

# Annual governance report

Herefordshire Council

Audit 2011/12



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# Key messages

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**This report summarises the findings from the 2011/12 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.**

## Financial statements

The financial statements were submitted for audit on 30 June 2012. I am very grateful for the good co-operation I received from your staff which allowed me to fundamentally complete the audit by 11 September. During the audit, management agreed to make a large number of adjustments to the accounts.

The closedown of the Council's accounts this year was particularly challenging as it was the first year that the new shared services company HOOPLE has closed down the accounts and the same year that a new integrated ledger was implemented. This degree of change is rarely seen in a single year and adversely affected the approach I usually see at Herefordshire Council. Adequate working papers supporting entries in the accounts were generally only produced on request from the auditor and the elapsed time from the request to the receipt of adequate evidence and explanations impacted on the time taken to carry out the audit. A particular problem was obtaining explanations for variances from previous years and a proper analysis of the breakdown of year-end debtors and creditors. Both of these are not only essential for audit but are an important means for officers to ensure the integrity of the financial statements. Many of the errors found could have been eliminated by allowing sufficient time to carry out a detailed quality check of the accounts prior to the accounts being presented for audit.

Before I give my opinion on the financial statements, there are a few actions which must be completed. Firstly I must consider any formal questions or objections from members of the public during the accounts inspection period, which has recently commenced. Secondly I will need to obtain from the Council a signed letter of representation relating to areas where I am reliant on management opinion for the accounting treatment for certain items in the accounts. Subject to these items, I expect to issue an unqualified opinion on the financial statements. Before I issue the audit completion certificate, I need to complete the work necessary to issue my assurance statement in respect of the Council's Whole of Government Accounts consolidation pack.

## Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. The Council is starting to tackle the continued significant overspending in Adult Social Care which poses a threat to your future financial stability.

## Certificate

As I have yet to complete the audit of Whole Government Accounts, I am unable to certify completion of the audit. I expect to complete my review and report my findings to management in September. I plan to issue my certificate by 30 September.

# Before I give my opinion and conclusion

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**My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.**

## **Independence**

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) – Integrity, Objectivity and Independence. One member of my audit team declared that his spouse is employed occasionally by the Council in a role unrelated to the audit. I considered that this threat was of an acceptably low level. The team member did not carry out work directly relating to his spouse's area of work or the payroll

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2011/12.

## **I ask the Audit and Governance Committee to:**

- take note of the adjustments to the financial statements included in this report;
- approve the letter of representation, on behalf of the Authority before I issue my opinion and conclusion; and
- agree your response to the proposed action plan.

# Financial statements

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

## **Opinion on the financial statements**

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.

## **Corrected errors**

During the audit, management agreed to make a number of adjustments to the accounts. I have not reported these in detail as they have been corrected in the revised financial statements being presented for approval. The main changes were in relation to capital asset notes which changed substantially. These changes reflected the omission of the valuation of smallholdings exceeding £1 million and the incorrect application of valuations. In addition there was a classification error on Garrick House. Notes on the termination and exit packages and leasing and related parties were also substantially changed.

The overall net impact of all adjustments made was to decrease the deficit on the Total Comprehensive Income and Expenditure Statement by around £3.4 million and increase net assets and reserves in the Balance Sheet by £3.4 million. These adjustments do not have any impact on the Amounts to be met by Taxpayers or the contributions to Earmarked Reserves and General Balances in the draft statements.

## **Uncorrected errors**

I am required to report all 'non trivial' errors and uncertainties that have been identified by my audit which have not been amended before I issue my Opinion. There are no such remaining uncorrected errors.

## Specific and significant risks and my findings

I reported to you in my Audit Plan the specific and significant risks that I identified relevant to my audit of your financial statements. In table 1, I report to you my findings against each of these risks.

