

Annual Governance Report

Hart District Council

Audit 2009/10

September 2010

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Status of our reports

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

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

Ladies and Gentlemen

2009/10 Annual Governance Report

I am pleased to present the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Chief Executive and Chief Finance Officer and updated it as issues have been resolved.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report;
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 2); and
- agree your response to the proposed action plan (Appendix 4).

Yours faithfully

Patrick Jarvis
District Auditor

28th September 2010

Key messages

This report summarises the findings from the 2009/10 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	Results	Page
Unqualified audit opinion	Yes	14
Financial statements free from material error	Yes	7
Adequate internal control environment	Yes	7
Value for money	Results	Page
Adequate arrangements to secure value for money	Yes	15

Audit opinion

- 1 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements.

Financial statements

- 2 The draft financial statements and supporting notes submitted for audit were free from material error. They did contain a small number of errors which management has adjusted. These errors all related to disclosure and additions, and there were no material or non-trivial adjustments to the figures in the accounts that need reporting in this document.
- 3 The Finance team provided good quality and accurate working papers to support the financial statements. There was a delay in finishing our work because of problems surrounding controls within the main financial system. However, these were resolved before the mandatory reporting deadline and we now plan to issue an unqualified opinion on the financial statements being presented at this meeting.

Value for money

- 4 I am satisfied that, in all significant respects, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010. As such, I plan to issue an unqualified value for money (VFM) conclusion.

Key messages

Audit fees

- 5 In my original audit plan, the fee for the opinion audit was based on my best estimate at the time and agreed at £123,000. This was agreed by the Council in my letter dated 27th April 2009.
- 6 The weakness in the IT control environment, identified during the planning stage of the audit (and detailed at paragraph 11), resulted in extra work at the pre-statements stage of the audit. Despite this extra work, we could not gain sufficient assurance that figures derived from the main accounting system at year end were materially correct. As such, an IT specialist was procured to carry out extra interrogative testing on the general ledger. The work is still ongoing and the cost has yet to be calculated, however, I propose to raise the audit fee by that amount. Any revisions to the audit fee will be discussed with management first and then brought before those charged with governance for approval.

Independence

- 7 I can confirm that there were no relationships giving rise to a threat to independence, objectivity and integrity.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

8 I ask the Audit Committee to:

- consider the matters raised in the report;
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 2); and
- agree your response to the proposed action plan (Appendix 5).

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 Council 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

- 9** 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

- 10** The draft financial statements and supporting notes submitted for audit were free from material error. They contained a small number of other errors which management has adjusted. These all related to disclosure and additions, and there were no material or non-trivial adjustments to the accounts that need recording in this report.
-

Important weaknesses in internal control

- 11** While the overall internal control environment is adequate, I found one important weakness relating to controls in the main accounting system. This was relevant to the first half of 2009/10 and the transitional period when the finance service was first outsourced to Capita. It relates to the number of staff that had full access rights to the material financial systems and the processes put in place to maintain segregation controls during the period.
- 12** A significant number of finance staff had full access privileges and those who left the Council during the year (approximately 40 people) did not have their privileges reviewed or removed upon their departure. This is a risk because staff with these access levels had the rights to set up accounts, raise invoices and make payments without independent review or authorisation. While there is absolutely no suggestion that this has occurred (which is supported by audit testing), it constitutes a significant audit risk over the figures in the financial statements.
- 13** The following factors were also taken into account when assessing the risk:
- When the Council outsourced its finance function to Capita, it did not seek independent assurance on the control environment of Capita's processes, services and systems;
 - The council cannot evidence how segregation of duties was maintained during the change management period;
-

- The Council did not commission any specific IT assurance work during the year to address the risk; and
- As part of its financial systems work, internal audit recommended an urgent review of access levels for all users of the financial systems.

14 This position was inherited by Capita, which has worked well with the Council to address the weaknesses and put in place new arrangements. It also endeavoured to embed them by the end of the 2009/10 financial year in time for its first reporting period. Our work on the final accounts suggests that by the end of the financial year, the problems identified had been substantially addressed and access controls were much improved.

Recommendation	
R1	The Council needs to ensure that access rights to the financial systems are appropriate to user position and responsibilities
R2	The Council should implement a formal IT governance and risk management framework to clearly delineate responsibilities
R3	Access rights to the financial systems should be regularly reviewed and staff leaving the Council or Capita should have their rights removed promptly
R4	All manual journals need to show evidence of review and authorisation, and be accompanied by adequate supporting documentation

Key areas of judgement and audit risk

15 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Table 1 Key areas of judgement and audit risk

Issue or risk at planning stage	Outcome on completion of opinion audit
Capita was preparing the accounts for the first time so there were specific risks identified around arrangements and compliance with the 2009 SoRP	There was clear improvement over previous years with no significant disclosure issues identified
IT control environment - financial systems operated at different sites lead to risks around the IT controls environment i.e. payroll and HR are operated by different providers which	Reliance could not be placed on the IT controls environment and extra work was carried out to gain assurance over year end balances in the financial statements. A number of recommendations have been made in response

Financial statements

Issue or risk at planning stage	Outcome on completion of opinion audit
leads to risks around access, verification, reconciliations, etc	to the extra work
International Financial Reporting Standards (IFRSs) - restatement of 2009/10 closing balances and preparedness for full introduction in 2010/11	The Council is on track to meet and comply with the introduction of IFRSs
Wider financial environment - there is an inherent risk, specific to all public sector bodies, regarding pressure on finances and ever tighter budgets	We carried out substantive year end procedures on balances affecting the revenue position, for example, cash, provisions, debtors, etc and found them to be materially correct
Redundancy costs - these are politically and publically sensitive	We will carried out audit procedures and found redundancy costs to be fairly stated

Letter of representation

- 16** Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 2 contains the draft letter of representation.

