(The meeting ended at 8.46 p.m.)

TAUNTON DEANE BOROUGH COUNCIL

CORPORATE GOVERNANCE COMMITTEE, 25 SEPTEMBER 2006

REPORT OF STRATEGIC DIRECTOR, SHIRLENE ADAM

This matter is the responsibility of Executive Councillor Williams (Leader of the Council)

Annual Governance Report – Audit 2005/06

1 Purpose of Report

- 1.1 The Audit Commission are required to report annually to those charged with governance (the Corporate Governance Committee at Taunton Deane) on the conclusions of their audit work.
- 1.2 The Annual Governance Report for 2005/06 is attached at Appendix A. Terry Bowditch, from the Audit Commission, will attend the meeting to present the report to Members.

2 Recommendation

- 2.1 The Corporate Governance Committee is requested to consider the Annual Governance Report 2005/06 and note the key messages therein.

Contact Officer:-

Shirlene Adam

Strategic Director, 01823 356310, s.adam@tauntondeane.gov.uk

Annual Governance Report

September 2006



Annual governance report

Taunton Deane Borough

Council Audit 2005/06

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

auditors are appointed independently from the bodies being audited;
the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and

auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999

and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports to the Council

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 members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

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Purpose of this report

- 1 We are required by the Audit Commission's statutory Code of Audit Practice for Local Government bodies (the Code) to issue a report to those charged with governance summarising the conclusions from our audit work. For the purposes of this report, the Council's Corporate Governance Committee is considered to fulfil the role of those charged with governance.
- 2 We are also required by professional auditing standards to report to the Corporate Governance Committee certain matters before we give our opinion on the financial statements. The section of this report covering the financial statements fulfils this requirement.
- 3 This is our annual governance report covering the audit of the Council for the year ended 31 March 2006 and is presented by the District Auditor.
- 4 The principal purposes of the report are:
 - to reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and the Corporate Governance Committee;
 - to share information to assist both the auditor and those charged with governance to fulfil their respective responsibilities; and
 - to provide the Corporate Governance Committee with recommendations for improvement arising from the audit process.
- 5 The Audit Commission has circulated to all audited bodies a Statement of Responsibilities of Auditors and Audited Bodies that summarises the key responsibilities of auditors. Our audit has been conducted in accordance

with the principals set out in that statement.

Scope of the report

- 6 In undertaking our audit, we comply with the statutory requirements of the Audit Commission Act 1998 and the Code. Auditors' responsibilities are to review and report on, to the extent required by the relevant legislation and the requirements of the Code:

the Council's financial statements; and
whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

- 7 Our risk assessment and planned response to the key audit risks was summarised in our audit and inspection plan. A summary of our responsibilities and audit approach is included in Appendix 1. The annual governance report summarises the significant findings, conclusions and recommendations arising from our audit work.
- 8 We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 2. Appendix 3 provides information about the fee charged for our audit and Appendix 4 sets out the requirements in respect of independence and objectivity. Appendix 5 contains the draft Independent auditor's report to Taunton Deane Borough Council and appendix 6 sets out a draft letter of management representations.
- 9 This report does not cover work carried out under the Audit Commission's inspection powers. Summary reports of this work will be included in due course in the Relationship Manager's letter to members.

Key messages

Financial statements

- 10 **Our work on the financial statements is now substantially complete. We anticipate being able to issue an unqualified opinion by 30 September 2006 (a draft report is attached at Appendix 5).**

Use of resources

Value for Money conclusion

- 11 **Our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. We anticipate issuing an unqualified value for money conclusion by 30 September 2006 (a draft report is attached at Appendix 5).**
- 12 **Table 1 is a summary of our findings included in this report that we are required to report under the international auditing standard 260 (ISA 260).**

Table 1 Summary of responsibilities and findings

Financial Statements	Issue	Action required by the Corporate Governance Committee
Expected modifications to the auditor's report	None	Consider draft report at appendix 5
Uncorrected misstatements	None	None
Adjusted misstatements	None	None
Qualitative aspects of accounting practices and financial reporting	There are weaknesses in the Council's asset registers - see para 33.	Ensure that action is taken to improve the registers before the 2006-7 accounts are prepared.
Material weaknesses in internal control identified during the audit	None	None
Matters specifically	None	None

Financial Statements	Issue	Action required by the Corporate Governance Committee
required by other auditing standards		
Any other matters of governance interest	Whole of Government Accounts return to be audited by 6 October 2006	Refer to table 2 on page 10
Letter of representation	None - see copy at Appendix 6	Corporate Governance Committee to delegate responsibility to the Strategic Director of Resources to sign
Use of Resources		
Value for money conclusion	None - the Council achieved all of the 12 criteria.	None - an unqualified opinion - copy at Appendix 5
Use of auditors' statutory powers	None	None

Financial statements

- 13 We are required to give an opinion on whether the Council's financial statements present fairly the financial position of the Council as at 31 March 2006 and its income and expenditure for the year then ended.

Status of the audit

- 14 Our work on the financial statements is now substantially complete.

Matters to be reported to the Corporate Governance Committee

- 15 We have the following matters to draw to the Committee's attention.

Expected modifications to the auditor's report

- 16 On the basis of our audit work we currently propose to issue an unqualified audit report. A draft audit report is attached at Appendix 5.

Uncorrected misstatements

- 17 The financial statements have been adjusted for all misstatements identified by the audit, other than those that are 'clearly trivial' (as defined in professional auditing standards).