Table 1: **Risks and findings**

Risk	Finding
<p>The Council implemented an integrated general, purchase, sales, payroll and capital ledger system in 2011/12. Internal Audit were requested by the Chief Financial Officer (Section 151 Officer) to review the management of this major project and the IT control environment for the system after a suspected fraud by a consultant involved in the project was promptly identified by the Finance team. They identified weaknesses in the arrangements, including insufficient monitoring of the activities of officers and consultants granted 'super-user' privileges. These weaknesses make it all the more important that service area budget monitoring controls operate effectively.</p>	<ul style="list-style-type: none"> <li>■ I identified controls and carried out tests of detail on the migration of closing balances and financial information from the old ledger to the new ledger, placing reliance where appropriate on relevant internal audit work.</li> <li>■ I identified, documented, walked-through and evaluated the IT and management controls in place</li> <li>■ I tested key controls to establish their operating effectiveness placing reliance, where appropriate, on relevant internal audit work.</li> <li>■ I substantively tested the balance sheet using larger sample sizes to reflect the high risk of the IT control environment.</li> <li>■ I obtained and tested positive assurance statements from cost centre managers confirming that there are no suspicious or unexplained revenue transactions.</li> <li>■ My testing has not identified any additional significant issues to bring to your attention. Later in this report (the internal control section) I set out some recommendations to improve controls around the financial ledger.</li> </ul>
<p>First time reliance on a service organisation (HOOPLE) for the initiation, processing, recording and reporting of financial transactions</p>	<ul style="list-style-type: none"> <li>■ I identified, evaluated and tested the design and implementation of client-side controls over management and financial accounts prepared by HOOPLE eg oversight of reconciliations, other key boundary controls, accounts closedown and preparation of financial statements.</li> <li>■ I tested the detail, including pre-statement sample checking of items of account produced by the service organisation to source documentation.</li> </ul>

## Risk

In most local authorities schools are managed through a variety of governance arrangements. This affects the way that they are accounted for. A number of the Council's schools have changed to Academies or Foundation schools in 2011/12. The Council would materially misstate its Property, Plant and Equipment assets if it incorrectly includes or omits schools in its balance sheet.

The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets. A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. The Council will need to identify their heritage assets and identify their cost or value to account for them correctly. Assets are likely to include museum and archive collections, the valuation of which will involve significant judgement.

Whole of Government accounts (WGA) – the Council's draft WGA submissions in previous years have contained significant errors that required correction. HOOPLE will be preparing the WGA submission for the first time in 2011/12.

## Finding

- My audit demonstrated that this was a challenging closedown for the Council. This was evident in the absence of supporting working papers, the absence of a thorough quality review of the accounts prior to audit and the consequent large number of errors found.

I identified the finance team's arrangements for identifying schools that have changed their status and tested the accounting treatment of a sample of schools held on the balance sheet and a sample of schools not recognised on the balance sheet against the IAS 16 recognition criteria.

My testing has not identified any significant issues to bring to your attention. The Council has agreed to improve its disclosure of the accounting policy for recognising and de-recognising school capital assets.

I evaluated the management controls in place to recognise and value heritage assets. I also undertook testing to check that the Council has accounted for heritage assets in accordance with FRS 30 and the Code.

My testing has not identified any significant issues to bring to your attention

In line with the plan, this work is still ongoing. The WGA pack has been amended to reflect changes made to financial statements at audit. Early review of your pack suggests there are a number of significant variations in the balances with other public bodies compared to that shown in their submitted packs to explain.



## Risk

Other risks associated with the transfer of staff and functions to HOOPLE (Accounting for the Council's financial interest in HOOPLE, the Local Government Pension Scheme deficit and potential residual liabilities)

## Finding

My testing provided assurance that those staff who transferred to HOOPLE under TUPE are no longer on Council's payroll. I was also satisfied with the Council's proposed accounting treatment of its financial interest in HOOPLE.

The decision to admit HOOPLE to the Local Government pension scheme on a fully funded basis is not unusual but has not been formally approved. There is no agreement in place that confirms that the transfer of funds assets to HOOPLE is a 'one off' and the Council will not be required to meet the shortfall if the estimate of the deficit at 1 April 2011 changes at a later date.

## Recommendations

- R1** Ensure that sufficient time is left at the end of the closedown of the accounts for a detailed check of the statement of accounts.
- R2** Provide adequate working papers and explanations to support the figures in the statement of accounts at the start of the audit via a Council finance officer.
- R3** Ensure that there is an agreement confirming the basis of HOOPLE's admission to the Local Government Pension Scheme and the responsibility for the funding of its future pension liabilities.

## Significant weaknesses in internal control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness. My responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Council only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. The internal control issues described below are only those I have identified during the audit that are relevant to preparing the financial statements. I did not identify any significant weaknesses in internal control but there are some issues I wish to bring to your attention.

As mentioned earlier, 2011/12 was the first year of the new Agresso ledger. I identified some areas where controls on processing journals could be tightened. These were:

- there are no financial limits and no authorisation controls on the input of journals to the ledger. All accountants can input journals with no limits set and no separate authorisation required;
- there are no hard copies of journal vouchers with supporting documentation. Journals are not checked and authorised prior to input; and
- there is no batch control on journal totals. A journal can be input that doesn't balance and the system will post a balancing entry to a suspense account. However there is a compensating control that these suspense accounts are reviewed and cleared.