Value for money

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

Value for money conclusion

- 17 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my scores against each criterion in Appendix 3.
- 18 I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.

Glossary

Annual governance statement

- 19** Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.
- 20** It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.
- 21** The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.
-

Audit closure certificate

- 22** A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.
-

Audit opinion

- 23** On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:
- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
 - whether they have been prepared properly, following the relevant accounting rules; and
 - for local probation boards and trusts, on the regularity of their spending and income.
-

Qualified

- 24** The auditor has some reservations or concerns.
-

Unqualified

- 25** The auditor does not have any reservations.
-

Value for money conclusion

- 26** The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Appendix 1 – Independent auditor’s report to Members of Hart District Council

Independent auditor’s report to the Members of Hart District Council

Opinion on the financial statements

I have audited the accounting statements and related notes of Hart District Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of the Hart District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Responsible Financial Officer and auditor

The Responsible Financial Officer’s responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

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 accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, of the financial position and financial performance of Hart District Council and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information

Appendix 1 – Independent auditor’s report to Members of Hart District Council

I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Committee's corporate governance procedures or its risk and control procedures

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting 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 accounting statements and related notes. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the accounting statements and related notes, 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 accounting statements and related notes 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 accounting statements and related notes.

Opinion

In my opinion Hart District Council's financial statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, of the financial position and financial performance of the Council as at 31 March 2010 and its income and expenditure for the year then ended.

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

Hart District 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 regularly to review the adequacy and effectiveness of these arrangements.

Appendix 1 – Independent auditor’s report to Members of Hart District Council

Auditor’s Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Committee 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 local government bodies. 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.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for other local government bodies specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, I am satisfied that, in all significant respects, Hart District Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010.

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.

Patrick Jarvis

District Auditor

Appendix 2 – Letter of representation

To:

Patrick Jarvis
District Auditor

Audit Commission
Second Floor, Collins House
Bishopstoke Road
Eastleigh
Hampshire
SO50 6AD

Hart District Council

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other members and officers of Hart District Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31st March 2010. All representations cover the Council's accounts and Pension Fund accounts included within the financial statements.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice, which give a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

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

Appendix 2 – Letter of representation

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

Going Concern

I am satisfied that it is appropriate to adopt the going concern basis in the preparation of the financial statements and that the financial statements include, such disclosures, if any, relating to going concern.

Service concessions

I have reviewed the Council's contracts with the private sector and confirm that, other than those disclosed in the financial statement, there are no public to private service concession arrangements.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or 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; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

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; and
- 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.

Law, regulations, contractual arrangements 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 Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has

been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For each assumption, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework; and
- the completeness and appropriateness under the financial reporting framework.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Related party transactions

I confirm the completeness of the information disclosed 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

Post balance sheet events - FRS17 Pension Liabilities

Since the date of approval of the financial statements, the Government has announced that future increases in public sector pensions will reflect movements in the Consumer Price Index (CPI), effective from April 2011. Increases are currently determined by reference to the Retail Price Index (RPI).

The rate at which pensions will increase is one of the key factors in determining the liabilities of defined benefit pension funds. Any change in the rate at which pensions will increase will therefore affect the value of pension fund liabilities. The CPI differs from, and tends to be lower than, the RPI. The change from RPI to CPI is therefore expected to result in a material reduction in the pension liabilities and therefore the pension deficit on the Council's balance sheet.

The actuaries have estimated that the impact on the balance sheet if the CPI change had occurred at the accounting date would have been to reduce the value of the liabilities on the balance sheet by between 8% and 10%.

Appendix 2 – Letter of representation

Specific representations:

I acknowledge my responsibility for the design and implementation of internal control systems. This includes the operation of segregation and authorisation controls within the Council's main accounting system. I can confirm:

- appropriate segregation controls exist within the Council and these have operated over the full accounting period;
- there has been no unauthorised use of the main accounting system during the accounting period; and
- the control framework in place between the Council and Capita is adequate to ensure that managing the main accounting system from remote locations does not constitute a risk to the Council's business.

Signed on behalf of Hart District Council

I confirm that the this letter has been discussed and agreed by the Audit Committee on 28th September 2010

Signed

Geoff Bonner
Chief Executive

Appendix 3 – Value for money criteria

KLOE (Key Line of Enquiry)	Met
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural resources	Yes
Strategic asset management	Yes
Workforce	Yes

Appendix 4 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Governance Report 2009/10 - Recommendations September 2010						
8	R1 The Council needs to ensure that access rights to the financial systems are appropriate to user position and responsibilities	3				
8	R2 The Council should implement a formal IT governance and risk management framework to clearly delineate responsibilities	2				
8	R3 Access rights to the financial systems should be regularly reviewed and staff leaving the Council or Capita should have their rights removed promptly	3				
8	R4 All manual journals need to show evidence of review and authorisation, and be accompanied by adequate supporting documentation	2				

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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

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

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk
