

5. ANNUAL GOVERNANCE REPORT 2011/12

REPORT OF: Peter Stuart, Head of Finance
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Wards Affected: All
Key Decision No

Purpose Of Report

1. This report introduces the auditors' 'Annual Governance Report' and provides some context for Members consideration.

Summary

2. The auditors have given the accounts an unqualified opinion and offered a positive statement on the Council's Value for Money and financial preparedness.

Recommendations

3. That the report be received.
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Background

4. The Annual Governance Report gives the Council the auditor's opinion on both the financial statements and the arrangements to secure Value for Money. It is the key document arising from the annual audit and is to be read by 'those charged with governance' as well as being a public document for all stakeholders.
5. The opinion from the audit of the financial statements is unqualified. This is a very positive statement and shows that the statements offer a true and fair view of the authority's financial position for 2011/12.
6. Members will recall that last year the drawing up of the statements was a challenging process, taking longer than anticipated and consequently extending the audit and incurring an extra fee. It is therefore pleasing to report that progress this year has been a lot smoother and that a full set of IFRS statements were presented for audit to the timescale expected.
7. Members will also note that some alterations to the accounts have been made, on the advice of our auditors, whilst one has not been changed. Members should be reassured that these have been discussed with our auditors who are not minded to disagree with the statements regarding these items.
8. The District Auditor will attend the meeting to present her report and answer Member's questions.

Policy Context

9. Receiving the report enables the Council to fulfil its statutory obligations.

Other Options Considered

10. None

Financial Implications

11. This report has no financial implications.

Other Material Implications

12. This report has no such implications.

Equality and Customer Services Implications

13. This report has no such implications.

Background Papers

None.

Annual governance report

Mid Sussex District Council

Audit 2011/12



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Key messages

This report summarises the findings from my 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

As at 26 September I expect to issue an unqualified audit opinion.

You have improved both the quality of financial statements submitted for audit and the processes and working papers that support their production. The financial statements submitted for audit were complete, showed a good level of internal consistency and were generally compliant with current accounting and disclosure requirements. You also produced the draft financial statements in accordance with statutory deadlines and your internal timetable. The financial statements were supported by good working papers. Key internal control processes, such as the bank and control account reconciliations, had been performed and were available at the start of the audit. I have identified a considerably smaller number of errors and issues compared to the previous year. However, there remains scope to continue to improve.

Officers have been responsive to matters identified and I would like to take this opportunity to thank them for their co-operation and support during the audit.

Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

You have a good track record of setting and delivering balanced budgets within increasingly challenging funding constraints. I am satisfied that your financial plans properly consider and reflect the financial challenges you face over the medium term and are based on reasonable assumptions. You have also undertaken a good level of work to understand the likely impact of significant planned changes to local government finance.

You have a sound track record of identifying and delivering value for money improvements and I am satisfied that you have effective processes to ensure that detailed budgets reflect your priorities. Your arrangements for monitoring and reporting performance are well developed and operate effectively. There are clear lines of responsibility and accountability for performance for both management and members, and an established culture of efficiency improvement. However, given the scale of the medium term financial challenges you face you are continuing to build on your excellent work in improving value for money to maintain your financial resilience.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/12.

I ask the Audit Committee to:

- consider whether to adjust the errors I have identified in the financial statements that management has not amended, or set out the reasons for not amending the errors (appendix 2);
- take note of the adjustments to the financial statements included in this report (summarised at appendix 3);
- approve the letter of representation (appendix 4), on behalf of the Council before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (appendix 6).

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Errors in the financial statements

I detected a number of errors during the course of the audit that I wish to draw to your attention. Corrected errors are summarised in Appendix 3. Where errors were detected in relation to a specific or significant risk, or where errors have led to agreed recommendations, they are considered in more detail in the main body of the report. Details of errors that management has declined to correct are set out in full in Appendix 2.

Significant risks and my findings

I did not identify any significant risks in planning my audit. However, I identified five specific risks to my audit of your financial statements. I reported those risks to the Audit Committee in March 2012 within my 2011/12 Audit Plan. I report the findings against each of these risks in Table 1.

