

Annual Governance Report

Harpenden Town Council

Audit 2007/08

November 2008



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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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Summary

Purpose

- 1 This report summarises the findings from our 2007/08 audit, which is substantially complete. It identifies the key issues that you should consider before we issue our opinion, conclusion and certificate.
- 2 This report includes only matters of governance interest that have come to our attention in performing our audit. Our audit is not designed to identify all matters that might be relevant to you.

Financial statements

- 3 The financial statements were approved by the Town Council on 30 June 2008, in accordance with the requirements of the Accounts and Audit regulations 2003. No material amendments have been identified although disclosures in relation to financial instruments have been enhanced.
- 4 We plan issue an unqualified opinion on the financial statements.

Value for Money

- 5 We have concluded that the Town Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. We therefore plan issue an unqualified conclusion.

Next steps

- 6 We ask full Council to:
 - consider the matters raised in the report before approving the financial statements; and
 - approve the representation letter on behalf of the Town Council before we issue our opinion, conclusion and certificate.

Financial statements and Annual Governance Statement

- 7 The Town Council's financial statements and Annual Governance Statement are important means by which the Town Council accounts for its stewardship of public funds. As Town Council members you have final responsibility for the financial statements and Annual Governance Statement. It is therefore important that you consider our findings before you adopt the financial statements and the Annual Governance Statement.
- 8 In planning our audit we identified specific risks and areas of judgement that we have focused on during our audit. We report to you the findings of our work in those areas.
- 9 In addition, auditing standards require us to report to you:
- the draft representation letter which we are asking management and you to sign;
 - our views about the Town Council's accounting practices and financial reporting;
 - errors in the financial statements;
 - any expected modification to our report;
 - weaknesses in internal control; and
 - certain other matters.

Key areas of judgement and audit risk

- 10 In planning our audit we identified key areas of judgement and audit risk that we have considered as part of our audit. Our findings are set out in Table 1.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
<p>Changes to the 2007 SORP which will take effect for the accounts of 2007/08. These include the requirement to maintain a Revaluation Reserve and replace the Fixed Asset Restatement Account from April 2007; the replacement of the Statement of Internal Control with an Annual Governance Statement; and the requirement to present and account financial instruments in accordance with FRS 25, 26 and 29.</p>	<p>The changes introduced by the 2007 SORP have been addressed by the Town Council. The new capital accounting reserves have been properly established, the Annual Governance Statement is in accordance with requirements and disclosures were made in respect of financial instruments. We did identify some areas where additional financial instrument disclosures were required and amendments have subsequently been made.</p>

Issue or risk	Finding
<p>The 2006/07 value for money conclusion was qualified, on an except for basis, as a result of the Town Council not having proper arrangements in place to maintain sound internal control. This was because the Town Council did not have independent internal audit provision. Whilst we understand that the Town Council is taking action to address this issue, the new internal audit arrangements were not expected to be in place for 2007/08.</p>	<p>The Town Council appointed an independent internal auditor to undertake a review of financial procedures and processes. Based on the work completed, your internal auditor has concluded that the overall arrangements in place for the Town Council's income and expenditure, and its management of risk, do operate satisfactorily. A number of recommendations have been made and an action plan agreed to address the issues highlighted. Completion of this work has provided us with assurance that the Town Council's systems of internal financial control have been reviewed. We are not proposing to qualify our value for money conclusion as a result this year.</p>

Draft representation letter

11 Before we issue our opinion, auditing standards require us to obtain from you and management, written representations that:

- you acknowledge your collective responsibility for preparing financial statements in accordance with the applicable financial reporting framework;
- you are 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;
- you have approved the financial statements;
- you acknowledge your responsibility for the design and implementation of internal controls to prevent and detect fraud and error;
- you have told me the results of your assessment of the risk that the financial statements might be materially misstated because of fraud;
- you have told me any actual or suspected fraud by management, employees with significant roles in internal control or others (where the fraud could have a material impact on the financial statements);
- you have told me of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;

- you have told me about all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements;
- you have assessed the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Town Council where relevant to the fair value measurements or disclosures;
- you are satisfied that all related parties requiring disclosure in the financial statements have been disclosed and that the disclosure is adequate; and
- cover areas where other sufficient appropriate evidence cannot reasonably be expected to exist, for example the completeness of the disclosure of contingent liabilities.

12 Appendix 1 contains the draft of the letter of representation we seek from you.

Accounting policies and financial reporting

13 We considered the qualitative aspects of your financial reporting and have not identified any significant issues to raise with you.

Errors in the financial statements

14 We identified errors in the financial statements (other than those of a trivial nature) and reported these to management.

15 Management has agreed to adjust the financial statements for the errors identified. The key changes relate to the additional disclosures referred to in Table 1 in relation to financial instruments. There are no other amendments to bring to your attention.