As a result I was not be able to fully rely on journal controls but I carried out substantive testing of journals to satisfactorily obtain the necessary assurance

I also identified some weaknesses in controls over the 'interface' between the general ledger and the systems that feed it such as residential care home payments and payments for supporting people. I found that there were no controls in place at the upload stage to check batch totals before and after upload and no control sheet is kept to ensure all interface files have come across to the upload routine. The feeder system upload file should be reconciled to the feeder systems themselves and any discrepancies resolved before upload to the general ledger. This check should then be evidenced on a control sheet.

The Council as a client should consider what information it needs on a routine basis from the service provider HOOPLE to provide it with assurance on the integrity of the accounting process being performed on its behalf. One such area would be obtaining assurance on the successful completion of bank and other control account reconciliations. Following the transfer to HOOPLE, bank reconciliations and control account reconciliations were not carried out regularly at the start of 2011/12 but these were up to date by the end of the year. Also some of these reconciliations (such as year-end bank reconciliation of the main account) were not independently reviewed. The Council should also insist that it receives supporting working papers at the same time it receives the statement of accounts produced by HOOPLE.

## Recommendations

**R4** Improve controls on the input of journals to the ledger.

**R5** Ensure there are adequate controls over the interface of feeder systems with the general ledger.

**R6** Consider areas where routine assurances are required from HOOPLE on the integrity of financial processes being carried out on your behalf.

## Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

There are two matters I wish to report.

My audit of a sample of highways expenditure charged to capital in the year identified some expenditure I consider could be interpreted as more appropriately classified as revenue expenditure. Further work carried out by the Council was sufficient to demonstrate that this was not material to this year's accounts. I consider that the Council should review guidance on the capitalisation of road works to Amey. Sample checking arrangements should ensure that this guidance is adhered to.

My testing of a sample of other capital expenditure identified scope to tighten closedown procedures in some areas including not accruing for retention sums and the value of works to year-end. I am satisfied that the effect of this was not material.

## Recommendations

**R7** Review guidance to staff on the capitalisation of road repairs and enhance checking arrangements to ensure that this is complied with.

**R8** Tighten closedown controls over capital expenditure.

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## Whole of Government Accounts

Alongside my work on the financial statements, I also review and report to the National Audit Office on your Whole of Government Accounts return. I plan to complete my report in September.

# Value for money

**I am required to conclude whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.**

I assess your arrangements against the two criteria specified by the Commission. In my Audit Plan I reported to you the significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the risks I identified.

I intend to issue an unqualified conclusion stating that the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in appendix 1.

Table 2: **Value for money conclusion criteria and my findings**

Criteria	Risk	Findings
<p><b>1. Financial resilience</b></p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The significant reduction in grants from central government is presenting all councils with a huge challenge to respond to.</p> <p>There is a risk that the savings and assumptions set out in the Council's Medium Term Financial Plan are not sufficiently robust to deliver a balanced medium term position.</p>	<p>I have reviewed your medium term financial planning within the context of the impact of the comprehensive spending review. Drilling down to source data where appropriate, I found your financial planning assumptions to be reasonable. The Authority is starting to tackle the issue of continuing overspending in Adult Social Care but this significant risk will need to be closely monitored as it presents a risk to the Authority's future financial stability. In 2011/12 the service overspent by £5.5 million. Overall there was a very small overspend of £236,000 due to under-spending elsewhere in the Council. In my view the Adult Social Care budget is currently unrealistic. It is probable that the continuing pressures in Adult Social Care will require a combination of continued reform of service provision and also additional funding. This means that further difficult decisions on</p>

Criteria	Risk	Findings
		<p>the Council's priorities need to be made. I note that the Council has agreed measures (some one-off) in 2012/13 to deal with overspending of Adult Social Care in 2012/13. The Council has recently changed the financial support arrangements in Adult Social Care.</p>
<p><b>2. Securing economy efficiency and effectiveness</b></p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2011/12:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>The Council is considering varying its existing waste PFI scheme to include the provision of a waste to energy plant in Hartlebury. There is a risk that the Council cannot demonstrate that any change to the current waste disposal arrangements delivers value for money.</p>	<p>Overall there are adequate arrangements to challenge how the Council secures value for money. The Council's Rising to the Challenge transformation scheme has delivered significant savings. However there was some slippage in the delivery of corporate procurement savings and the Adult Social Care cost improvement plan. The Council has reviewed the value for money achieved by services provided by Amey and made a decision to test the market rather than roll over the existing contract.</p> <p>The Council has yet to vary its existing waste contract and I will continue to review this area.</p>

# Fees

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## **I reported my planned audit fee of £274,672 in the Audit Plan.**

I reported my planned audit fee of £274,672 in the Audit Plan. I will complete the audit within the planned fee.