Table 1: Risks and findings

Risk	Finding
<p>Heritage Assets</p> <p>The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets. As this is a new requirement, there is a risk that you may not be able to identify and account for all heritage assets within the time available.</p> <p>A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that you hold and maintain principally for its contribution to knowledge and culture.</p> <p>My work in this area included an evaluation of the management controls you have in place to identify and potentially value and recognise significant heritage assets. I also undertook testing to check that you have accounted for and disclosed heritage assets in accordance with FRS 30 and the Code.</p>	<p>You established and applied reasonable processes and management controls for the identification and, where appropriate valuation and recognition, of heritage assets. I am satisfied that the heritage asset disclosures made in your financial statements are complete and comply with the requirements of the Code.</p>
<p>Valuation of property, plant and equipment (PPE)</p> <p>The Code requires you to value PPE at fair value (with some exceptions). The valuation is a complex process and this means there is a risk the financial statements may be materially misstated because of:</p> <ul style="list-style-type: none"> ■ applying the wrong valuation basis; ■ failing to derecognise the carrying value of assets or components of assets that you replace or restore; ■ using inappropriate asset lives, residual values, or cost or fair value; or ■ failing to apply the Code's requirements for 	<p>I am satisfied from my work that:</p> <ul style="list-style-type: none"> ■ I am able to rely on the work of your valuer to gain assurance over the valuation of property, plant and equipment shown in your financial statements; ■ based on my sample testing, valuations and associated depreciation calculations are correct in your fixed asset register and financial statements; and ■ based on information produced by Gerald Eve, the approach taken by your valuer is reasonable. <p>In my 2010/11 annual governance report I recommended that you should develop, agree and apply a componentisation policy across your asset portfolio to comply with the requirements of IAS16.</p>

Risk

componentisation for depreciation purposes.

To gain assurance over the valuation of property, plant and equipment shown in your financial statements, I have:

- reviewed your arrangements for instructing your valuer and controls over information provided to valuer;
- carried out procedures to assess whether I can place reliance on the work of the valuer;
- carried out tests of detail on valuations and associated depreciation calculations; and
- used my own consulting valuer, Gerald Eve, to inform my review of your valuer.

IAS 19 – pension scheme assets and liabilities

Your financial statements will contain several material entries for retirement benefits, including the pension scheme assets and liabilities. The valuation of these items is a complex process and this means there is a risk the financial statements may be materially misstated.

To gain assurance over the pension scheme assets and liabilities in the financial statements, I have:

- reviewed your arrangements for instructing the actuary and controls over information provided to the actuary;
- undertaken procedures to rely on the work of the scheme actuary, Hymans Robertson, which include

Finding

An accounting policy has been developed and agreed by members during the year. Although this was not disclosed in the draft financial statements submitted for audit I am satisfied that it has been correctly applied to assets valued on the depreciated replacement cost basis. You have now amended the draft financial statements to disclose your accounting policy in this area.

However, I note you do not identify or account for components for property, plant and equipment that is valued on an existing use value (EUV) basis. Although this is not required by your accounting policy, the requirement to componentise extends to all PPE irrespective of the basis for valuation. Your Oaklands offices are valued above your componentisation de minimis, but are not componentised because they are valued at EUV. In my view, they should be componentised regardless of the valuation basis. I am satisfied this does not have a material impact on either depreciation or the carrying value of property, plant and equipment in your balance sheet. However, you should extend your current policy to all property, plant and equipment irrespective of the basis for valuation.

See recommendation 1

As part of my work in this area I noted a significant difference between the estimate of employer pensions contributions used by the Fund actuary to inform its assessment of pension scheme assets and liabilities, and actual employers pensions contributions recorded as expenditure on your general ledger.

The majority of the difference relates to former leisure services staff who were transferred in June 2009 to Freedom Leisure (Freedom) under Transfer of Undertakings (Protection of Employment) legislation. Freedom deliver leisure services for the Council under a five year contract that is due to end in 2014. Employer's pension contributions for the transferred staff are paid by Freedom during the contract as an admitted body of the West Sussex Pension Fund. Although the transferred staff are not Council employees your view is that you have retained the responsibility for the net pension liability for those staff under the terms of the contract with Freedom. You therefore

Risk

- the use of my consulting actuary; and
- undertaken tests to ensure you account for and disclose the pension scheme assets and liabilities within the financial statements.

Finding

believe it is appropriate to continue to account for the net pension liability relating to the transferred staff under IAS 19. As a result of my work you have added additional disclosure to notes 41 (defined benefit schemes) and 4 (assumptions made about the future and other major sources of estimation uncertainty) of your financial statements to fully disclose your approach.

