

Annual Governance Report

September 2006



Annual governance report

Hart District 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 Authority

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 Authority's Staff & General Purposes Committee (S&GP) is considered to fulfil the role of those charged with governance and references to the Audit Committee should be read as such.
- 2 We are also required by professional auditing standards to report to the S&GP 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 Authority 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 S&GP Committee;
 - to share information to assist both the auditor and those charged with governance to fulfil their respective responsibilities; and
 - to provide the S&GP 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 principles 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 Authority's financial statements; and
 - whether the Authority 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. The results of our inspection work, and our separate grant claims' certification programme, will be reported in the Relationship Manager Letter later in the year.

- 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.

Key messages

Financial statements

- 9 Our work on the financial statements is now substantially complete, although there are still some outstanding issues to be resolved. In particular, our schedule of amendments that has been agreed with officers has still to be reflected within the financial statements. Should any further matters arise in concluding the outstanding work that requires reporting, we will raise them with the Chair of this committee.
- 10 Subject to the satisfactory conclusion of the work outstanding, we anticipate being able to issue an unqualified opinion by 30 September 2006 (a draft report containing the audit opinion is attached at Appendix 5). This represents a substantial improvement on the 2004/05 statements, and was achieved despite the lack of key permanent staff during the final accounts process.

Use of resources

- 11 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness of its use of resources is now complete. We anticipate being able to issue a qualified conclusion on the use of resources by 30 September 2006 (a draft report containing the VFM Conclusion 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

	Issue	Action required by the Audit Committee
Financial Statements		
Expected modifications to the auditor's report	None (provisional conclusion)	Refer to appendix 5
Uncorrected misstatements	None (provisional)	None (provisional)
Adjusted misstatements	There have been two significant amendments to the statements	Refer to Table 2
Qualitative aspects of accounting practices	There have been a significant number	Refer to paragraph 20

	Issue	Action required by the Audit Committee
and financial reporting	changes to the draft financial statements that were approved by members	
Material weaknesses in internal control identified during the audit	Weaknesses within revenues and financial management	Refer to paragraph 21
Matters specifically required by other auditing standards	None	None
Any other matters of governance interest	None	None
Letter of representation	Needs to be considered by those charged with governance	Consider copy at Appendix 6 and sign an agreed version.
Use of Resources		
Value for money conclusion	A qualified conclusion has been issued because the Authority's arrangements do not satisfy 8 of the 12 criteria set by the Audit Commission	Refer to table 3, paragraphs 29 to 47, recommendation 2, and appendix 5.
Use of auditors' statutory powers	None	None

Financial statements

- 13 We are required to give an opinion on whether the Authority's financial statements present fairly the financial position of the Authority 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, although there are still some outstanding issues to be resolved. In particular, our schedule of amendments that has been agreed with officers has still to be reflected within the financial statements. Should any further matters arise in concluding the outstanding work that need to be reported, we will raise them with the Chair of S&GP (or alternative arrangements as appropriate).

Matters to be reported to the Staff & General Purposes Committee

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

Expected modifications to the auditor's report

- 16 On the basis of our audit work, subject to the satisfactory conclusion of any work outstanding reported above, we currently propose to issue an unqualified audit opinion within the audit report. A draft audit report is attached at Appendix 5.

Uncorrected misstatements

- 17 While our audit has still to be completed it has not this far identified any non trivial misstatements in the financial statements that management has decided not to adjust.

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. We therefore draw your attention to the list of material and significant misstatements that management has adjusted in Table 2 below. A complete listing of all the misstatements we have identified has been provided to officers.

Table 2 Adjusted misstatements in the financial statements

Details of material and/or significant adjustments made to the financial statements

Issue	Value of misstatement £000	Impact on surplus/(deficit)
The costs of unfunded pension liabilities have now been assessed in accordance with LAAP 51 and included in the financial statements.	2536	Nil
The accounting treatment in respect of the use of Provision for Credit Liabilities has been amended, following clarification from the Secretary of State's office	3448	Nil

- 19 The audit of the financial statements has not been aided by some notable gaps such as a robust analytical review to support movements in year and an analysis of the 2005/06 budget. An adequate set of working papers were not prepared on a timely basis at the beginning of the audit and there were weaknesses within the audit trail. These difficulties have resulted in the need for additional audit work and will result in extra audit fees. We will work with officers to help identify improvements that could be made in order to ensure that similar problems do not arise next year.

