

# Annual Governance Report

**Harpenden Town Council**

Audit 2009/10

September 2010

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## Status of our reports

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

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

## **2009/10 Annual Governance Report**

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

I discussed and agreed a draft of the report with the Town Clerk on 24 September 2010.

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

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 8 to 11);
- take note of the adjustments to the financial statements set out in this report (page 8 and Appendix 2);
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors; (page 9);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 5).

Yours faithfully

Mark Hodgson  
District Auditor

27 September 2010

# Key messages

This report summarises the findings from the 2009/10 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

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<b>Financial statements</b>	<b>Results</b>	<b>Page</b>
Unqualified audit opinion	Yes	8
Financial statements presented for audit free from material error	Yes	8
Adequate internal control environment	Yes	9
<b>Value for money</b>	<b>Results</b>	<b>Page</b>
Adequate arrangements to secure value for money	Yes	12

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## Audit opinion

- 1 The financial statements submitted for audit were complete and contained no material errors. A number of non trivial amendments were required and have been made to the financial statements. These are set out in the remainder of this report.
  - 2 I plan to issue an unqualified opinion on these financial statements.
- 

## Financial statements

- 3 This was the first year in which the Town Council has prepared its financial statements under the Financial Reporting for Smaller Entities (FRSSE) regime.
  - 4 Management have decided not to amend for one further non-trivial error relating to the pension scheme which we have raised for the consideration by Council.
- 

## Value for money

- 5 I have been able to satisfy myself that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 

## Audit fees

- 6 I have carried out my audit in accordance with my audit plan, the fee for which was £12,053. I have been able to undertake my audit within this fee.
-

**Independence**

- 7 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

# 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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**8** I ask Council to:

- consider the matters raised in the report before approving the financial statements (pages 8 to 11);
- take note of the adjustments to the financial statements which are set out in this report (page 8 and Appendix 2);
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors (page 9);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 5).

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# Financial statements

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

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## Opinion on the financial statements

- 9** The financial statements submitted for audit were complete, but contained a number of errors. None of these errors were material. Amendments have been made to the financial statements to correct these.
- 10** Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

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## Errors in the financial statements

### Adjusted

- 11** My audit identified a number of errors in the financial statements presented for audit. None of these errors were material. Management have adjusted the financial statements for the majority of these errors. Details of these adjustments were as follows:
- The Council had not recognised the loss on disposal of £18,789 arising from the transfer of several CCTV cameras to St Albans City and District Council. The Council had incorrectly accounted for this disposal through increased depreciation charges.
  - The Council's disclosed the interest accrual within the Current Portion of Long Term Debt; the FRSSE requires that this amount is disclosed within Creditors and Receipts in Advance. The amount of the accrual was £10,375 (2009/10) and £11,092 (2008/09 comparator).
  - The Council misstated the balance on the Town Centre Works reserve (understated by £5,355) and the Repairs and Renewals reserve (overstated by £5,355).
- 12** Leases disclosures in note 13 of the financial statements were incorrect as the Council's commitments under operating leases (note 13) were understated by £856.
- 13** These amendments have not had any impact on the net surplus reported by the Council, or its net worth. The amount of General Fund balance generally available for new expenditure has not changed as a result of these amendments.

## Financial statements

### Disclosure amendments

**14** In addition to the matters set out in paragraph 10 above, a number of disclosure amendments were required to ensure the financial statements complied with the FRSSE. Details of these amendments are set out in Appendix 2.

### Unadjusted

**15** The Pension Fund Actuary estimated in December 2009, the value of the net assets of the pension fund as at 31 March 2010 and this was relied upon by your officers to prepare the accounts. Following audit work carried out on the Pension Fund accounts by the administering authority auditors, the actual net asset value at 31 March 2010 was established. As a result, there was an understatement of this Council's element of the pension fund liability of £3,280.

**16** My testing identified that the Council had accounted for income and expenditure attributable to 2008/09 within the 2009/10 financial statements. The effect of this was to:

- Overstate Other Income or Contributions by £1,726
- Overstate Democratic Management and Civic Costs by £228.

**17** Officers have chosen not to amend the financial statements for these errors. The Council is therefore required to consider these items as part of its role as those charged with governance.

### Recommendation

R1 - The Council should consider whether to adjust the financial statements for the errors that I have identified through my audit. Currently officers have chosen not to amend the financial statements for these errors. If your considerations lead you to concur with officers, I would require detail of your rationale for not amending the errors to be set out within your letter of representation to me.

### Important weaknesses in internal control

**18** I 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. However, during the course of my audit, I identified the following weaknesses in the Council's Internal Control environment:

- While the Council has established an Internal Audit function, their annual work programme is not approved by the Finance and Policy Committee; and
- The Council's Anti-Fraud and Corruption Policy has not been reviewed or updated since 2003.

**Recommendations**

R2 - The Council's Finance and Policy Committee should approve Internal Audit's audit plan on an annual basis.

R3 - The Council should review and update, if appropriate, its Anti-Fraud and Corruption Policy.

19 I have not provided a comprehensive statement of all weaknesses which may exist in internal control, or of all improvements which may be made.

**Letter of representation**

20 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 contains my request for a letter of representation.