I have considered your contractual arrangement with Freedom and the additional disclosure added to your financial statements. Based on this I am satisfied that continuing to account for the pension liability for the transferred staff under IAS 19 does not materially affect the view of a user of the accounts would form of your financial position. I am therefore not minded to challenge your approach.

As part of my work in this area I also noted that the estimate of employer contributions provided to the actuary for staff transferred to Freedom was simply based on actual contributions made for the previous year. This estimate is considered by the actuary in its valuation of scheme assets and liabilities, and the actual value of employer contributions paid in the year. Although I am satisfied that inaccuracies in the estimate had no material impact on disclosures in your financial statements you should, in consultation with Freedom, establish a process to gain assurance that it provides the actuary with an accurate estimate of employers contributions made for the transferred staff. I understand that this is already being addressed.

See recommendation 2

Related party transactions

As part of my 2010/11 work, I identified issues where some related party transaction forms were not returned. In previous years I found that although you keep a register of members' interests you do not compare this to the forms returned for completeness. As a result, there is a risk the related party disclosure in your financial statements may be incomplete.

Your processes to identify related party transactions have improved from the previous period with complete returns received from all members. However, I did make some amendments to the related party transactions disclosure in your draft financial statements:

- you disclosed all payments in the year approved by your grants panel as related party transactions irrespective of whether any related party relationship exists; and
- although you had disclosed Census debtors and creditors you had not disclosed

Risk

To gain assurance over the related party disclosure in your financial statements I have:

- reviewed your arrangements for 2011/12; and
- reviewed the related party transaction forms against the register of members' interests and against knowledge gained through the audit to identify if the disclosure in the financial statements is complete.

Bank reconciliation

In 2010/11, I reported that you continued to experience issues with the timely completion of the bank reconciliation. There is a risk there may be unreconciled items at the year-end if the bank reconciliation is not performed completely on a monthly basis.

As part of my 2010/11 annual governance report I recommended that you should reconcile the bank balance regularly and clear any unreconciled items.

Finding

income and expenditure for the partnership.

You have amended the related party transaction disclosure in your revised accounts to correct for this.

You have worked to address weaknesses in your bank reconciliation process during 2011/12, although there remains clear scope for further improvement.

Bank reconciliations have been prepared and reviewed on a monthly basis during the year, but have only reconciled monthly transactions and not the year to date bank balance. A full reconciliation between the cash balance on the general ledger and the balance at the bank has been undertaken since January 2012. Processes for updating the cash and bank system for receipts and payments initiated by other financial systems are manual and time consuming, which increases the risk of error occurring. I understand you are considering the costs and benefits associated with implementing the bank reconciliation module within your general ledger.

See recommendation 3

As part of my work to audit your financial statements I have reviewed and tested your year end bank reconciliation in detail. I am satisfied that a full reconciliation was undertaken promptly at year end for your current account and that the cash balance appearing on your general ledger was fully reconciled to the balance at the bank.

Recommendation

- R1** Extend your current componentisation policy to all property, plant and equipment valued above your de minimis level irrespective of the basis for valuation.
- R2** Establish a process to gain assurance that Freedom Leisure provides your local government pension scheme actuary, Hymans Robertson, with an accurate estimate of employers contributions made for transferred leisure services staff.
- R3** Investigate the benefit of further simplifying and automating the process for updating the cash and bank system with receipts and payments initiated by your other main financial systems.

Significant weaknesses in internal control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Council only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I have identified no weaknesses in internal control that I wish to bring to your attention.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

The matters I wish to report are set out in Table 2 below.

