

# Annual Governance Report

Harpenden Town Council

Audit 2008/09

January 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.
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Ladies and Gentlemen

**2008/09 Annual Governance Report**

I am pleased to present the final version of my report on the results of my audit work for 2008/09.

A draft of the report was discussed and agreed with the Town Clerk on 17th November 2009 and has been updated since as issues have been resolved.

The 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 before approving the financial statements (pages 6 to 18);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2); and
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3);

Yours faithfully

Mark Hodgson  
District Auditor  
23 November 2009

# Key messages

This report summarises the findings from the 2008/09 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 how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.

<b>Financial Statements</b>	<b>Results</b>	<b>Page</b>
Unqualified audit opinion	Yes	6
Financial statements submitted for audit free from material error	No	6
Adequate internal control environment	Yes	7
<b>Use of resources</b>	<b>Results</b>	<b>Page</b>
Arrangements to secure value for money	Yes	8

## Audit opinion and Use of Resources

- 1 My audit of the Council's 2008/09 financial statements is now substantially complete. Subject to the satisfactory completion of my final review, I plan to issue an audit report including an unqualified opinion on the financial statements.
- 2 I have been able to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

# 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.**

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**3** I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 18);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- take note of the VFM Conclusion; and
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3);

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# Financial statements

**Harpenden Town Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Harpenden Town 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.**

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## Opinion on the financial statements

- 4 My audit of the Council's 2008/09 financial statements is now substantially complete. Subject to the satisfactory completion of my final review, 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.

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## Errors in the financial statements

- 5 My audit identified one material error, and officers have corrected this in the revised financial statements. Details of this error are set out in Appendix 2. Other than errors that are trivial, no further errors have been identified.

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## Material weaknesses in internal control

- 6 My audit has not identified any material weaknesses in internal control.

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## Letter of representation

- 7 Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 3 contains my request for the representations I seek to obtain from you.

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## Key areas of judgement and audit risk

- 8 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table 1.

**Table 1 Key areas of judgement and audit risk**

Issue or risk	Finding
<p>The 2007 Local Government Statement of Recommended Practice (SORP) introduced significant changes to the financial reporting requirements, in particular the requirement to present and account for financial instruments in accordance with FRS 25, 26 and 29. Significant changes were required to the draft accounts to ensure these requirements were met. This will remain a risk area for 2008/09.</p>	<p>Testing undertaken on the draft financial statements confirmed that the disclosure of financial instruments complied with the disclosure requirements set out in the 2008 SORP.</p>
<p>During the course of 2008/09, significant falls in the value of land and buildings have been seen because of the global economic downturn. During the course of our audit we will assess the steps taken by Harpenden Town Council to ensure that the value of land and buildings carried in the balance sheet are appropriate, and that any impairments arising during 2008/09 have been accounted for in accordance with the SORP.</p>	<p>Testing undertaken on the Council's draft financial statements confirmed that the Council had accounted for the reductions in the value of fixed assets in accordance with the 2008 SORP.</p>

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# Use of resources

**I am required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.**

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## Value for money conclusion

- 9** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out in Appendix 4.
- 10** 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. Appendix 1 contains the wording of my draft report.

# Appendix 1 – Independent auditor’s report to Members of Harpenden Town Council

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## Independent auditor’s report to Members of Harpenden Town Council

### Opinion on the financial statements

I have audited the Authority accounting statements and related notes of Harpenden Town Council for the year ended 31 March 2009 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 Harpenden Town 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.

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### Respective responsibilities of the Town Clerk and auditor

The Town Clerk’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 present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 the financial position of the Authority 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 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 Authority’s corporate governance procedures or its risk and control procedures

## Appendix 1 – Independent auditor’s report to Members of Harpenden Town Council

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.

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### 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 judgments made by the Authority in the preparation of the accounting statements and related notes, 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 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.

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### Opinion

In my opinion the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

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### 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 regularly to review the adequacy and effectiveness of these arrangements.

### 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 government bodies. 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.

### Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice.

Having regard to relevant criteria specified by the Audit Commission for principal local authorities published by the Audit Commission in May 2008 and updated in February 2009, and the supporting guidance, I am satisfied that, in all significant respects, Harpenden Town Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

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### 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.

Mark Hodgson  
District Auditor

Date: November 2009

Audit Commission, Regus House, 1010 Cambourne Business Park, Cambourne  
Cambridge, CB23 6DP.

# Appendix 2 – Adjusted amendments to the accounts

The following misstatements were identified during the course of my audit and the financial statements have been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities.

**Table 2**

Adjusted misstatements	Nature of Adjustment	Income and Expenditure Account		Balance Sheet	
		Dr (£)	Cr (£)	Dr (£)	Cr (£)
The financial statements have been amended to reflect a revised estimate of the value of the pension fund. This estimate was updated between Members approving the financial statements, and the conclusion of my audit.	Increase (credit) Income and Expenditure Account expected return on pension assets £19,600	19,700			
	Reduce (debit) Balance Sheet liability relating to defined pension schemes by £19,600			19,700	
	Reduce (debit) Statement of Movement on the General Fund Balance by £19,600		19,700		
	Increase (credit) Pension Reserve by £19,600				19,700

# Appendix 3 – Request for a letter of representation

Our reference      HA29709A/SB/Letter of Representation Request

17 November 2009

— Mr. J Bagshaw  
Town Clerk  
Harpenden Town Council  
Town Hall  
Harpenden AL5 2LX