**Key areas of judgement and audit risk**

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

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

Issue or risk	Finding
<p>2009/10 is the first year in which the Council is required to prepare its financial statements under the Financial Reporting Standard for Smaller Entities (FRSSE).</p> <p>Introduction of the FRSSE will result in significant changes to the format of the financial statements and the disclosures required. The Council will also be required to restate its 2008/09 financial statements.</p>	<p>Except in respect of those matters identified elsewhere in this report, my audit has confirmed that the Council has complied with the disclosure requirements set out in the FRSSE.</p>
<p>Operating Cost Statement / Balance Sheet: All financial statements contain an inherent risk that errors in the calculation of creditors and other provisions will result in the organisations net expenditure position being misreported.</p>	<p>My testing has confirmed that the Council's financial statements properly reflect the Council's outstanding liabilities at the balance sheet date.</p>

## Financial statements

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### Accounting practice and financial reporting

- 22** I consider the non-numeric content of your financial reporting. I consider the qualitative aspects of your financial reporting.
- 23** I note that Members of the Council are not required to complete an annual declaration of their interests. In compiling the Council's financial statements, the Town Clerk and Responsible Financial Officer cannot, therefore, be sure that the Related Party Transaction disclosures within the Council's financial statements are based upon up to date information.

#### **Recommendation**

R4 - The Council should implement an annual review process of declarations for entry in the Register of Members' Interests.

# Value for money

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

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## Value for money conclusion

- 24** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 4.
- 25** 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 my draft report.

# Glossary

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## Annual governance statement

**26** A statement of internal control prepared by an audited body and published with the financial statements.

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## Audit closure certificate

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

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## Audit opinion

**28** On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
  - whether they have been prepared properly, following the relevant accounting rules; and
  - for local probation boards and trusts, on the regularity of their spending and income.
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## Qualified

**29** The auditor has some reservations or concerns.

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## Unqualified

**30** The auditor does not have any reservations.

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## Value for money conclusion

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

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

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## Opinion on the accounting statements

I have audited the accounting statements and related notes of Harpenden Town Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on Reserves, 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 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

## Respective responsibilities of the Town Clerk and Responsible Financial Officer and auditor

The Town Clerk and Responsible Financial Officer’s responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Financial Reporting Standard for Smaller Entities (Effective April 2008), are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Financial Reporting Standard for Smaller Entities (Effective April 2008).

I review whether the governance statement reflects compliance with ‘Governance and Accountability for Local Councils: A Practitioners’ Guide (England) 2010’ published by the National Association of Local Councils (NALC) in 2010. I report if it does not comply with proper practices specified by NALC or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting 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 the 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 and the content of the Annual Report. 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 Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Council’s circumstances, consistently applied and adequately disclosed.

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

### **Opinion**

In my opinion the Council’s accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Financial Reporting Standard for Smaller Entities (Effective April 2008), of the financial position of the Authority as at 31 March 2010 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**

### **Council's responsibilities**

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

### **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 other local government bodies and published in January 2009. I report if significant matters have come to my attention which prevent me from concluding that the Council has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for other local government bodies specified by the Audit Commission and published in January 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 ended 31 March 2010.

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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

Officer of the Audit Commission

Regus House, 1010 Cambourne Business Park, Cambourne, Cambridge, CB23 6DP  
September 2010

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# Appendix 2 – Amendments to the draft accounts

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I identified the following disclosure amendments during my audit. Officers have made the necessary adjustments to the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

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**Table 2**

<b>Disclosure and text amendments</b>	
Accounting Policies - Finance Leases	The accounting Policy is respect of Finance Leases was removed as the Council does not have any such leases.
Officers emoluments (Note 4)	Disclosures relating to emoluments of senior officers have been amended to ensure compliance with the FRSSE.
Fixed Asset movements (Note 8)	Work in Progress amended to Assets Under Construction to better reflect the nature of the asset.
Authority as a Lessor (Note 12)	Amendment to length of lease on non-operational assets.
Events after the balance sheet date (Note 24)	Addition of disclosure in relation to government announcement of change in basis of calculation of pension increase effective from 2010/11, a move from Retail Price Index to Consumer Price Index.

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## Appendix 3 – Request for letter of representation

- The letter is signed by the person or persons with specific responsibility for the financial statements.
- The letter is formally acknowledged as having been discussed and approved by Council, 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 Financial Reporting Standard for Smaller Entities which give a true and fair view of 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 an attached schedule) 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.

### Assets

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

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

Confirmation that there are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in Note 16 to the financial statements you have no other lines of credit arrangements.

### Supporting records

Confirmation that all the accounting records, other records and related information, 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. Confirmation that all other records and related information, including minutes of all Council and Committee meetings have been made available to us.

### 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.

### Fair Values

Confirmation of the reasonableness of the significant assumptions within the financial statements. For specific assumptions confirm:

- 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/do not 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:

## Appendix 3 – Request for letter of representation

- 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; and
- 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 senior staff.

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

### Post balance sheet events

#### Specific

With regard to the Pension Fund move from Retail Price Index to Consumer Price Index for future public sector pension increases, Confirmation that the profile for Harpenden Town Council's membership of the Pension Fund is not inconsistent with the overall pension fund member profile giving rise to the estimated reduction of Employers FRS 17 liabilities (6-8%).

#### General

Confirmation that since the date of approval of the financial statements by the 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 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

Steve Bladen  
Audit Manager.

# Appendix 4 – Value for money criteria and assessment

Table 3

<b>KLoE</b>	<b>Met</b>
<b>Managing finances</b>	
Financial planning and financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
<b>Governing the business</b>	
Good Governance	Yes

# Appendix 5 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Annual Governance Report 2009/10 – Recommendations</b>						
9	R1 Council should consider whether to adjust the financial statements for the errors that I have identified through my audit. Currently officers have chosen not to amend the financial statements for these errors. If your considerations lead you to concur with officers, I would require detail of your rationale for not amending the errors to be set out within your letter of representation to me.	3				
10	R2 The Council's Finance and Policy Committee should approve Internal Audit's audit plan on an annual basis.	2				
10	R3 The Council should review and update its Anti-Fraud and Corruption Policy.	2				
11	R4 The Council should implement an annual review process of declarations for entry	2				

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	in the Register of Members' Interests.					

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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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