Table 2: **Other matters**

Issue	Finding
<p>Accruals of income and expenditure</p> <p>In general you prepare your financial statements on accruals basis, but disclose some specific exceptions to this principle in note 1(b) of your statement of accounting policies.</p>	<p>I identified that you do not account for income from investment properties on an accruals basis. This exception to the accruals principle was not reflected in your statement of accounting policies. I am satisfied that not accounting for investment income on an accruals basis has only resulted in a trivial misstatement of your accounts. As a result of my work in this area I also identified that you account for parking income from penalty charge notices on a cash basis and that this exception to the accruals principle is also not reflected in your statement of accounting policies. You have amended the financial statements to account for income from investment properties on an accruals basis. You have also updated your statement of accounting policies to fully disclose income from penalty charge notices as an exception to the accruals principle. You need to continue to review your approach to accruals accounting and be able to demonstrate that departures from the accruals principal are necessary and have no material effect on your financial statements.</p> <p>See recommendation 4</p>
<p>Section 106 agreements</p> <p>In 2010/11 I identified and reported non-trivial uncertainties relating to the treatment of section 106 contributions within capital grants and receipts in advance on your balance sheet.</p>	<p>I reported in my 2010/11 annual governance report that you had not reviewed all section 106 agreements to determine whether they contain conditions or restrictions. As a result, all section 106 monies were initially treated in your draft 2010/11 financial statements as though they had attached conditions and were disclosed within capital grants received in advance as a long term liability on your balance sheet. I raised recommendations that you should locate and review all section 106 agreements to ensure that conditions are understood and contributions are correctly classified in your financial statements.</p> <p>I am satisfied that you have addressed these recommendations in full and have made prior period adjustments to reclassify approximately £284,000 of section 106 contributions in your balance sheet. These prior period adjustments are disclosed at note 9 of your financial statements.</p>

Issue	Finding
<p>Accounting for cash and cash equivalents</p> <p>Although not explicitly set out in your statement of accounting policies, the accounting policy you apply is to classify all short term deposits as investments in your balance sheet.</p>	<p>You accounted for a £1.25 million short term deposit of 3 days held at the end of the financial year as a short term investment in your balance sheet. I disagreed with this accounting treatment as you would have considered the balance as part of your short term cash management processes. I therefore concluded that, having regard to the requirements of IAS 7, the balance should be accounted for as a cash equivalent.</p> <p>You have not amended the financial statements in respect of this finding. See Appendix 2.</p> <p>If an amendment to the financial statements had been made the cash overdrawn position currently disclosed of approximately £271,000 would have been disclosed as a cash in hand position of approximately £980,000.</p> <p>You should re-consider the accounting policy you apply for cash and cash equivalents to satisfy yourself that it complies with the requirements of IAS 7.</p> <p>See recommendation 5</p>
<p>Cash flow statement</p> <p>You continue to use the direct method for compilation and reporting of your cash flow statement.</p>	<p>You continue to use the direct method to produce and report your cash flow statement. Although this is permitted under the Code it makes it more difficult for you to clearly support the disclosures you make in the statement. Use of the indirect method is less complicated and would allow you to compile and support the cash flow statement by reference to your other primary statements of account.</p> <p>See recommendation 6</p>

Recommendation

R4 Keep under review your approach to accruals accounting so that you can demonstrate that departures from the accruals principal are necessary and have no material effect on your financial statements.

R5 Re-consider the accounting policy you apply for cash and cash equivalents to satisfy yourself that it complies with the requirements of IAS 7.

R6 Re-consider your current approach to producing the cash flow statement so that you are able to more easily and clearly support the disclosures made in the statement.

Whole of Government Accounts

Alongside my work on the financial statements, I have also reviewed and reported to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report were specified by the National Audit Office.

As at 14 September my work is ongoing. I expect to complete this before 28 September 2012.

Value for money

I am required to conclude whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.

I assess your arrangements against the two criteria specified by the Commission. In my March 2012 Audit Plan I reported to you the significant risk that was relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the risks I identified.

I intend to issue an unqualified conclusion stating that the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

Table 3: **Value for money conclusion criteria and my findings**

Criteria	Risk	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The main risk to financial resilience remains the continuing challenge of achieving a balanced budget over the medium term with reduced funding.</p>	<p>You have a good track record of setting and delivering balanced budgets within increasingly challenging funding constraints. In 2011/12 you delivered underspending of approximately £340,000, or 2.5 per cent, against your revised revenue budget after projecting a small overspend during the year. In doing this you have demonstrated that you have effective processes for monitoring performance against budget and instigating corrective action where necessary. You have again been able to set a balanced budget in 2012/13 that is based on reasonable assumptions, with a planned four per cent reduction in revenue spending. To achieve this you will need to continue your good performance in delivering planned savings and making value for money improvements.</p> <p>I am satisfied that your financial plans properly consider and reflect the</p>