Direct line      0844 798 5529  
Email            s-bladen@audit-  
                         commission.gov.uk

Dear John

## **Audit of Accounts 2008/09 - Request for a letter of representation**

International Standards on Auditing set out guidance on the use by auditors of management representations (ISA (UK&I) 580) and on possible non-compliance with laws and regulations (ISA (UK&I) 250). We have interpreted this guidance as it affects Councils and we expect the following points to apply:

- auditors may wish to obtain written representation where they are relying on management's representations in respect of judgemental matters (for example the level of likely incidence of a claim), which may not be readily corroborated by other evidence;
- auditors are likely to request written representations on the completeness of information provided;
- auditors may wish to obtain written representation on issues other than those directly related to the Statement of Accounts;
- the letter is dated on or near to the date on which the auditor signs the opinion and certificate;
- the letter is signed by the person or persons with specific responsibility for the financial statements; and
- the letter is formally acknowledged as having been discussed and approved by the Audit Committee, as those charged with governance of the Council.

I would expect the letter of representation to include the following:

### **Compliance with the statutory authorities**

An acknowledgement of your 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 present fairly the financial position and financial performance of the Council and for making accurate representations to us.

### **Uncorrected misstatements**

Confirmation that the effects of any uncorrected financial statements misstatements (to be listed in the annual governance report) are not material to the financial statements, either individually or in aggregate and that these misstatements have been discussed with those charged with governance. The reasons for not correcting any such items should be given.

### **Supporting records**

Confirmation that all the accounting records, other records and related information, including minutes of all Council and Committee meetings have been made available to us for the purpose of our audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records.

### **Going concern**

Confirmation 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.

### **Irregularities**

Confirmation of responsibility for the design and implementation of internal control systems to prevent and detect fraud or error and that 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.

Confirmation that you have disclosed:

- 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
- 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**

Confirmation that there are no instances of non-compliance with laws, regulations and codes of practice, which are 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.

## Appendix 3 – Request for a letter of representation

### Fair values

Confirmation that the significant assumptions within the financial statements, covering borrowing, investments, provisions, depreciation and accruals assumptions, are reasonable. Specifically in relation to:

- the appropriateness of the measurement method;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require adjustment to the fair value measurement.

### Contingent liabilities

Confirmation that 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
- 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.

### Related party transactions

Confirmation of the completeness of the information disclosed regarding the identification of related parties and that the Council's registers of interest are complete and up to date in respect of Councillors and senior staff. The Council has ensured that all senior staff are aware of the requirement to declare all interests relevant to the Council, including interests of families, partners and entities controlled by them.

### Post balance sheet events

Confirmation that since the date of approval of the financial statements by the Audit Committee, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements and that 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.

The above matters are examples only. There may be other matters which you would wish to include in the management letter of representation. I should be grateful if you could provide a signed\* management letter of representation for Harpenden Town Council at the appropriate time.

Yours sincerely

Steve Bladen  
Audit Manager

\* - Signed by the Town Clerk and Leader of the Council (as 'those charged with governance' at the Council).

# Appendix 4 – Value for money conclusion

The following tables summarise the conclusion for each of the four value for money criteria specified by the Audit Commission as being applicable to this audit.

## Managing finances

<p><b>KLOE 1.1 - Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?</b></p> <p><b>VFM criterion met</b></p>	<p><b>Yes</b></p>
<p>Findings: Medium-term financial planning and annual budgeting are integrated with the corporate planning process. The assumptions on which they are based are clearly stated. The Council sets and approves a balanced and realistic budget that is supported by reasonable assumptions. Treasury management processes are appropriate to the size of the Council. Members and the officers exercise collective responsibility for financial matters, and understand the financial environment in which the Council operates.</p>	
<p><b>KLOE 1.2 - Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?</b></p> <p><b>VFM criterion met</b></p>	<p><b>Yes</b></p>
<p>Findings: The Council understands what costs it incurs, the main cost drivers and factors that influence these and how these change with activity over time. Costing information that supports decision making is of reasonable quality and includes, as appropriate: Cost and performance information is used in the financial and service planning process to make decisions about policies and service provisions. All new investments, whether capital or revenue, are subject to an investment appraisal process which includes an evaluation of risks and the relative costs and benefits.</p>	

## Appendix 4 – Value for money conclusion

<b>KLOE 1.3 - Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?</b>	
<b>VFM criterion met</b>	<b>Yes</b>
Findings: Budget monitoring and forecasting information is reliable, relevant and understandable. It is produced regularly and on a timely basis throughout the year. The Council's accounts comply with statutory requirements, statutory or regulatory timetables, and relevant accounting and reporting standards. The Council supports an efficient audit of its accounts by providing working papers and responding promptly to additional requests for information.	

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## Governing the business

<b>KLOE 2.4 - Does the organisation manage its risks and maintain a sound system of internal control?</b>	
<b>VFM criterion met</b>	<b>Yes</b>
Findings: The Council identifies and effectively manages corporate business risks. The Council has a counter-fraud and corruption strategy that is approved by members and made available and communicated to all staff. The Council has a sound system of internal control which includes delivering the core functions of an audit committee, and providing effective internal audit in accordance with relevant requirements. The Council's Annual Governance Statement is an open and honest self-assessment of its performance across all of its activities. It contains a clear statement of the actions taken, or required, to address areas of concern.	

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# 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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