Recommendations

R1 Improve year end and qualitative processes for producing the 2006/07 financial statements to ensure the accounts presented for approval are free from significant errors and supported by a robust set of working papers.

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. We wish to report the following matters to you.

- The Authority's Pension Fund Actuary has not followed the advice in Local Authorities Accounting Panel (LAAP) Bulletin number 65, which advised that the effect of the commutation of benefits following changes to the local government pension scheme should be accounted for as a negative past service cost. They have instead treated it as a change in actuarial assumptions after the benefits have changed. Consequently the saving arising from commutation has been included within the Statement of Total Movements in Reserves rather than Non-Distributed Costs within the Consolidated Revenue Account. A note has been included in the accounts to explain the position and there is no impact on the liabilities recorded in the accounts.
- The audit led to the need for a significant number of changes to the draft financial statements approved by members, including a number of instances of non-compliance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005. These problems arose due to underlying difficulties within the Finance Section including the absence of key staff during the final accounts closedown process and the significant problems that the Authority faced during the previous year's closedown process. Although they were not individually material the Authority will need to ensure that processes are improved during 2006/07.

Material weaknesses in internal control identified during the audit

- 21 Our audit identified the following weaknesses in systems of accounting and financial control which we should report to you:
- The Authority has recognised that there is a shortage of resources in Revenues within its Statement of Internal Control. Our review of Internal Audit reports has found that there a significant number of weaknesses that have been identified within the Housing Benefits, Council tax and Non domestic rates systems which the Authority should ensure are addressed.
 - The Authority was required to repay £915,000 to the Department for the Communities and Local Government during 2006/07, following the qualification of the 2004/05 NNDR3 grant claim. The demand for the payment was received in May 2006, which was not anticipated by the Authority. This lack of awareness represents a weakness in financial management, although it is acknowledged that the absence of two of the Authority's senior finance officers was a contributing factor.
 - The Interim Head of Finance has commented upon the impact of the Authority not having taken advantage of the opportunity that it had to convert its Provision for Credit Liabilities to useable capital receipts within his report to S&GP on 26 September 2006. The Authority's failure to make the required determination represents a weakness in financial management.

- 22 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. We can only report on weaknesses that we are aware of and other improvements might also be possible.

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 such matters that 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.
- 26 We reviewed 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. There are no significant matters to be brought to your attention.

Letter of representation

- 27 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

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

Use of resources

Value for money conclusion

- 29 The Code requires us to reach a conclusion on whether we are satisfied that the Authority 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 Authority's corporate performance management and financial management arrangements. Our work in reaching the value for money conclusion is integrated with our work on the use of resources assessment.
- 30 Our work in reaching the VFM Conclusion relies in large part on the use of resources (UoR) assessment. This is a qualitative assessment of the effectiveness of the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources.
- 31 A summary of the VFM Conclusion is as follows:

Table 3 Value for money conclusion

Your performance against the VFM conclusion criteria.

Theme (abbreviated)	Source of evidence	Adverse impact on VFM Conclusion?	Reference to later paragraphs
1. Corporate objectives	Recent work	Yes	Para 34
2. Communication	Recent work	Yes	Para 37
3. Performance management	Recent work	Yes	Para 39
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	Yes	Para 41
8. Financial strategy	UoR 2.1	Yes	Para 43
9. Financial standing	UoR 3.1	Yes	Para 44
10. Financial management	UoR 2.2	Yes	Para 46
11. Asset management	UoR 2.3	Yes	Para 47
12. Probity and propriety	UoR 4.3	No	

Overall conclusion

- 32 On the basis of our audit work, we propose to issue a report including a value for money conclusion that we are not satisfied that the Authority has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources, because of the number of themes summarised above that have been assessed as not meeting the minimum satisfactory level.
- 33 The key issues arising from our work directly supporting the value for money conclusion are summarised below.

Corporate objectives

- 34 The Authority does not have adequate arrangements for setting strategic objectives, cascading these to service level or having service plans which will enable it to meet its corporate objectives. We note that the Authority received a positive assessment from 'Investors In People' of its cascading of targets through the organisation.
- 35 Although the new corporate plan, agreed in December 2005, identifies the Council's six priorities, the 24 objectives underpinning these priorities are not Specific, Measurable, Achievable, Realistic and Time bound, 'SMART', and there are no high level targets for achieving them. The plan does not make clear the outcomes the Authority is seeking to achieve and how these will benefit the local community.
- 36 There is recognition within the Authority that there are areas for improvement with regard to the corporate plan and its planning framework and after a slow start in progressing its improvement plan, Cabinet and senior managers are now starting to take these elements forward.

Communication

- 37 The Council does not have adequate arrangements for consulting with service users, key stakeholders and partners or for engaging with hard to reach groups. Feedback from consultation is not used effectively. Although the council has a complaints procedure it does not follow up complaints effectively.
- 38 The customer access inspection reported a high level of customer dissatisfaction, response times are unsatisfactory and that feedback from complaints was not used effectively in 2005/6. In March 2006 the council updated its complaints policy and procedure and in 2006/7 is starting to improve its management of complaints at service level and by Scrutiny Committee.

Performance management

- 39 The monitoring and scrutiny arrangements for performance management are not yet effective, including the arrangements to manage under-performance. The Authority has arrangements in place for following up progress on recommendations by external bodies.

- 40 The planned improvements to the performance management arrangements include reviewing the roles of Cabinet, Scrutiny Committee and senior managers in managing performance, although this work had not commenced during 2005/06. An Improvement Board of lead councillors and senior managers was set up in March 2006 with a remit to strategically manage performance with a focus on delivering the corporate plan priorities but outcomes from this will be in 2006/07. The Authority recognises that performance is not managed effectively at team level and this is another area for improvement which it intends to address in 2006/07.

Value for money

- 41 The Authority's Use of Resources (UoR) improvement plan includes arrangements to improve value for money, although these initiatives were not implemented in time to be taken into account for the 2005/06 conclusion which is based on the arrangements that exist before the 31 March 2006.
- 42 Consequently the areas highlighted for improvement within the UoR review had by the end of 2005/06 not been improved upon, for example there was no framework to ensure that VFM is an integral part of the performance management, and the Authority was not making effective use of cost comparison to identify potential efficiency gains. Managers and councillors were not effectively challenging cost information, and there was no effective monitoring system to ensure that the Authority is meeting its efficiency target.

Financial strategy

- 43 The UoR assessment recognised that the 2005/06 Medium Term Financial Strategy was not linked to corporate priorities and that budget setting did not take account of corporate priorities. Cashflow forecasts were not prepared by the Authority in 2005/06 and the prudential indicators were not applied in assessing the affordability of capital projects. Officers have confirmed that these issues were not addressed by the 31 March 2006.

Financial standing

- 44 The improvements within the Authority's improvement plan in relation to financial standing had not been implemented in time to influence our value for money conclusion, i.e. by 31 March 2006. These related to the need for a member-approved policy on the level and nature of financial reserves and the implementation of processes to ensure the monitoring or maintaining of reserve levels.
- 45 Some improvement has been evident on the timelier reporting on the capital programme during the latter part of 2005/06, although this was not reflected within other financial reporting.

Financial management

- 46 The UoR assessment identified a number of improvements needed to financial management arrangements, including the preparation of profiled budgets and the issue of guidance together with an outline of the budget process. The budget monitoring information should be accurate, understandable, relevant, and up to date, and the capital expenditure plans should be included in the budget book. The control weaknesses identified within the Revenues and Benefits service during the 2004/05 audit should also be addressed.

Asset management

- 47 Officers have confirmed that whilst work was ongoing there was no delivered and completed improvement in the arrangements that were in place in relation to asset management between our Use of Resources Judgement in January 2006 and the 31 March 2006, including the need for an up to date asset register to be maintained, reports to members to be sufficient and delivered on a timely basis, and for the capital programme to give priority to potential capital projects based on a formal objective approval process.

Recommendations

R2 The Authority should implement the improvement plan that it agreed in response to the Use of Resources judgement, and should ensure that, when completed, this has addressed the key areas for improvement.

Review of 2006/07 budget and budget setting process

- 48 We have also separately reviewed the budget setting process that was in place in respect of 2006/07 and identified a number of weaknesses that the Authority needs to address. For example, the 2006/07 budget is based on some high risk assumptions, including savings of £1.268 million necessary to balance the budget, and although these risks were acknowledged no contingency plans were described within the budget setting report in respect of them.

Use of auditors' statutory powers

- 49 Auditors are required to consider the exercise of certain statutory powers during the course of the audit, as summarised in Table 4 below.

Table 4 Use of statutory powers

The statutory powers itemised below have not been used in 2005/06

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 Authority 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 Authority's 2005/2006 Best Value Performance Plan (BVPP) was reported in our statutory report dated 12 October 2005. No recommendations were made to the Audit Commission or the Secretary of State.

Closing remarks

- 50 This report has been discussed and agreed with your officers. A copy of the memorandum will be presented at the Staff & General Purposes Committee on 26 September 2006.
- 51 The report makes a number of recommendations. An action plan is included at Appendix 7, which includes responses from management and indicative target dates for the implementation of recommendations.

Martin Robinson

District Auditor

September 2006

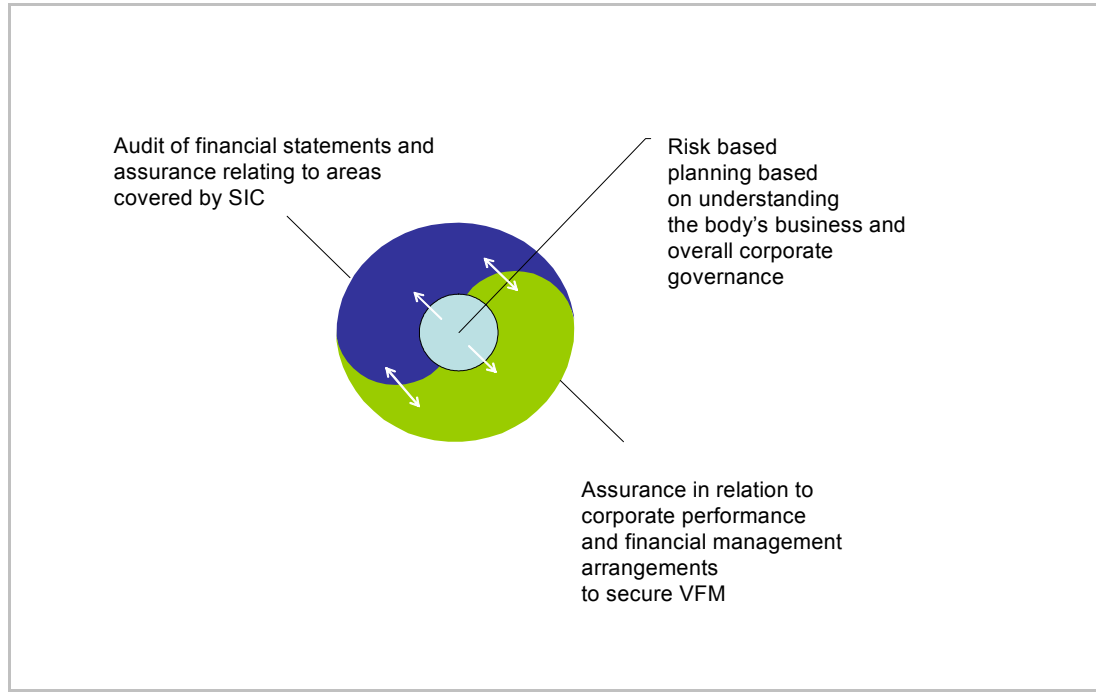
Appendix 1 – Audit responsibilities and approach

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 Authority 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 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. The keys risks that we identified include:
 - providing an inappropriate opinion on your 2005/06 financial statements, taking account of the operation of your financial systems and procedures; and
 - the risk non-compliance with proper accounting practice, including the requirements of FRS17 and group accounts.

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 Authority'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 5

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit and inspection plan	March 2005	March 2005	Authority
Interim audit memorandum	June 2006	Issues to be included in the Final accounts memorandum	Management
Annual governance report	September 2006	To be issued	The Authority
Opinion on financial statements	September 2006	To be issued	The Authority
Value for money conclusion	September 2006	To be issued	The Authority
Final accounts memorandum	October 2006	To be issued	Management
Use of resources assessments	March 2006	March 2006	Management
BVPP report	October 2005	October 2005	The Authority
Annual Audit & Inspection Plan	March 2007	To be issued	The Authority

Appendix 3 – Fee information

Table 6

Fee estimate	Plan 2005/06 £	Actual 2005/06 £
Audit		
Accounts*	58,029	TBC
Use of resources*	28,695	TBC
Total audit fees**	86,724	TBC
Voluntary improvement work*	0	0

* An additional fee is likely to be sought for the 2005/06 but this can not yet be quantified. Reasons for any significant variances will be provided in due course.