Criteria	Risk	Findings
		<p>financial challenges you face over the medium term and are based on reasonable assumptions. You have undertaken a good level of work to understand the impact of significant planned changes to local government finance on your medium term financial plans. These changes include:</p> <ul style="list-style-type: none"> ■ proposals for the local retention of business rates; ■ proposals allowing councils to set up local schemes of support for council tax, replacing council tax benefit ■ other technical reforms of housing and council tax benefits; and ■ proposals to move away from reliance on formula grant to other sources of generic grant funding including the new homes bonus. <p>This is considered in your 2013/14 service and financial planning report to Cabinet and other medium term financial plans. Based on your current plans your continued ability to set balanced budgets from 2013/14 will depend on how you choose to best use the different sources of income available to you.</p>
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2011/12:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>No significant risks</p>	<p>You have a sound track record of identifying and delivering value for money improvements and improving the efficiency of the Council. I am also satisfied that you have effective processes to ensure that detailed budgets accord with your priorities.</p> <p>You have delivered demonstrable cost improvements during the year together with continuing improvement in your overall performance. Your arrangements for monitoring and reporting performance are well developed and operate effectively. Both members and officers have actively input to the format of performance monitoring information to ensure that it is properly focused on delivery of your priorities and managing your business.</p> <p>You have made some changes to your approach to performance monitoring during the year. You have established a new system of</p>

Criteria	Risk	Findings
		<p>scrutiny committees that are focused on performance and aligned to the portfolios of cabinet members to ensure clear lines of responsibility. There is also clear management accountability with business unit leaders responsible for service delivery and performance standards.</p> <p>In general you have an established culture of performance and efficiency improvement. However, given the scale of the medium term financial challenges you face you know you need to continue to build on your good work in improving value for money to maintain your financial resilience. You are actively working to achieve this.</p>

Fees

I reported my planned audit fee in the 2011/12 Audit Plan.

I will complete the audit within the planned fee.

Table 4: Fees

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	110,815	110,815
Claims and returns ⁱ	26,920	26,920
Non-audit work	0	0
Total	137,735	137,735

ⁱ The fee for certification of claims and returns for 2011/12 is an estimate based on work undertaken in 2009/10. The actual fee may be less than the estimate. The Audit Commission sets a schedule of hourly rates for different levels of staff and the final fee for this work is dependent on the work undertaken and the grades of staff used to deliver the work.

Appendix 1 – Draft independent auditor’s report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF MID SUSSEX DISTRICT COUNCIL

Opinion on the Authority financial statements

I have audited the financial statements of Mid Sussex District Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Mid Sussex District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Head of Finance, ICT & HR and auditor

As explained more fully in the Statement of the Head of Finance, ICT & HR Responsibilities, the Head of Finance, ICT & HR is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance, ICT & HR; and the overall presentation of the financial statements. In addition, I read

all the financial and non-financial information in the foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Mid Sussex District Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Mid Sussex District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

I certify that I have completed the audit of the accounts of Mid Sussex District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Helen Thompson
District Auditor

Address: Audit Commission, Ground floor, Bicentennial Building, Southern Gate, Chichester, West Sussex PO19 8EZ.

xx September 2012

Appendix 2 – Uncorrected errors

I identified the following errors during the audit which management has not addressed in the revised financial statements.

Item of account	Description of error
Balance sheet. Cash flow statement.	<p>You accounted for a £1.25 million short term deposit of 3 days held at the end of the financial year as a short term investment in your balance sheet. I disagreed with this accounting treatment as you would have considered the balance as part of your short term cash management processes. I therefore concluded that, having regard to the requirements of IAS 7, the balance should be accounted for as a cash equivalent.</p> <p>Short term investments in the balance sheet are over stated by £1.25 million.</p> <p>Cash overdrawn in the balance sheet is over stated by £271,000.</p> <p>Cash in hand in the balance sheet is under stated by £980,000.</p> <p>Cash and cash equivalents at 31 March 2012 in the cash flow statement are understated by £1.25 million. This also impacts on the disclosure in the cash flow statement of movements in cash and cash equivalents during the year.</p>

Appendix 3 – Corrected errors

I identified a number of errors during the audit which management has corrected in the revised financial statements.

The gross value of corrected errors impacting on the comprehensive income and expenditure statement (CIES) was approximately £893,000. £755,000 related to two non-ring fenced revenue grants that were credited to net cost of service rather than shown on the CIES as Taxation and Non Specific Grant income. The adjustments made decreased the reported surplus on the provision of services by approximately £63,000.

The gross value of errors impacting on the balance sheet was approximately £137,000. The adjustments made to the balance sheet have reduced net assets by approximately £64,000.

Where errors were detected in relation to a specific and significant risk, or where errors have led to agreed recommendations, they are considered in more detail in the main body of the report.

Appendix 4 – Draft letter of management representation

Mid Sussex District Council - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors of Mid Sussex District Council, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

These misstatements have been discussed with those charged with governance within the Audit Committee and the reasons for not correcting these items are as follows.

- Whilst we take on board the comments made by the Audit Commission, and will look to review the treatment of short term investments in future, the work involved in reviewing a whole year's worth of transactions for 2011/12, (as well as reviewing the 2010/11 comparatives), in order to adjust the Cash Flow Statement, outweighs the benefit to the user of the accounts of correcting the financial statements for 2011/12.

Supporting records

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

Internal control

I have communicated to you all deficiencies in internal control of which I am aware.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Mid Sussex District Council

I confirm that the this letter has been discussed and agreed by the Audit Committee on 25 September 2012

Name: Peter Stuart

Position: Head of Finance, ICT & HR

Date: 26 September 2012

Appendix 5 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement

within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Significance

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

Appendix 6 – Action plan

Recommendations

Recommendation 1

Extend your current componentisation policy to all property, plant and equipment valued above your de minimis level irrespective of the basis for valuation.

Responsibility	Chief Accountant
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Priority	Medium.
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Date	For the 2012/13 financial statements.
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Comments	This can be considered as part of discussions with the newly appointed external valuer, as part of the 12/13 accounts preparation
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Recommendation 2

Establish a process to gain assurance that Freedom Leisure provides your local government pension scheme actuary, Hymans Robertson, with an accurate estimate of employers contributions made for transferred leisure services staff.

Responsibility	Chief Accountant
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Priority	High.
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Date	For the 2012/13 financial statements.
-------------	---------------------------------------

Comments	A process has already been established at a recent quarterly meeting with Freedom Leisure, to ensure accurate and robust information is provided for the 2012/13 accounts, and this will be introduced as part of the 2012/13 accounts preparation.
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Recommendation 3

Investigate the benefit of further simplifying and automating the process for updating the cash and bank system with receipts and payments initiated by your other main financial systems.

Responsibility Chief Accountant

Priority Medium.

Date By 31 March 2013

Comments A fully reconciled cumulative year to date position has been in place since January 2012, and this has continued for 2012/13. Where possible, we will look to further develop the system to increase the level of automation.

Recommendation 4

Keep under review your approach to accruals accounting so that you can demonstrate that departures from the accruals principal are necessary and have no material effect on your financial statements.

Responsibility Chief Accountant

Priority Medium.

Date For the 2012/13 financial statements

Comments This will be addressed as part of the 2012/13 accounts preparation

Recommendation 5

Re-consider the accounting policy you apply for cash and cash equivalents to satisfy yourself that it complies with the requirements of IAS 7.

Responsibility Chief Accountant

Priority Medium

Date For the 2012/13 financial statements

Comments This will be reviewed in 2012/13, in liaison with the Treasury Management Officer

Recommendation 6

Re-consider your current approach to producing the cash flow statement so that you are able to more easily and clearly support the disclosures made in the statement.

Responsibility	Chief Accountant
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Priority	Medium
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Date	For the 201213 financial statements
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Comments	The Council remains satisfied with the current approach to producing the cash flow statement. However, we can look to review this as part of the year-end procedures.
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- any director/member or officer in their individual capacity; or
- any third party.



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2012

September

6. FINANCIAL STATEMENTS 2011/12

REPORT OF: Peter Stuart, Head of Finance
Email: peter.stuart@midsussex.gov.uk Tel: 01444 477315
Wards Affected: All
Key Decision No

Purpose Of Report

1. This report presents the financial statements to the Committee for approval.

Summary

2. The financial statements have been circulated to all Members of the Committee. The Chairman of the Committee is to sign the accounts alongside the Head of Finance once Members are content.

