

Chilterns Crematorium Joint Committee

Thursday, 23rd September, 2010

**At
11.00 am**

**Cabinet Room, King George V House, King George V Road,
Amersham**

Appendix 8:

Annual Governance Report

Annual Governance Report

Chilterns Crematorium Joint Committee

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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Key messages

- 1 This report summarises the findings from my 2009/10 audit. I set out the key matters you should consider before I issue my opinion on the financial statements, my value for money conclusion and the audit closure certificate.

Table 1 Matters for the attention of the Joint Committee

These are the key issues arising from my work

Matters for attention	Comment
Audit opinion on the financial statements and value for money (vfm) conclusion.	I plan to issue an auditor's report including a qualified opinion on the financial statements as I have identified a material error in the financial statements. I plan to issue a qualified vfm conclusion on one criterion.
Errors and misstatements including - <ul style="list-style-type: none"> • material amendments • other amendments • unamended items. 	I have identified a material error in the financial statements. If you amend the error, I should be able to issue an unqualified opinion. You have adjusted a number of other errors and uncertainties in the financial statements.
Concerns about the quality of accounting practice and financial reporting	The accounts require some inclusions in accordance with accounting standards.
Improvements in internal control	My work identified some weaknesses in internal control.
The final draft of the letter of representation	I include a draft letter of representation for your officers to tailor to the Joint Committee's circumstances. This should set out the reasons for not amending errors identified in the accounts.
Independence and ethical issues	I have no issues to report.
Other matters, for example non compliance with law and regulation, fraud etc	I have no matters to report.
Any other audit matter of governance	I have no matters to report.

Matters for attention	Comment
interest	

Audit opinion

- 2 I plan to issue an auditor's report including a qualified opinion on the financial statements as I have identified a material error in the financial statements. If you amend the error, I should be able to issue an unqualified opinion on the financial statements.

Value for money conclusion

- 3 I plan to issue a qualified vfm conclusion on one criterion due to this material error stating the Joint Committee had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources except for having timely, reliable financial reporting that meets the needs of internal users, stakeholders and local people.

Audit Fees

- 4 I agreed a fee of £9,400 for 2009/10. This is scale fee for the Joint Committee based on the fee formula set by the Audit Commission. I will review the fee on completion of the work and consider whether an additional fee is required.

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.

5 I ask the Joint Committee to:

- consider the matters raised in the report before approving the financial statements;
- take note of the adjustments required to the financial statements;
- 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 (if applicable);
- take note of the value for money conclusion;
- approve the letter of representation before I issue my opinion and conclusion (Appendix 2); and
- agree your response to the proposed action plan (Appendix 3).

Financial statements

The financial statements and annual governance statement are important means by which the Joint Committee accounts for its stewardship of public funds. As Joint Committee 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

- 6 I plan to issue an auditor's report including a qualified opinion on the financial statements as I have identified a material error in the financial statements. If you amend the error, I should be able to issue an unqualified opinion on the financial statements.
- 7 Appendix 1 contains a copy of my draft auditor's report.

Errors in the financial statements

- 8 I have identified one material error in your financial statements. You include in your accounts details of pension transactions. These reflect your share of the assets and liabilities of the pension fund. The pension fund provides Chiltern District Council with information about its employees including your staff. The Council apportions these estimates between itself and the Joint Committee based on the employer contributions for the year. Your employer contributions were understated by £6,000 (10 per cent), so your share is understated. This means that the pension transactions and disclosures are materially incorrect.
- 9 In Table 2 I summarise the other misstatements I identified.