Adjusted misstatements

- 18 To assist you in fulfilling your governance responsibilities, we are required to consider reporting adjusted misstatements to you where these are material.
- 19 No material adjustments have been made to the approved accounts.

Qualitative aspects of accounting practices and financial reporting

- 20 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.
- 21 We refer at paragraphs 33 below to weaknesses in the records of the Council's fixed assets, to support the figures shown in the balance sheet in respect of these assets. We have no other issues to report to you..

Material weaknesses in internal control identified during the audit

- 22 Our audit identified no material weaknesses in the Council's systems of accounting and financial control. 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.

Matters specifically required by other auditing standards

- 23 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.

- 24 There are no matters which we wish to report to you.

Any other matters of governance interest

- 25 Finally, we are required to report any other matters that we believe to be of governance interest. We report these matters in Table 2 below.

Table 2 Other matters of governance interest

Area	Auditor responsibility	Comments
Statement of internal control (SIC)	The auditor reviews the SIC for compliance with the requirements of proper practice as specified by CIPFA and consistency with other information from the audit of the financial statements.	We have reviewed the SIC as part of the audit of the financial statements and confirmed that it is consistent with our knowledge.
Whole of Government Accounts' consolidation pack	The auditor is responsible for issuing a report on the consistency of the Council's consolidation pack with the statutory financial statements.	We are required to submit an audited return by 6 October 2006.

Letter of representation

- 26 We obtain written representations from management as an acknowledgement of its responsibility for the fair presentation of the financial statements and as audit evidence on matters material to the financial statements. The text of the required letter of representation is included at Appendix 6.

Next steps

- 27 We are drawing these matters to the Corporate Governance Committee's attention so that:

you can consider them before the financial statements are certified;
and

the representation letter can be signed on behalf of the Council and those charged with governance before we issue our opinion on the financial statements.

Use of resources

Value for money conclusion

- 28 The Code requires us to issue 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 your resources (the value for money conclusion). In meeting this responsibility, we will review evidence that is relevant to the Council's corporate performance management and financial management arrangements.
- 29 Our work in reaching the value for money conclusion relies in large part on our use of resources assessment which was reported to you in our Audit and Inspection Letter in March 2006. We update this assessment by consideration of developments that have taken place after the use of resources evaluation was carried out, up to 31 March 2006.
- 30 A summary of the VFM Conclusion is as follows:

Theme (abbreviated)	Source of evidence	Qualify VFM Conclusion?	Reference to later paragraphs
1. Corporate objectives	Recent work	No	
2. Communication	Recent work	No	
3. Performance management	Recent work	No	
4. Data quality	DQ audit	No	
5. Internal control	UoR 4.2	No	
6. Risk management	UoR 4.1	No	

7. Value for money	UoR 5.2	No	
8. Financial strategy	UoR 2.1	No	
9. Financial standing	UoR 3.1	No	Para 37 to 38
10. Financial management	UoR 2.2	No	
11. Asset management	UoR 2.3	No	Paras 32 to 36
12. Probity and propriety	UoR 4.3	No	

Overall conclusion

- 31 On the basis of our audit work, we propose to issue a report including an unqualified value for money conclusion.**

**Taunton Deane Borough
Council**

Asset management

- 32 The most significant weakness identified in our work supporting our use of resources judgment related to the Council's management of its assets. We noted that the Council has made little progress in developing the use of PIs and benchmarking to help it manage its asset base proactively and to provide assurance that the performance of the property portfolio provides value for money.**
- 33 Our work on the 2005-6 financial statements has identified weaknesses in the Council's asset registers, which provide the supporting information for the fixed asset figures shown in the balance sheet::**

The register for plant ,vehicles and equipment does not provide sufficient detail to allocate all costs to individual assets; and

Officers could not provide analysis by asset of the HRA infrastructure assets figure of £1.9 million, which represents past expenditure on unadopted roads, sewers and similar items.

- 34 In our Annual Audit and Inspection Letter in March 2006, we noted that there had been significant slippage on the capital programme in 2004-5. There was a similar level of slippage in 2005-6, with expenditure of £4.2 million against a budget of £9.7 million.**
- 35 There were specific reasons for delays on some individual schemes. However, the Council's arrangements for monitoring and reporting progress on the General Fund capital programme appear to be relatively weak, particularly when compared to those it has in place for the Housing capital programme.**
- 36 We note that the Statement of Internal Control includes a commitment to reviewing and enhancing asset management practices. This is an area we will be**

reviewing closely when we carry out our use of resources evaluations later this year.

Financial Standing

- 37 The Council has a sound record of delivering expenditure within budget. For 2005-6, actual expenditure on the General Fund was just £45,000, or 0.4%, below the agreed budget of £11.8 million. This left working balances at £1.4 million, comfortably above the "acceptable minimum" of £0.75 million set in the Council's financial strategy
- 38 As regards the financial outlook, the Council has consistently identified budget gaps for future years in its medium-term financial plan. Although it has a clear strategy for addressing this situation, it will need to continue to maintain close control over its revenue budget.

Use of auditors' statutory powers

- 39 Auditors are required to consider the exercise of certain statutory powers during the course of the audit, as summarised in Table 3 below.

Table 3 Use of statutory powers

No use of statutory powers has been required.