Recommendations

3. That the financial statements and Annual Governance Statement are approved and the Chairman be authorised to add his signature to that of the Head of Finance.
-

Background

4. The financial statements present a picture of the Council's financial position over the year. This year they have again been prepared in accordance with International Financial Reporting Standards.
5. The statements have been circulated as a separate document and have been subject to audit. The previous item presents the auditor's view of the statements and offers an opinion on both the financial statements and the arrangements to secure Value for Money.
6. Some members of the Audit Committee attended an informal training event on Monday 13th August to aid their understanding of the accounts. The position regarding the Mid Sussex element of the WSCC pension fund was of particular interest, in that variations in the valuation of the fund can lead to large variations in what might be termed the Council's 'net worth'.
7. The Head of Finance has signed the accounts as presenting a true and fair view of the financial position of the authority and its income and expenditure for the year ended 31st March 2012.

Policy Context

8. Receiving the report and following the recommendation enables the Council to fulfil its statutory obligations.

Other Options Considered

9. None

Financial Implications

10. None.

Other Material Implications

11. None.

Equality and Customer Service Implications

12. This report has no such implications

Background Papers

None.

7. INTERNAL AUDIT – MONITORING REPORT 25th September 2012

Report from: Audit Manager
Contact Officer: Ben Durrant, HW Controls & Assurance LLP
Email: ben.durrant@midsussex.gov.uk
Tel: (01444) 477241
Wards Affected: All
Key Decision No

1. PURPOSE OF REPORT

The purpose of this report is twofold; to update the Committee on the progress of the 2012-2013 Internal Audit Plan and to report on the progress made in implementing previously agreed recommendations.

2. SUMMARY

- 2.1 The audit plan for this year provides for a mix of coverage on fundamental systems, IT systems and service systems, which have been identified as potential risk areas. Appendix A summarises the progress to date.

3. RECOMMENDATIONS

The Audit Committee is asked to receive the report.

4. REPORT TO AUDIT COMMITTEE

Progress on implementing previous recommendations

- 4.1 There are currently no outstanding high priority recommendations to report. The report to Audit Committee on 26th June 2012 included two previously outstanding recommendations, one in relation to the Information Governance audit reported 31st May 2011 which had been implemented and one in relation to the Income Collection audit reported 30th April 2010.
- 4.2 The recommendation in relation to the Income Collection audit surrounded the re-introduction of the automated bank reconciliation of the Income Collection system to the General Ledger. The latest management response was that the reconciliation was now being successfully carried out using a spreadsheet system on both a daily and cumulative basis. Work on assessing whether the fully-automated system was the more appropriate method was to continue during 2012/13 and progress on this issue will be reviewed as part of the Income Collection audit currently scheduled for Q3.

Progress against the 2012-13 Internal Audit plan as at 25th September 2012

- 4.3 In line with the audit programme for the current year we have completed and issued the following reports;
- Housing Needs (Temporary Accommodation);
 - Purchasing and Fuel Cards;

- Banking Arrangements;
- Grounds Maintenance Contracts; and
- Refuse Contract.

4.4 There were no high priority recommendations for any of these audits.

4.5 Additionally, at a meeting of the Audit Committee on 26th June 2012 the Committee Chairman inquired about how the Council ensured that all relevant policies and procedures were in place. Following the meeting Internal Audit proposed the scope of a review which could provide some assurance in this area and this was approved by the Head of Finance. The work will focus on statutory services and is due to start in October 2012. This audit has been added to this year's plan in appendix A.

Background Papers

Internal Audit reports relating to 2012-2013
Working papers relating to 2012-2013.

**Mid Sussex District Council
Internal Audit Plan 2012/13
Progress Report 25th September 2012**

Audit Area	Rating	Budget/ Days	Provisional Timing – commencing	Fieldwork Commenced	Draft Report Issued	Management Responses Received	Target date for issue of Final	Final Report Issued	High Findings Reported to Audit Committee	Comments
Fundamental Systems										
NNDR – CenSus Partners	High	N/A	Qtr 3							Audit to be conducted by Horsham
Council Tax – CenSus Partners	High	N/A	Qtr 3							Audit to be conducted by Adur
Housing Benefits – CenSus Partners	High	25	Qtr 3							Audit to be conducted by Mid Sussex
Payroll	High	5	Qtr 4							
Income Collection (Cashiers)	High	10	Qtr 3							
Treasury Management	High	5	Qtr 4							
Payments (Creditors)	High	5	Qtr 4							
Sundry Debtors	High	5	Qtr 3							
Capital Accounting & Asset Management	Medium	7	Qtr 4							
Budgetary Control	Medium	4	Qtr 3							
Computer Audit										
Programme and Project Management	High	10	Qtr 3							
Service and Support (ITIL service desk)	High	5	Qtr 3							
ICT Strategy	High	8	Qtr 4							
Resource Link	High	8	Qtr 2							
PSN Compliance (Formally GSi CoCo Compliance)	High	2	Qtr 4							