Table 2 Errors and uncertainties in the financial statements

Item	Statements affected
Income and expenditure account - fees and charges You included two cremations totalling £900 relating to 2010/11 incorrectly in 2009/10 income.	Balance sheet Income and expenditure account Notes to the accounts Not adjusted in the accounts
Financial Instruments - note 17 You have not disclosed in the note the Joint Committee's financial liabilities - i.e. creditors (Note 15: £94,719).	Notes to the accounts Not adjusted in the accounts

Financial statements

Debtors You overstated a debtor by £940 (based on one payment per use of the crematorium rather than £10 per cremation).	Balance sheet Income and expenditure account Notes to the accounts Not adjusted in the accounts
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Recommendation

R1 Put through all amendments required to the financial statements.

Accounting practice and financial reporting

- 10** You did not approve your financial statements by the statutory deadline of 30 June. You did not meet within twenty days of the deadline as required or publish a statement explaining why you could not approve your financial statements. You approved your financial statements on 30 July 2010.
- 11** In Table 3 I draw your attention to issues related to your accounting practices and financial reporting.

Table 3 Accounting practices

There are specific areas where amendments are required

Issue	Response
Your accounting policy states that plaque income is received for a five year period, but in some instances it is for ten years.	Amended
Your accounting policies do not disclose the accounting conventions you have adopted (for example historical cost modified by the revaluation of certain categories of assets)	Include a disclosure on accounting conventions

- 12** The Chancellor of the Exchequer announced in his Emergency Budget on 22 June 2010 that the consumer prices index rather than the retail prices index will be the basis for future public sector pension increases. It is estimated that this change could reduce the value of an average employer's liabilities in the pension fund by around 6-8%.
- 13** You need to obtain an estimate of the effect of the change and disclose the impact in a post balance sheet event disclosure.

Recommendation

R2 Improve the accounts production process to ensure compliance with the accounting practice and financial reporting standards.

R3 Ensure there is better sequencing of the process in future years with a Joint Committee meeting to approve the financial statements before 30 June.

Improvements to internal control

14 I have identified no material weaknesses in internal control.

15 I set out in Table 4 improvements needed to the effectiveness of your internal controls.

Table 4 Internal control issues arising

There are issues arising on some systems controls

Issue	Response
General ledger Journals posted to SUN are not subject to any segregation of duties, with no requirement for authorisation.	Ensure all journals are subject to independent authorisation.
Proper authorisation You have no authorised signatory list. There are no set down limits on who can sign orders or invoices or what can be authorised. (However, very few staff can do this as this is a small organisation).	Produce and maintain an authorised signatory list.

16 These weaknesses increase the amount of testing I carry out because I cannot rely on controls to gain assurance.

Recommendation

R4 Address the improvements to internal controls identified.

Other issues

17 There are no other issues I wish to bring to your attention.

Letter of representation

18 Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 2 contains the draft letter of representation I seek to obtain from you.

Key areas of judgement and audit risk

- 19** In planning my 2009/10 audit I identified no specific risks and areas of judgement that I have considered as part of my audit.

Value for money conclusion

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

Value for money conclusion

- 20** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. The Audit Commission will specify each year, which of the use of resources key lines of enquiry (KLOE) are the relevant criteria for the value for money conclusion at each type of audited body.
- 21** I identified weaknesses in your arrangements to secure economy, efficiency and effectiveness as set out in Table 5.

Table 5 Value for money conclusion

The Joint Committee has met all the criteria

Criteria	Conclusions and observations for improvement
Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	You met the requirements of the criterion.
Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	You have not met the requirements of the criterion. This is because of the issues identified in this report.
Does the organisation promote and demonstrate the principles and values of good governance?	You met the requirements of the criterion.
Does the organisation manage its risks and maintain a sound system of internal control?	You met the requirements of the criterion.

- 22** I plan to issue a qualified vfm conclusion on one criterion stating the Joint Committee had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources except for having timely, reliable financial reporting that meets the needs of internal users, stakeholders and local people.

Glossary

Annual governance statement

- 23** Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.
- 24** It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.
- 25** The annual governance statement is a public report by the Committee on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit closure certificate

- 26** 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.

Audit opinion

- 27** 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.