Issue	Auditor responsibility	Impact
Section 8 reports	Section 8 of the Act requires that auditors should consider whether, in the public interest, they should report on any matter that comes to their attention in the course of the audit so that it may be considered by the body concerned or brought to the attention of the public.	There have been no section 8 reports in respect of the financial year 2005/2006.
Section 11 recommendations	To consider whether a written recommendation should be made to the audited body requiring it to be considered and responded to publicly.	There have been no s11 recommendations.

Best value	To consider whether to recommend that the Audit Commission should carry out a best value inspection of the Council under section 10 of the Local Government Act 1999 and/or that the Secretary of State should give a direction under section 15 of that Act.	Our work in respect of the Council's 2005/2006 Best Value Performance Plan (BVPP) was reported in December 2005. No recommendations were made to the Audit Commission or the Secretary of State.
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Closing remarks

- 40 This report has been discussed and agreed with the Strategic Director of Resources. A copy of the report will be presented at the Corporate Governance Committee on 25 September 2006.
- 41 The Council has taken a positive and constructive approach to our audit and I would like to take this opportunity to express my appreciation for the Council's assistance and co-operation.

Peter Lawrence
District Auditor

September 2006

Appendix 1 – Audit responsibilities and approach

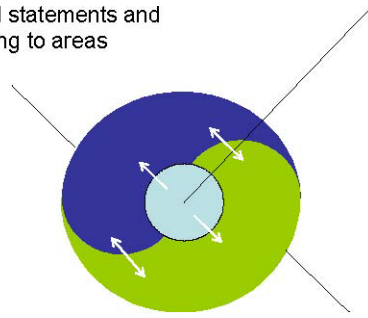
Audit objectives

- 1 Our objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on the significant risks that are relevant to our audit responsibilities.

Figure 1 Code of Audit Practice

Code of practice responsibilities

Audit of financial statements and assurance relating to areas covered by SIC



Risk based planning based on understanding the body's business and overall corporate governance

Assurance in relation to corporate performance and financial management arrangements to secure VFM

Approach to the audit of the financial statements

2 In our approach to auditing the financial statements, we adopt a concept of materiality. Material errors are those which might be misleading to a reader of the financial statements. We seek, in planning and conducting our audit of the accounts, to provide reasonable assurance that your financial statements are free of material misstatement. In planning our work we considered the arrangements of the Council which had most impact on our opinion. These included:

- the standard of the overall control environment and internal controls;
- reliance on internal audit;
- the likelihood of material misstatement occurring from of material information systems; or a material error failing to be detected by internal controls;
- any changes in financial reporting requirements; and
- the effectiveness of procedures for producing the financial statements and supporting material.

3 The results of the above feed into our risk assessment which determines the level and type of testing undertaken on each element of the financial statements.

Approach to audit of arrangements to secure value for money

4 The scope of these arrangements is defined in paragraph 20 of the

Code as comprising:

corporate performance management; and
financial management arrangements.

- 5 Our conclusion is informed and limited by reference to relevant criteria covering specific aspects of audited bodies' arrangements, specified by the Code.
- 6 In planning audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, considered and assessed relevant significant business risk. Significance is defined by the Code as 'a matter of professional judgment and includes both quantitative and qualitative aspects of the risk'.
- 7 The potential sources of assurance when reaching the value for money conclusion include:

the Council's whole system of internal control as reported in its statement on internal control;

results from statutory inspections or the work of other regulators, for example, corporate assessments, service assessments (whether by the Commission or other regulators), etc.;

work specified by the Audit Commission, for example, the use of resources assessments, and data quality work;

links to the financial statements' audit, including review of internal audit, the SIC and budgetary control arrangements; and

- other work necessary to discharge our responsibilities.

Appendix 2 – Audit reports issued

Table 4

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit and inspection plan	March 2005	March 2005	The Council
Best Value Performance Plan (BVPP) report	December 2005	November 2005	The Council
Use of resources assessments	March 2006	March 2006	Management
Final accounts memorandum	September 2006		Management
Opinion on financial statements	30 September 2006		The Council

Value for money conclusion	30 September 2006		The Council
Relationship Manager Letter	March 2007	TBC	The Council

Appendix 3 – Fee information

Table 5

Fee estimate	Plan 2005/06 £	Actual 2005/06 £
Audit		
Accounts	50,463	50,463
Use of resources	24,798	24,798
Total audit fees	75,261	75,261
Inspection	3,563	3,563
Total Audit and Inspection Fee	78,824	78,824
Grant Certification	27,000	*

* We will report the actual fee for grant certification work when that work has been completed.

Appendix 4 – The Audit Commission’s requirements in respect of independence and objectivity

1 We are required by the standard to communicate following matters to the Corporate Governance Committee:

the principal threats, if any to objectivity and independence identified by the auditor, including consideration of all relationships between the Council, 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 team, and which are required to be disclosed under auditing and ethical standards.

Appendix 5 – Independent auditor’s report to Taunton Deane Borough Council

Opinion on the financial statements

I have audited the financial statements of Taunton Deane Borough Council for the year ended 31 March 2006 under the Audit Commission Act 1998, which comprise the Consolidated Revenue Account, the Housing Revenue Account, the Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement, and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Taunton Deane 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 2005 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 Ireland).

I report to you my opinion as to whether the financial statements presents fairly the financial position of the Council in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005.

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’ published on 2 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 Council’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 Explanatory Foreword. 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 Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council'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 2005, the financial position of the Council as at 31 March 2006 and its income and expenditure for the year then ended.

Peter Lawrence, District Auditor The Audit Commission 3-6 Blenheim Court
Lustleigh Close Matford Business Park Exeter EX2 8PW

September 2006

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

Council's Responsibilities

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 regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the council is required to prepare and publish a best value performance plan summarising the council'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 council 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 council has made such proper arrangements. 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.

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

certifying that we have done so;
stating whether we 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 I am satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, in all significant respects, Taunton Deane Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006.

Best Value Performance Plan

I issued my statutory report on the audit of the council's best value performance plan for the financial year 2005/06 in December 2005. I did not identify any matters to be reported to the council 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.

Peter Lawrence, District Auditor The Audit Commission 3-6 Blenheim Court
Lustleigh Close Matford Business Park Exeter EX2 8PW

September 2006

Appendix 6 – Letter of representation

Peter Lawrence, District Auditor The Audit Commission 3-6 Blenheim Court
Lustleigh Close Matford Business Park Exeter EX2 8PW

September 2006

Taunton Deane Borough Council - Audit for the year ended 31 March 2006

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Taunton Deane 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 2006.

I acknowledge my responsibility under the relevant statutory authorities both for preparing the financial statements which present fairly and for making accurate representations to you.

Taunton Deane Borough Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Specific representations:

Sufficient controls have been established, and have operated, to identify, classify and record correctly transactions processed via the Council's bank account.

There are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements.

The steps taken by the Council to confirm that the data used by the actuary to calculate FRS 17 disclosure information continues to be appropriate and representative of the membership profile as at 31 March 2006.

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 Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Committee and Council meetings, have been made available to you.

Related party transactions

I 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

I acknowledge my 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; and

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 the Council, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

Signed on behalf of Taunton Deane Borough Council

Annual Governance Report

September 2006



Annual governance report

Taunton Deane Borough Council

Audit 2005/06

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports to the Council

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 members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

www.audit-commission.gov.uk

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Purpose of this report

- 1 We are required by the Audit Commission's statutory Code of Audit Practice for Local Government bodies (the Code) to issue a report to those charged with governance summarising the conclusions from our audit work. For the purposes of this report, the Council's Corporate Governance Committee is considered to fulfil the role of those charged with governance.
- 2 We are also required by professional auditing standards to report to the Corporate Governance Committee certain matters before we give our opinion on the financial statements. The section of this report covering the financial statements fulfils this requirement.
- 3 This is our annual governance report covering the audit of the Council for the year ended 31 March 2006 and is presented by the District Auditor.
- 4 The principal purposes of the report are:
 - to reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and the Corporate Governance Committee;
 - to share information to assist both the auditor and those charged with governance to fulfil their respective responsibilities; and
 - to provide the Corporate Governance Committee with recommendations for improvement arising from the audit process.
- 5 The Audit Commission has circulated to all audited bodies a Statement of Responsibilities of Auditors and Audited Bodies that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principals set out in that statement.

Scope of the report

- 6 In undertaking our audit, we comply with the statutory requirements of the Audit Commission Act 1998 and the Code. Auditors' responsibilities are to review and report on, to the extent required by the relevant legislation and the requirements of the Code:
 - the Council's financial statements; and
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 7 Our risk assessment and planned response to the key audit risks was summarised in our audit and inspection plan. A summary of our responsibilities and audit approach is included in Appendix 1. The annual governance report summarises the significant findings, conclusions and recommendations arising from our audit work.

- 8 We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 2. Appendix 3 provides information about the fee charged for our audit and Appendix 4 sets out the requirements in respect of independence and objectivity. Appendix 5 contains the draft Independent auditor's report to Taunton Deane Borough Council and appendix 6 sets out a draft letter of management representations.
- 9 This report does not cover work carried out under the Audit Commission's inspection powers. Summary reports of this work will be included in due course in the Relationship Manager's letter to members.

Key messages

Financial statements

- 10 Our work on the financial statements is now substantially complete. We anticipate being able to issue an unqualified opinion by 30 September 2006 (a draft report is attached at Appendix 5).

Use of resources

Value for Money conclusion

- 11 Our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. We anticipate issuing an unqualified value for money conclusion by 30 September 2006 (a draft report is attached at Appendix 5).
- 12 Table 1 is a summary of our findings included in this report that we are required to report under the international auditing standard 260 (ISA 260).

Table 1 Summary of responsibilities and findings

Financial Statements	Issue	Action required by the Corporate Governance Committee
Expected modifications to the auditor's report	None	Consider draft report at appendix 5
Uncorrected misstatements	None	None
Adjusted misstatements	None	None
Qualitative aspects of accounting practices and financial reporting	There are weaknesses in the Council's asset registers - see para 33.	Ensure that action is taken to improve the registers before the 2006-7 accounts are prepared.
Material weaknesses in internal control identified during the audit	None	None
Matters specifically	None	None

Financial Statements	Issue	Action required by the Corporate Governance Committee
required by other auditing standards		
Any other matters of governance interest	Whole of Government Accounts return to be audited by 6 October 2006	Refer to table 2 on page 10
Letter of representation	None - see copy at Appendix 6	Corporate Governance Committee to delegate responsibility to the Strategic Director of Resources to sign
Use of Resources		
Value for money conclusion	None - the Council achieved all of the 12 criteria.	None - an unqualified opinion - copy at Appendix 5
Use of auditors' statutory powers	None	None

Financial statements

- 13 We are required to give an opinion on whether the Council's financial statements present fairly the financial position of the Council as at 31 March 2006 and its income and expenditure for the year then ended.

Status of the audit

- 14 Our work on the financial statements is now substantially complete.