Audit Area	Rating	Budget/ Days	Provisional Timing – commencing	Fieldwork Commenced	Draft Report Issued	Management Responses Received	Target date for issue of Final	Final Report Issued	High Findings Reported to Audit Cttee	Comments
Required by Senior Management										
Housing Needs (Temporary Accommodation)		8	Qtr 1	14 May 2012	1 June 2012	7 June 2012	14 June 2012	7 June 2012	N/A	
Purchasing and Fuel Cards		6	Qtr 1	28 May 2012	9 July 2012	30 July 2012	6 Aug 2012	1 Aug 2012	N/A	
Banking Arrangements		5	Qtr 1	25 June 2012	6 Sept 2012					
Grounds Maintenance Contracts*		5	Qtr 2	20 Aug 2012	11 Sept 2012					
Refuse Contract*		5	Qtr 2	3 Sept 2012	11 Sept 2012					
Leisure Contract*		5	Qtr 2	24 Sept 2012						
NNDR Discretionary Rate Relief		5	Qtr 2	4 July 2012	9 Aug 2012	29 Aug 2012	5 Sept 2012	29 Aug 2012	N/A	
Use of Data		10	Qtr 3							
Local Land Charges		7	Qtr 3							
Statutory Policies and Procedures		5	Qtr 3							
Staff Training		6	Qtr 4							
Corporate Governance (Follow-up of 2010/11 audit)		2	Qtr 4							
Risk Management		6	Qtr 4							
Contact Centre		5	Qtr 4							
Design and Print		5	Qtr 4							

*There was a Facilities Management Contracts audit with a budget of 15 days in the original audit plan. The budget has been split equally into three separate audits to look at specific contracts.

Draft report should be issued no more than 20 working days after debrief meeting.

Management Responses should be received no later than 10 working days after issue of draft report.

Final Report should be issued no later than 5 working days after Management Responses are received.

**Mid Sussex District Council
Internal Audit Plan 2012/13
Progress Report 25th September 2012**

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Payroll	High	5	Qtr 4							
Income Collection (Cashiers)	High	10	Qtr 3							
Treasury Management	High	5	Qtr 4							
Payments (Creditors)	High	5	Qtr 4							
Sundry Debtors	High	5	Qtr 3							
Capital Accounting & Asset Management	Medium	7	Qtr 4							
Budgetary Control	Medium	4	Qtr 3							
Computer Audit										
Programme and Project Management	High	10	Qtr 3							
Service and Support (ITIL service desk)	High	5	Qtr 3							
ICT Strategy	High	8	Qtr 4							
Resource Link	High	8	Qtr 2							
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Staff Training		6	Qtr 4							
Corporate Governance (Follow-up of 2010/11 audit)		2	Qtr 4							
Risk Management		6	Qtr 4							
Contact Centre		5	Qtr 4							
Design and Print		5	Qtr 4							

*There was a Facilities Management Contracts audit with a budget of 15 days in the original audit plan. The budget has been split equally into three separate audits to look at specific contracts.

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Final Report should be issued no later than 5 working days after Management Responses are received.

8. COMMITTEE WORK PROGRAMME 2012/13

Date	Agenda Item
26 June 2012	Internal Audit Monitoring Report (PS) Annual Treasury Management Review (PS) Committee Work Programme 2012/13 (PS)
25 September 2012	Internal Audit Monitoring Report (PS) Annual Governance Statement Statement of Accounts 2011/12 (PS)
27 November 2012	Annual Audit Letter (PS) Treasury Management Half Year Report (PS) Internal Audit Monitoring Report (PS)
19 March 2013	External Audit Plan for 2012/13 Audit (PS) Audit Plan (PS) Internal Auditing Monitoring Report (PS)