Qualified

- 28** The auditor has some reservations or concerns.

Unqualified

- 29** The auditor does not have any reservations.

Value for money conclusion

- 30** 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.

Appendix 1 – Independent auditor's report to Members of Chilterns Crematorium Joint Committee

Opinion on the financial statements

I have audited the accounting statements and related notes of Chilterns Crematorium Joint Committee 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 of 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 Chilterns Crematorium Joint Committee 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 responsible financial officer and auditor

The responsible financial officer's responsibilities are for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice 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 Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of 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 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.

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 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 Chilterns Crematorium Joint Committee’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.

NOTE The following qualified opinion will be considered if the pension error is not amended

Qualified opinion on financial statements arising from disagreement about accounting treatment

Included in the balance sheet are long term liabilities (£1,339,841) for the Joint Committee in its defined benefit pensions scheme and its negative pensions reserve (£1,339,841). Included in disclosure note 9 Pensions are details of the Joint Committee’s present value of liabilities (£2,868,000) in the pension scheme and the assessed fair value of assets (£1,528,000) in the pension scheme. These balances and disclosures have been estimated incorrectly and their values are understated by 10 per cent.

Except for the financial effect of the error in calculating pension transactions, in my opinion the Chilterns Crematorium Joint Committee accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

Appendix 1 – Independent auditor’s report to Members of Chilterns Crematorium Joint Committee

IF AMENDED

Opinion

In my opinion the Chilterns Crematorium Joint Committee accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

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

Committee Responsibilities

The Committee 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 specified by the Audit Commission and published in January 2009. I report if significant matters have come to my attention which prevent me from concluding that the Committee has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Committee’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. In so doing, I identified the following weaknesses:

- the draft accounts contained a material error around the pension transactions and disclosures and the Committee did not meet the statutory deadlines for submission of the financial statements.

For the reasons set out above, 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, Chilterns Crematorium Joint Committee made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010, except that it did not put in place adequate arrangements for:

- having timely, reliable financial reporting that meets the needs of internal users, stakeholders and local people.

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.

Mick West

September 2010
District Auditor

Audit Commission, Unit 5, ISIS business Centre, Horspath Road, Cowley, Oxford OX4 2RD

Appendix 2 – Draft letter of representation

To:
Mick West
District Auditor
Audit Commission
Unit 5
Isis Business Centre
Horspath Road
Cowley
Oxford OX4 2RD

September 2010

Chilterns Crematorium Joint Committee - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of the Joint Committee, the following representations given to you in connection with your audit of the Joint Committee's financial statements for the year ended 31 March 2010.

Compliance with the statutory authorities

I acknowledge 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 Committee and for making accurate representations to you

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed 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 governance within the Joint Committee and the reasons for not correcting these items are set out below:

PLEASE LIST REASONS for uncorrected misstatements identified

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 Joint Committee have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Joint Committee meetings, have been made available to you.

Irregularities

Appendix 2 – Draft letter of representation

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or 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; 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.

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; and
- 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.

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 Joint Committee.

The Joint Committee 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

I confirm the reasonableness of the significant assumptions within the financial statements. Where used, I 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.

Assets

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

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

Compensating arrangements

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

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.

Related party transactions

I confirm the completeness of the information disclosed 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.

Post balance sheet events

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

Specific representations

All unfunded liabilities e.g. discretionary added years awarded to staff in the scheme are included within the FRS17 liability figures.

Signed on behalf of Chilterns Crematorium Joint Committee

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Appendix 3 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	Annual Governance Report 2009/10 - Recommendations					
7	Put through all amendments required to the financial statements.	3				
7	Improve the accounts production process to ensure compliance with the accounting practice and financial reporting standards.	3				
8	Ensure there is better sequencing of the process in future years with a Joint Committee to approve the accounts before 30 June.	3				
8	Address the improvements to internal controls identified.	3				

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.

Copies of this report

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