** The outturn on inspection and grant certification fees will be reported in the Relationship Manager Letter

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

Appendix 5 – Independent auditor’s report to Hart District Council

Opinion on the financial statements

I have audited the financial statements of Hart District Council for the year ended 31 March 2006 under the Audit Commission Act 1998, which comprise the Consolidated 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 Hart District 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 Authority 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 Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the 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 Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

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

Opinion

In my opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended.

District Auditor: Martin Robinson

Address: Audit Commission 2nd Floor, 50 South St, Dorchester, DT1 1 DQ

Date

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

Authority’s Responsibilities

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

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

Auditor’s Responsibilities

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

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

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

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and I am not 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, Hart District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006, in that it failed to put in place:

- arrangements for setting, reviewing and implementing its strategic and operational objectives;
- channels of communication with service users and other stakeholders including partners, and monitoring arrangements to ensure that key messages about services are taken into account;
- arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members;
- arrangements to manage and improve value for money;
- a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities;
- arrangements to ensure that its spending matches its available resources;
- arrangements for managing performance against budgets; and
- arrangements for the management of its asset base.

Best Value Performance Plan

I issued my statutory report on the audit of the authority’s best value performance plan for the financial year 2005/06 on 12 October 2005. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Certificate

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

District Auditor: Martin Robinson

Address: Audit Commission 2nd Floor, 50 South St, Dorchester, DT1 1 DQ

Date:

Appendix 6 – Letter of representation

To: Martin Robinson

District Auditor
Audit Commission
North Wing
Southern House
Sparrowgrove
Otterbourne
Winchester
Hampshire
SO21 2RU

Hart DC - Audit for the year ended 31 March 2006

I / we confirm to the best of our knowledge and belief, having made appropriate enquiries of other Directors 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 31 March 2006.

I / we acknowledge our responsibility under the relevant statutory authorities for preparing the financial statements which presents fairly and for making accurate representations to you. I / we acknowledge our responsibilities under the relevant statutory authorities to prepare the Council's accounts in accordance with proper practices as defined in relevant legislation or guidance.

The 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.

I / we are aware of unfunded liabilities relating to pension provision but are in the process of investigating these and sharing the outcome with the Auditors. This includes confirming that the data used by the actuary to calculate FRS 17 disclosure information on a roll-forward basis continues to be appropriate and representative of the membership profile for Hart District Council 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 members meetings, have been made available to you.

Related party transactions

I / we confirm the completeness of the information provided regarding the identification of related parties.

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

Contingent liabilities

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

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

Law, regulations and codes of practice

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

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

There have been no:

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

Post balance sheet events

Since the date of approval of the financial statements by Members of the 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 Hart District Council

Signed

Mike Dwyer, Interim Head of Finance & S151 Officer

Signed

Sue Fisher, Chair of the Staff & General Purposes Committee

Date: 26 September 2006

Appendix 7 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	Final accounts production process					
10	R1 Improve year end and qualitative processes for producing the 2006/07 financial statements to ensure the accounts presented for approval are free from significant errors and supported by a robust set of working papers.	3	Head of Finance	Yes	The pressures of having to close two years accounts (2004/05 and 2005/06) did adversely impact on the quality of the working papers for 2005/06. Now that the Council's Closure of Accounts programme is up-to-date and financial management arrangements generally are continuing to improve, the closure of the 2006/07 Accounts can be better planned and work scheduled, and the quality of the end product improved further.	2006/07
	Value for money conclusion					
16	R2 The Authority should implement the improvement plan that it agreed in response to the Use of Resources judgement, and should ensure that, when completed, this has addressed the key areas for improvement.	3	Head of Finance/Head of Performance & Democracy	Yes	The Use of Resources Action Plan was considered and agreed by Management Team, Leadership Team and Heads of Service Team during May. Progress will be monitored by Management Team on a monthly basis as well as being formally reported to Scrutiny Committee and S&GP.	Ongoing