Matters to be reported to the Corporate Governance Committee

- 15 We have the following matters to draw to the Committee's attention.

Expected modifications to the auditor's report

- 16 On the basis of our audit work we currently propose to issue an unqualified audit report. A draft audit report is attached at Appendix 5.

Uncorrected misstatements

- 17 The financial statements have been adjusted for all misstatements identified by the audit, other than those that are 'clearly trivial' (as defined in professional auditing standards).

Adjusted misstatements

- 18 To assist you in fulfilling your governance responsibilities, we are required to consider reporting adjusted misstatements to you where these are material.
- 19 No material adjustments have been made to the approved accounts.

Qualitative aspects of accounting practices and financial reporting

- 20 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.
- 21 We refer at paragraphs 33 below to weaknesses in the records of the Council's fixed assets, to support the figures shown in the balance sheet in respect of these assets. We have no other issues to report to you..

Material weaknesses in internal control identified during the audit

- 22 Our audit identified no material weaknesses in the Council's systems of accounting and financial control. 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.

Matters specifically required by other auditing standards

- 23 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.
- 24 There are no matters which we wish to report to you.

Any other matters of governance interest

- 25 Finally, we are required to report any other matters that we believe to be of governance interest. We report these matters in Table 2 below.

Table 2 Other matters of governance interest

Area	Auditor responsibility	Comments
Statement of internal control (SIC)	The auditor reviews the SIC for compliance with the requirements of proper practice as specified by CIPFA and consistency with other information from the audit of the financial statements.	We have reviewed the SIC as part of the audit of the financial statements and confirmed that it is consistent with our knowledge.
Whole of Government Accounts' consolidation pack	The auditor is responsible for issuing a report on the consistency of the Council's consolidation pack with the statutory financial statements.	We are required to submit an audited return by 6 October 2006.

Letter of representation

- 26 We obtain written representations from management as an acknowledgement of its responsibility for the fair presentation of the financial statements and as audit evidence on matters material to the financial statements. The text of the required letter of representation is included at Appendix 6.

Next steps

- 27 We are drawing these matters to the Corporate Governance Committee's attention so that:
- you can consider them before the financial statements are certified; and
 - the representation letter can be signed on behalf of the Council and those charged with governance before we issue our opinion on the financial statements.

Use of resources

Value for money conclusion

- 28 The Code requires us to issue 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 your resources (the value for money conclusion). In meeting this responsibility, we will review evidence that is relevant to the Council's corporate performance management and financial management arrangements.
- 29 Our work in reaching the value for money conclusion relies in large part on our use of resources assessment which was reported to you in our Audit and Inspection Letter in March 2006. We update this assessment by consideration of developments that have taken place after the use of resources evaluation was carried out, up to 31 March 2006.
- 30 A summary of the VFM Conclusion is as follows:

Theme (abbreviated)	Source of evidence	Qualify VFM Conclusion?	Reference to later paragraphs
1. Corporate objectives	Recent work	No	
2. Communication	Recent work	No	
3. Performance management	Recent work	No	
4. Data quality	DQ audit	No	
5. Internal control	UoR 4.2	No	
6. Risk management	UoR 4.1	No	
7. Value for money	UoR 5.2	No	
8. Financial strategy	UoR 2.1	No	
9. Financial standing	UoR 3.1	No	Para 37 to 38
10. Financial management	UoR 2.2	No	
11. Asset management	UoR 2.3	No	Paras 32 to 36
12. Probity and propriety	UoR 4.3	No	

Overall conclusion

- 31 On the basis of our audit work, we propose to issue a report including an unqualified value for money conclusion.

Asset management

- 32** The most significant weakness identified in our work supporting our use of resources judgment related to the Council's management of its assets. We noted that the Council has made little progress in developing the use of PIs and benchmarking to help it manage its asset base proactively and to provide assurance that the performance of the property portfolio provides value for money.
- 33** Our work on the 2005-6 financial statements has identified weaknesses in the Council's asset registers, which provide the supporting information for the fixed asset figures shown in the balance sheet::
- The register for plant ,vehicles and equipment does not provide sufficient detail to allocate all costs to individual assets; and
 - Officers could not provide analysis by asset of the HRA infrastructure assets figure of £1.9 million, which represents past expenditure on unadopted roads, sewers and similar items.
- 34** In our Annual Audit and Inspection Letter in March 2006, we noted that there had been significant slippage on the capital programme in 2004-5. There was a similar level of slippage in 2005-6, with expenditure of £4.2 million against a budget of £9.7 million.
- 35** There were specific reasons for delays on some individual schemes. However, the Council's arrangements for monitoring and reporting progress on the General Fund capital programme appear to be relatively weak, particularly when compared to those it has in place for the Housing capital programme.
- 36** We note that the Statement of Internal Control includes a commitment to reviewing and enhancing asset management practices. This is an area we will be reviewing closely when we carry out our use of resources evaluations later this year.

Financial Standing

- 37** The Council has a sound record of delivering expenditure within budget. For 2005-6, actual expenditure on the General Fund was just £45,000, or 0.4%, below the agreed budget of £11.8 million. This left working balances at £1.4 million, comfortably above the "acceptable minimum" of £0.75 million set in the Council's financial strategy
- 38** As regards the financial outlook, the Council has consistently identified budget gaps for future years in its medium-term financial plan. Although it has a clear strategy for addressing this situation, it will need to continue to maintain close control over its revenue budget.

Use of auditors' statutory powers

- 39 Auditors are required to consider the exercise of certain statutory powers during the course of the audit, as summarised in Table 3 below.

Table 3 Use of statutory powers

No use of statutory powers has been required.

Issue	Auditor responsibility	Impact
Section 8 reports	Section 8 of the Act requires that auditors should consider whether, in the public interest, they should report on any matter that comes to their attention in the course of the audit so that it may be considered by the body concerned or brought to the attention of the public.	There have been no section 8 reports in respect of the financial year 2005/2006.
Section 11 recommendations	To consider whether a written recommendation should be made to the audited body requiring it to be considered and responded to publicly.	There have been no s11 recommendations.
Best value	To consider whether to recommend that the Audit Commission should carry out a best value inspection of the Council under section 10 of the Local Government Act 1999 and/or that the Secretary of State should give a direction under section 15 of that Act.	Our work in respect of the Council's 2005/2006 Best Value Performance Plan (BVPP) was reported in December 2005. No recommendations were made to the Audit Commission or the Secretary of State.

Closing remarks

- 40 This report has been discussed and agreed with the Strategic Director of Resources. A copy of the report will be presented at the Corporate Governance Committee on 25 September 2006.
- 41 The Council has taken a positive and constructive approach to our audit and I would like to take this opportunity to express my appreciation for the Council's assistance and co-operation.

Peter Lawrence
District Auditor

September 2006

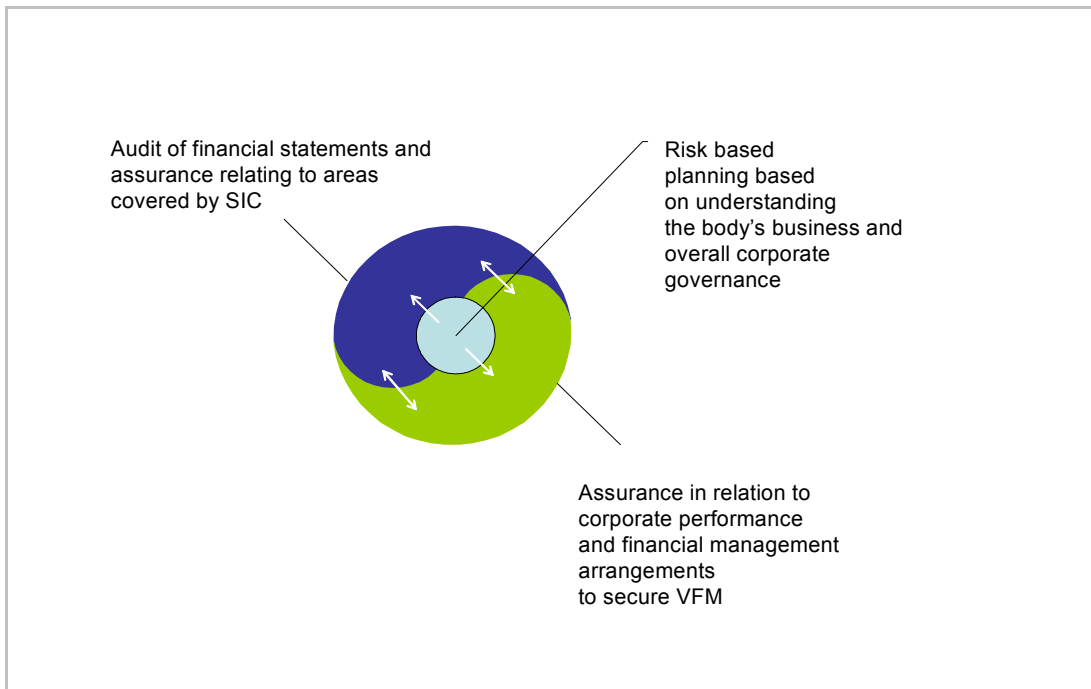
Appendix 1 – Audit responsibilities and approach

Audit objectives

- 1 Our objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on the significant risks that are relevant to our audit responsibilities.

Figure 1 Code of Audit Practice

Code of practice responsibilities



Approach to the audit of the financial statements

- 2 In our approach to auditing the financial statements, we adopt a concept of materiality. Material errors are those which might be misleading to a reader of the financial statements. We seek, in planning and conducting our audit of the accounts, to provide reasonable assurance that your financial statements are free of material misstatement. In planning our work we considered the arrangements of the Council which had most impact on our opinion. These included:
 - the standard of the overall control environment and internal controls;
 - reliance on internal audit;
 - the likelihood of material misstatement occurring from of material information systems; or a material error failing to be detected by internal controls;
 - any changes in financial reporting requirements; and
 - the effectiveness of procedures for producing the financial statements and supporting material.
- 3 The results of the above feed into our risk assessment which determines the level and type of testing undertaken on each element of the financial statements.

Approach to audit of arrangements to secure value for money

- 4 The scope of these arrangements is defined in paragraph 20 of the Code as comprising:
 - corporate performance management; and
 - financial management arrangements.
- 5 Our conclusion is informed and limited by reference to relevant criteria covering specific aspects of audited bodies' arrangements, specified by the Code.

- 6 In planning audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, considered and assessed relevant significant business risk. Significance is defined by the Code as 'a matter of professional judgment and includes both quantitative and qualitative aspects of the risk'.
- 7 The potential sources of assurance when reaching the value for money conclusion include:
 - the Council's whole system of internal control as reported in its statement on internal control;
 - results from statutory inspections or the work of other regulators, for example, corporate assessments, service assessments (whether by the Commission or other regulators), etc.;
 - work specified by the Audit Commission, for example, the use of resources assessments, and data quality work;
 - links to the financial statements' audit, including review of internal audit, the SIC and budgetary control arrangements; and
 - other work necessary to discharge our responsibilities.

Appendix 2 – Audit reports issued

Table 4

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit and inspection plan	March 2005	March 2005	The Council
Best Value Performance Plan (BVPP) report	December 2005	November 2005	The Council
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Grant Certification	27,000	*

* We will report the actual fee for grant certification work when that work has been completed.

Appendix 4 – The Audit Commission’s requirements in respect of independence and objectivity

- 1 We are required by the standard to communicate following matters to the Corporate Governance Committee:
 - the principal threats, if any to objectivity and independence identified by the auditor, including consideration of all relationships between the Council, 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 team, and which are required to be disclosed under auditing and ethical standards.

Appendix 5 – Independent auditor’s report to Taunton Deane Borough Council

Opinion on the financial statements

I have audited the financial statements of Taunton Deane Borough Council for the year ended 31 March 2006 under the Audit Commission Act 1998, which comprise the Consolidated Revenue Account, the Housing Revenue Account, the Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement, and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Taunton Deane 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 2005 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 Ireland).

I report to you my opinion as to whether the financial statements presents fairly the financial position of the Council in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005.

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' published on 2 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 Council’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 Explanatory Foreword. 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 Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council’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 2005, the financial position of the Council as at 31 March 2006 and its income and expenditure for the year then ended.

Peter Lawrence, District Auditor
The Audit Commission
3-6 Blenheim Court
Lustleigh Close
Matford Business Park
Exeter EX2 8PW

September 2006

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

Council’s Responsibilities

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 regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the council is required to prepare and publish a best value performance plan summarising the council’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 council 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 council has made such proper arrangements. 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.

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

- certifying that we have done so;
- stating whether we 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 I am satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, in all significant respects, Taunton Deane Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006.

Best Value Performance Plan

I issued my statutory report on the audit of the council’s best value performance plan for the financial year 2005/06 in December 2005. I did not identify any matters to be reported to the council 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.

Peter Lawrence, District Auditor
The Audit Commission
3-6 Blenheim Court
Lustleigh Close
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Exeter EX2 8PW

September 2006

Appendix 6 – Letter of representation

Peter Lawrence, District Auditor
The Audit Commission
3-6 Blenheim Court
Lustleigh Close
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September 2006

Taunton Deane Borough Council - Audit for the year ended 31 March 2006

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Taunton Deane 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 2006.

I acknowledge my responsibility under the relevant statutory authorities both for preparing the financial statements which present fairly and for making accurate representations to you.

Taunton Deane Borough Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Specific representations:

- Sufficient controls have been established, and have operated, to identify, classify and record correctly transactions processed via the Council's bank account.
- There are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements.
- The steps taken by the Council to confirm that the data used by the actuary to calculate FRS 17 disclosure information continues to be appropriate and representative of the membership profile as at 31 March 2006.

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 Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Committee and Council meetings, have been made available to you.

Related party transactions

I 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

I acknowledge my 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; and
- 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 the Council, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

Signed on behalf of Taunton Deane Borough Council

TAUNTON DEANE BOROUGH COUNCIL

CORPORATE GOVERNANCE COMMITTEE 25th September 2006

INTERNAL AUDIT – PROGRESS REPORT

REPORT OF THE GROUP AUDITOR (this matter is the responsibility of Councillor Williams, the Leader of the Council)

EXECUTIVE SUMMARY

This report highlights significant findings and recommendations that have occurred since the Committee last met in June 2006. Also included in this report is an update on management responses to Internal Audit findings and the implementation of recommendations for audits completed during the 2005/06 financial year and any outstanding recommendations from previous financial years.

1. Purpose of Report

- 1.1 To provide members with an update on the progress made against agreed audit recommendations from 2005/06 and to present an update on the activities of the Internal Audit team for the period June 2006 to September 2006.
- 1.2 To request members to approve the Audit Charter as included at appendix C.

2. Summary of Agreed Actions 2005/06 Audits and any outstanding recommendations from previous financial years

There were 21 audit reviews completed during 2005/06 that resulted in 165 recommendations. Follow-up visits have yet to be completed for most of those audit areas. Summary details of progress against the recommendations is attached as Appendix A.

The Internal Audit team have now started to issue audit reports that include individual risk ratings for recommendations (High and Medium), with Low risk items being communicated via a memo only and not followed up. Future reports will include a breakdown for each audit undertaken and performance will be monitored to ensure that recommendations are implemented.

3. Work undertaken by Internal Audit June 2006 to September 2006

Included at appendix B are details of the audits completed from June 2006 to September 2006 including any **significant** findings or recommendations.

4. Recommendation

The Committee should note the content of this report.