The audit report

16 We plan to issue an unmodified report including an unqualified opinion on the financial statements. Appendix 2 contains a copy of our draft report.

Material weaknesses in internal control

17 We have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.

18 We have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made. We have reported only those matters which have come to our attention because of the audit procedures we have performed.

Other matters

19 There are no other matters that auditing standards require me to report to you.

Value for money

- 20 We are required to conclude whether the Town Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. We assess your arrangements against nine criteria specified by the Audit Commission.
- 21 We have assessed the arrangements of the Town Council as adequate in all nine areas and we therefore propose to issue an unqualified conclusion.

Formal audit powers

22 We have:

- a power to issue a public interest report. We do so where we believe this is necessary to draw a matter to your attention, or to that of the public;
- a power to apply to court for a declaration that an item in the Town Council's accounts is contrary to law;
- a power to issue an advisory notice. An advisory notice requires the Town Council to meet and consider the notice before:
 - making a decision that might give rise to unlawful expenditure; or
 - taking an unlawful course of action that would give rise to a loss; or
 - making unlawful entry in the accounts; and
- a power to seek judicial review of a decision of the Town Council.

23 We have not and do not propose to exercise these powers.

Independence

- 24 The Code of Audit Practice and the APB's Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.
- 25 We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 26 We communicate to you:
- any relationships between us and the Town Council, its members and senior management that might affect our objectivity and independence and any safeguards put in place;
 - total fees charged to you for audit and non-audit services; and
 - our arrangements to ensure independence and objectivity.

Relationships with the Town Council

- 27 We have identified no relationships that might affect objectivity and independence.

Audit fees

- 28 We reported our fee proposals as part of the Audit Plan for 2007/08. The table below reports the outturn fee against that plan.

Table 2 Audit fees

	Plan 2007/08	Actual 2007/08
Financial statements and Annual Governance Statement	£8,000	£8,000
Value for Money	£1,300	£1,300
Total Audit Fees	£9,300	£9,300

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- 29 The analysis above shows that we contained our audit fee within the totals you have already agreed.

Our arrangements to ensure independence and objectivity

- 30 We have comprehensive procedures to ensure independence and objectivity. These are outlined in Table below.

Table 3 Arrangements to ensure independence and objectivity

Area	Arrangements
Independence policies	<p>Our policies and procedures ensure that professional staff or an immediate family member:</p> <ul style="list-style-type: none"> • do not hold a financial interest in any of our audit clients; • may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; and • may not enter into business relationships with UK audit clients or their affiliates. <p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none"> • the general requirement to carry out work independently and objectively; • safeguarding against potential conflicts of interest; • acceptance of additional (non-audit) work; • rotation of key staff; • other links with audited bodies; • secondments; • membership of audited bodies; • employment by audited bodies; • political activity; and • gifts and hospitality.
Code of Conduct	<p>The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff have to comply with ethical guidance issued by their relevant professional bodies.</p>
Confidentiality	<p>All staff are required to sign an annual undertaking of confidentiality as a condition of employment.</p>

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 Town 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 Town Council and Committee meetings have been made available to us for the purpose of our audit and all the transactions undertaken by the Town 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.

Appendix 1 – Management representation

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 Town Council.

The Town 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

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 basis used by management to overcome the presumption under the financial reporting framework;
- 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 Town Council's registers of interest are complete and up to date in respect of Councillors and senior staff. The Town Council has ensured that all senior staff are aware of the requirement to declare all interests relevant to the Town 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 full Council, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements and that the Town 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, after discussion with other officers as appropriate, provide a signed* management letter of representation for Harpenden Town Council at the appropriate time.

Yours sincerely



Fiona Forth
Audit Manager

* - Signed by the Responsible Finance Officer and the Town Mayor (as representative of 'those charged with governance' at the Town Council).

Appendix 2 – Draft audit report

Independent auditor's report to the Members of Harpenden Town Council

Opinion on the financial statements

I have audited the accounting statements and related notes of Harpenden Town Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, 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 36 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 Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 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 Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 the financial position of the Town 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 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 Town Council'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 judgments made by the Town Council in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Town 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, the financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Town Council as at 31 March 2008 and its income and expenditure for the year then ended.

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

Town Council's Responsibilities

The Town 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.

Auditor's Responsibilities

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

Appendix 2 – Draft audit report

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 December 2006, 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 2008.

Best Value Performance Plan

I have issued our statutory report on the audit of the Town Council's best value performance plan for the financial year 2007/08 on 8 February 2008. I did not identify any matters to be reported to the Town Council and did not make any recommendations on procedures in relation to the plan.

Certificate

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

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Mark Hodgson

Date: 28 November 2008

District Auditor (Officer of the Audit Commission)
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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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