The Audit Commission has paid a rebate of £21,974 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £.252,698.

# Appendix 1 – Draft independent auditor’s report

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## **INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF HEREFORDSHIRE COUNCIL**

### **Opinion on the Authority financial statements**

I have audited the financial statements of Herefordshire Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### **Respective responsibilities of the Chief Officer (Finance and Commercial Services) and auditor**

As explained more fully in the Statement of the Chief Officer’s (Finance and Commercial Services) Responsibilities, the Chief Officer (Finance and Commercial Services) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Officer (Finance and Commercial Services); and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view of the financial position of Herefordshire Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

## **Opinion on other matters**

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which I report by exception**

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.



## **Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Respective responsibilities of the Authority and the auditor**

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

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, *Herefordshire Council* put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

## **Certificate**

I certify that I have completed the audit of the accounts of Herefordshire Council 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

Audit Commission  
Room 24  
West Mercia Police Authority  
Hindlip Hall  
PO Box 55  
Worcester  
WR3 8SP

September 2012

# Appendix 2 – Draft letter of management representation

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## **Herefordshire Council – Audit for the year ended 31 March 2012**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Herefordshire County Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2012. All representations cover both the Council's accounts and Pension Fund accounts included within the financial statements.

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

I have fulfilled my 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 give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

### **Uncorrected misstatements**

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

These misstatements have been discussed with those charged with the Audit and Governance Committee and the reasons for not correcting these items are that individually or severally the Committee did not consider that they were material.

### **Supporting records**

I have made available all relevant information and access to persons within the Council for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Council.

### **Internal control**

I have communicated to you all deficiencies in internal control of which I am aware.

## **Irregularities**

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my 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;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

## **Accounting estimates including fair values**

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

## **Related party transactions**

I confirm that I have disclosed the identity of the Council's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

## **Subsequent events**

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Herefordshire Council

I confirm that the this letter has been discussed and agreed by the Audit and Governance Committee on

Signed

David Powell

Date

# Appendix 3 – Glossary

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## **Annual Audit Letter**

Report issued by the auditor to the Council after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the accounting statements presented to the Audit Committee before the auditor issues their opinion and conclusion.

## **Annual Governance Statement (AGS)**

The governance statement records the stewardship of the Council to supplement the accounts. It gives a sense of how successfully it has coped with the challenges it faces and of how vulnerable the organisation's performance is or might be. This statement draws together position statements and evidence on governance, risk management and control, to provide a more coherent and consistent reporting mechanism.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.

### **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

### **Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

### **Auditor(s)**

Auditors appointed by the Audit Commission.

### **Code (the)**

The Code of Audit Practice issued by the Audit Commission and approved by Parliament.

### **Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

### **Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

### **Internal control**

The whole system of controls, financial and otherwise, that the Council establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the accounting statements. Significance has both qualitative and quantitative aspects.

# Appendix 4 – Action plan

## Recommendations

### Recommendation 1

Ensure that sufficient time is left at the end of the closedown of the accounts for a detailed check of the statement of accounts.

**Responsibility**

**Priority**

**Date**

**Comments**

### Recommendation 2

Provide adequate working papers and explanations to support the figures in the statement of accounts at the start of the audit via a Council finance officer.

**Responsibility**

**Priority**

**Date**

**Comments**

### Recommendation 3

Ensure that there is an agreement confirming the basis of HOOPLE's admission to the Local Government Pension Scheme and the responsibility for the funding of its future pension liabilities.

**Responsibility**

**Priority**



Date

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Comments

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**Recommendation 4**

Improve controls on the input of journals to the ledger.

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Responsibility

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Priority

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Date

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Comments

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**Recommendation 5**

Ensure there are adequate controls over the interface of feeder systems with the general ledger.

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Responsibility

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Priority

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Date

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Comments

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**Recommendation 6**

Consider areas where routine assurances are required from HOOPLE on the integrity of financial processes being carried out on your behalf.

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Responsibility

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Priority

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Date

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Comments

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**Recommendation 7**

Review guidance to staff on the capitalisation of road repairs and enhance checking arrangements to ensure that this is complied with.

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Responsibility

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**Priority**

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**Date**

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**Comments**

**Recommendation 8**

Tighten closedown controls over capital expenditure.

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**Responsibility**

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**Priority**

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**Date**

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**Comments**

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