

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.

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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

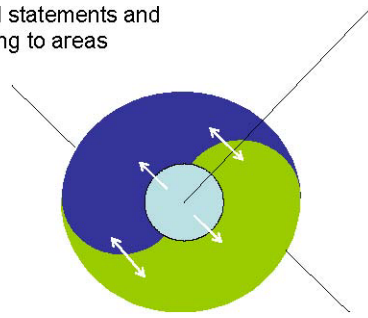
Audit objectives

- 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

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- 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

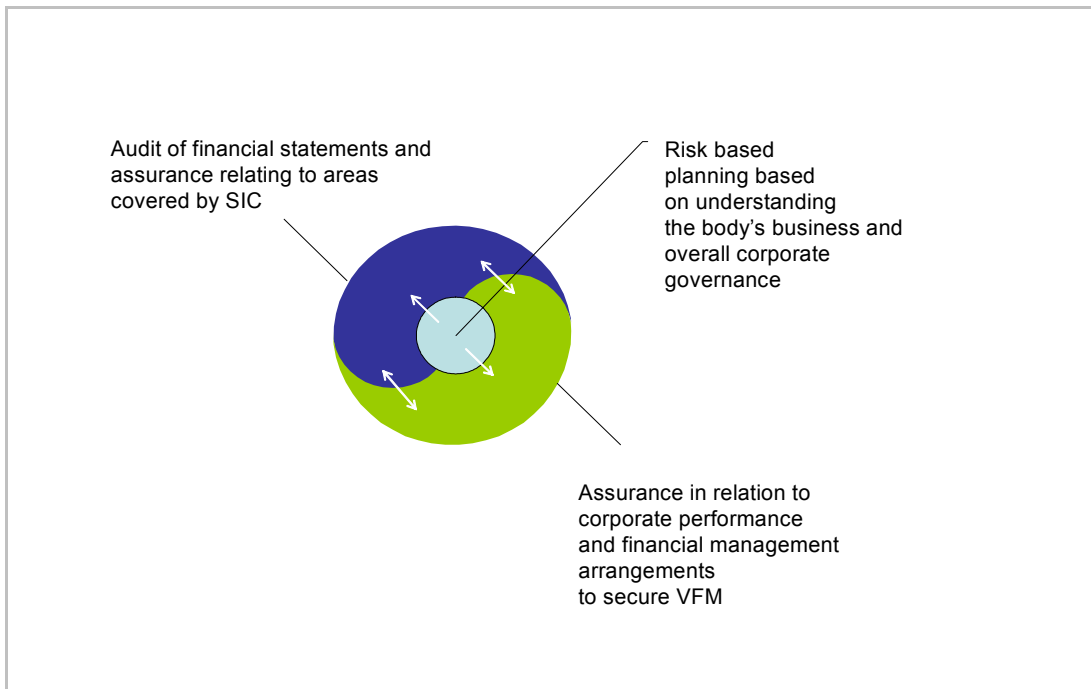
Appendix 1 – Audit responsibilities and approach

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
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