Summary of progress made against 2005/06 recommendations

Appendix A

Audit Area	2005/06 Recommendations	No. actioned	No. outstanding	Comments
Bank Reconciliations	4	4	-	
Payroll	21			No follow up – Managed Audit only
Treasury Management	2	2	-	
Creditors	5			No follow up – Managed Audit only
NNDR	11			No follow up – Managed Audit only
Main Accounting System	6	2	4	Outstanding recommendations: <ul style="list-style-type: none"> • review of financial regulations – in progress • budget requirements – awaiting ISIS • financial awareness training – awaiting close down of accounts • system improvements – awaiting ISIS
Bank and Cash	3	2	1	Securitas collection times
Capital Accounts	7	4	3	Awaiting confirmation from Asset Holdings Manager
Housing Rents	6			No follow up – Managed Audit only
Housing Benefits	13			No follow up – Managed Audit only
Council Tax	9			No follow up – Managed Audit only
Debtors	7			No follow up – Managed Audit only
System Access and Computer Backups	None			None to follow up
VAT	12			Follow up not yet due
Personnel – Recruitment and Selection	15			Follow up not yet due
Street Cleansing	9			Follow up not yet due

Car Parks	13			Follow up not yet due
Housing Repairs	6			Follow up not yet due
Building Control	4			Follow up not yet due
Compliance with Financial Procedures	7			Follow up not yet due
Wessex Reinvestment Trust	5			Follow up not yet due
Totals	165	14	8	

Abandoned Vehicles (2006/07): 😊

The review concentrated on testing the controls in place in the management of Abandoned Vehicles. It is our opinion that the Abandoned Vehicles system operates within a satisfactory system of internal control in most key areas, although there are some areas which require management attention. These include the following; there is no formal contract in place with the external firm used, fees are charges are not regularly reviewed and have not been formally approved and the contractor does not issue copies of receipts to the Council.

Taunton Deane Borough Council - Internal Audit Charter

Purpose

The purpose of this Charter is to set out the nature, role, responsibility, status and authority of internal auditing within Taunton Deane Borough Council, and to outline the scope of internal audit work.

Approval

This Charter was approved by the Corporate Governance Committee on 27th September, 2006 and the Council on _____ and is reviewed each year to confirm it remains accurate and up to date. It was last reviewed by the Corporate Governance Committee on _____.

Provision of Internal Audit Services

The internal audit service is provided by the South West Audit Partnership (SWAP) on a 5 year contract expiring on 31 March, 2010. This charter should be read in conjunction with the Trading Agreement, which forms part of the legal agreement between the SWAP partners.

Role of Internal Audit

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Responsibilities of Management and of Internal Audit

Management

Management is responsible for determining the scope, except where specified by statute, of internal audit work and for deciding the action to be taken on the outcome of, or findings from, their work. Management is responsible for ensuring the internal audit function has:

- the support of management and the Council; and
- direct access and freedom to report to senior management, including the Chief Executive and the Corporate Governance Committee.

Management is responsible for maintaining internal controls, including proper accounting records and other management information suitable for running the Authority. Management is also responsible for the appropriate and effective management of risk.

Internal Audit

Internal audit is responsible for operating under the policies established by management in line with best practice.

Internal audit is responsible for conducting its work in accordance with Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors.

Internal audit is not responsible for any of the activities which it audits. Members of SWAP will not assume responsibility for the design, installation, operation or control of any procedures. Members of SWAP who have transferred in to the department from other areas of Taunton Deane Borough Council will not be asked to review any aspects of their previous department's work until six months has passed since they left that area.

Relationship with the External Auditors/Other Regulatory Bodies

Internal Audit will co-ordinate its work with others wherever this is beneficial to the organisation.

Status of Internal Audit in the Organisation

The Head of the Internal Audit Partnership is responsible to the SWAP Management Board and the Partnership Board. The Head of Internal Audit Partnership and the Group Auditor also report to the Section 151 Officer, and reports to the Corporate Governance Committee as set out below.

Appointment or removal of the Head of Internal Audit Partnership is the sole responsibility of the Partnership Board.

Scope and authority of Internal Audit work

There are no restrictions placed upon the scope of internal audit's work. Members of SWAP engaged on internal audit work are entitled to receive whatever information or explanations they consider necessary to fulfil their responsibilities to senior management. In this regard, internal audit may have access to any records, personnel or physical property of Taunton Deane Borough Council.

Internal audit work will normally include, but is not restricted to:

- reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- evaluating and appraising the risks associated with areas under review and make proposals for improving the management of risks;
- appraise the effectiveness and reliability of the enterprise risk management framework and recommend improvements where necessary;
- assist management and Members to identify risks and controls with regard to the objectives of the Council and its services;

- reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether South Somerset District Council is in compliance;
- reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- appraising the economy, efficiency and effectiveness with which resources are employed;
- reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned.

Planning and Reporting

SWAP will submit to the Corporate Governance Committee, for approval, an annual internal audit plan, setting out the recommended scope of their work in the period.

The annual plan will be developed with reference to a four-year strategic outlook for internal audit work, prepared in conjunction with management and agreed by them.

Internal audit will carry out the work as agreed, report the outcome and findings, and will make recommendations on the action to be taken as a result to the appropriate manager and Director. Internal audit will report at least two times a year to the Corporate Governance Committee. Internal Audit will also report a summary of their findings, including any persistent and outstanding issues, to the Corporate Governance Committee on a regular basis.

Internal audit reports will normally be by means of a brief presentation to the relevant manager accompanied by a detailed report in writing. The detailed report will be copied to the relevant line management, who will already have been made fully aware of the detail and whose co-operation in preparing the summary report will have been sought. The detailed report will also be copied to the Section 151 Officer, the relevant Head of Service and line management.

In addition to the reporting lines outlined above, the Head of Internal Audit Partnership and the Group Auditor have the unreserved right to report directly to the Leader of the Council, The Chairman of the Corporate Governance Committee, the Chief Executive Officer or the External Audit Manager.

