

# Annual Governance Report

Herefordshire Council

Audit 2007/08

September 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 We expect to issue an unqualified opinion on your financial statements. The audit went very smoothly and co-operation and working papers were good and an improvement on previous years.

## Value for Money

- 4 We expect to issue an unqualified opinion on the your arrangements for ensuring value for money.

## Next steps

- 5 We ask the Audit and Corporate Governance Committee to:
  - consider the matters raised in the report before approving the financial statements/recommend the financial statements for approval;
  - approve the representation letter on behalf of the Council before we issue our opinion, conclusion and certificate; and
  - agree the proposed action plan.

# Financial statements and Annual Governance Statement

- 6 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 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.
- 7 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.
- 8 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 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

- 9 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
New accounting requirements of the 2007 Local Government Statement of Recommended Practice eg in relation to financial instruments and the new revaluation reserve	We discussed the Council's approach to the new requirements during the year and at year end reviewed the Council's implementation in detail and found this to be satisfactory.
Intangible Assets – In the last two years expenditure coded to intangible assets has been incorrect	We reviewed your intangible assets and found these to be not materially misstated.
Fixed Assets – last year we reported that fixed asset accounting needed review prior to being presented to the auditor	We reviewed fixed assets in detail and found these to be fairly presented.

## Financial statements and Annual Governance Statement

Education Payroll – Internal Audit assessed this system as ‘marginal’ in 2006-07 and 2007/08. This has subsequently transferred to the main payroll team.	We asked Internal Audit to carry out additional work on the Education payroll and this proved generally satisfactory.
The ICT system received an unsatisfactory internal audit opinion in 2006/07, although there was an improved position when Internal Audit revisited this later in 2007/08	We carried out additional substantive testing which proved satisfactory.

### Draft representation letter

10 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 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 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;
- you are satisfied that the individual or collective impact of errors we have identified, but that you have not corrected, is not material; and
- cover areas where other sufficient appropriate evidence cannot reasonably be expected to exist, for example the completeness of the disclosure of contingent liabilities.

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

### Accounting policies and financial reporting

12 We considered the qualitative aspects of your financial reporting and have not identified any significant issues to raise with you. The audit went very smoothly and co-operation and working papers were good and an improvement on previous years.

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### Errors in the financial statements

13 We have not identified any errors (other than those of a trivial nature) that management has declined to correct.

### The audit report

14 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

15 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 (eg from Internal Audit work). We did note some issues when we reviewed the ISIS (nursing home payments) system:

- Significant delays from the time people are admitted to homes and funding being approved and contracts signed. Financial commitments are not made until the point at which approval is made and contracts signed; and
- There are isolated instances where funding for placements is not approved by the funding panel prior to the contract being signed.

<b>Recommendation</b>
<b>R1</b> Address issues raised in relation to the system for paying nursing homes.

16 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

17 We have identified the following matters that we require you to consider.

**Table 2 Other matters**

Issue or risk	Finding
Pooled Budgets	We have reported in previous years that there have been no formal Section 75 (previously Section 31) pooled budget agreements with the PCT for several years. Annual meetings are held to agree budgets. We understand that there are still no signed agreements. Members will also be aware that some pooled budgets have significantly overspent in 2007/08. Learning Difficulties overspent by £2.2 million (for which the Council took financial responsibility in full) and Mental Health by £3.4 million (of which the Council was financially responsible for £1.1 million). We will consider the reasons further in our current use of resources review.

### Recommendation

**R2** Review pooled budget arrangements with the PCT including ensuring governance arrangements are updated and signed agreements are in place.

# Value for money

- 18 We are required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. We assess your arrangements against criteria specified by the Commission. Our conclusion is informed by our work on Use of Resources, a scored judgement reported to the Audit Commission.
- 19 We have assessed the arrangements of the Council as adequate in all areas and we therefore propose to issue an unqualified conclusion.



# Formal audit powers

20 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 Council's accounts is contrary to law;
- a power to issue an advisory notice. An advisory notice requires the 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 Council.

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

# Independence

- 22 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.
- 23 We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 24 We communicate to you:
- any relationships between us and the 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 Council

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

## Audit fees

- 26 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 3      Audit fees**

	<b>Plan 2007/08</b>	<b>Actual 2007/08</b>
Financial statements and Annual Governance Statement	138,454	138,454
Value for Money	109,695	109,695
<b>Total Audit Fees</b>	<b>248,149</b>	<b>248,149</b>

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

## Our arrangements to ensure independence and objectivity

- 28 We have comprehensive procedures to ensure independence and objectivity. These are outlined in Table 4.

**Table 4 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"> <li>• do not hold a financial interest in any of our audit clients;</li> <li>• 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</li> <li>• may not enter into business relationships with UK audit clients or their affiliates.</li> </ul> <p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none"> <li>• the general requirement to carry out work independently and objectively;</li> <li>• safeguarding against potential conflicts of interest;</li> <li>• acceptance of additional (non-audit) work;</li> <li>• rotation of key staff;</li> <li>• other links with audited bodies;</li> <li>• secondments;</li> <li>• membership of audited bodies;</li> <li>• employment by audited bodies;</li> <li>• political activity; and</li> <li>• gifts and hospitality.</li> </ul>
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>

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# Appendix 1 – Draft Letter of Representation

## Resources

Director: Mrs Sonia Rees CPFA

Mrs E. Cave,  
District Auditor,  
The Audit Commission,  
The Business Centre,  
Blackpole Road,  
Worcester,  
WR3 8SQ

Your Ref:

Our Ref: SC/dc/11LECave

Please ask for: Mrs Sonia Rees

Direct Line / 01432 383519

Extension:

Fax: 01432 340189

E-mail: srees@herefordshire.gov.uk

16 September 2008

Dear Mrs Cave,

**Re: Herefordshire Council – Audit for the year ended 31st March, 2008.**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Herefordshire Council, that the following representations given to you in connection with your audit of Council's financial statements for the year ended 31 March, 2008, are accurate.

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements which give a true and fair view and for making accurate representations to you. I acknowledge my 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.

## 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 Council meetings, have been made available to you.

## Related party transactions

I 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;
- 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.

## **Law, regulations, contractual arrangements and codes of practice**

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

In all material respects, the expenditure and income disclosed in the financial statements has been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

The body 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.

## **Assets**

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

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

## **Irregularities**

I acknowledge my 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; and
- 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 the Council, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

**Compensating arrangements**

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

Signed on behalf of Herefordshire Council

Signed

**Name:** Sonia Rees

Councillor C Chappell

**Position:** Director of Resources

Chairman of Audit and Corporate Governance  
Committee

**Date:** September, 2008.

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# Appendix 2 – Independent auditor’s report to the Members of Herefordshire Council

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## Opinion on the financial statements

I have audited the Authority accounting statements and related notes of Herefordshire Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority accounting statements comprise the Authority Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority Balance Sheet, the Authority Statement of Total Recognised Gains and Losses, the Authority Cash Flow Statement, the Collection Fund 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 Herefordshire 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.

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## Respective responsibilities of the Director of Resources and auditor

The Director of Resources 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 Authority 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 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.

I read other information published with the Authority accounting statements, and consider whether it is consistent with the audited Authority 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 Authority 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 Authority 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 Authority 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 Authority 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 Authority 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 Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority 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

### 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 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.

## **Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, Herefordshire 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 authority's best value performance plan for the financial year 2007/08 on December 2007. 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.

Elizabeth Cave

District Auditor

Date:

The Business Centre

Blackpole Road

Worcester

WR3 8SQ

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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, covering the £180 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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## Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

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