

WORCESTERSHIRE DISTRICT COUNCILS AND COUNTY COUNCIL
MEETING OF THE WORCESTERSHIRE SHARED SERVICES JOINT COMMITTEE

THURSDAY 29TH SEPTEMBER 2011, AT 4.00 P.M.

THE COUNCIL CHAMBERS, GUILDHALL, HIGH STREET, WORCESTER

SUPPLEMENTARY DOCUMENTATION

The attached papers were specified as "to follow" on the Agenda previously distributed relating to the above mentioned meeting.

4. Audit Commission Annual Governance Report 2010/2011 (Pages 1 - 20)

The Council House
Burcot Lane
BROMSGROVE
Worcestershire
B60 1AA

27th September 2011

K. DICKS
Chief Executive

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Annual

governance

report

Worcestershire Shared Services Joint Committee

Audit 2010/11

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to Councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

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Ladies and Gentlemen

2010/11 Annual Governance Report

I am pleased to present the results of my audit work for 2010/11.

I discussed and agreed a draft of my report with the Director of Finance on 21 September 2011 and updated it as issues have been resolved.

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

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 8);
- approve the letter of representation on behalf of the Joint Committee before I issue my opinion and conclusion (appendix 2).

Yours faithfully

Elizabeth Cave
District Auditor

22 September 2011

Key messages

This report summarises the findings from the 2010/11 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.

Table 1: **Key messages - financial statements**

Financial statements	Results	Page
Unqualified audit opinion	Yes	6
No important weaknesses in internal control	Yes	7

Table 2: **Key messages - value for money**

Value for money		
Proper arrangements to secure value for money	Yes	9

Audit opinion

1 My overall conclusion is that I propose to issue an unqualified audit opinion.

Financial statements

2 The Financial statements required a significant number of amendments before I could give an unqualified opinion. This involved additional work by audit staff and by officers.

3 I am very grateful for the co-operation I received from your officers which have allowed me to substantially complete the audit.

Value for money

4 I expect to be able to conclude that there are satisfactory arrangements in place to secure economy, efficiency and effectiveness and therefore propose to issue an unqualified value for money conclusion.

Independence

5 I can confirm that I have complied with the Audit Practice Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

6 The Audit Commission's Audit Practice has not undertaken any non-audit work for the Joint Committee during 2010/11.

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.

7 I ask the Committee to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 8);
- approve the letter of representation on behalf of the Joint Committee before I issue my opinion and conclusion (appendix 2).

Financial statements

The Joint Committee's 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.

Smaller Relevant Body

8 Where a local government body that is not a local authority has income or expenditure of less than £6.5 million the body is classed as a Smaller Relevant Body (SRB). This has two results.

- SRBs are required to only prepare a simple Annual Return unless they elect to prepare a full Statement of Accounts.
- SRBs fall within the Audit Commission's limited assurance regime (unless they have elected to prepare a statement of Accounts). This audit work is carried out by a special unit established by the audit commission and not by local auditors.

9 The draft accounts presented to us on 30 June showed expenditure that was above the limit for the joint committee to be considered as a smaller relevant body. After amendments, the revised accounts reported income and expenditure below the limit. However, at that stage by changing the audit and accounts regime a completed audit could not be guaranteed by the statutory deadline of 30 September. The Executive Director (Finance and Resources) of Bromsgrove District Council authorised the continuation of the normal audit arrangements.

10 The 2011/12 budget shows that the Joint Committee is expected to operate at a level where it will be considered to be a smaller relevant body and as such will be subject to a limited assurance audit. I expect this to result in a lower audit fee.

Opinion on the financial statements

11 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.

12 In seeking to reach a conclusion on whether the Joint Committee's financial statements are free from material misstatement. My materiality figure for this year's audit is 1 per cent of gross expenditure (£59,000). I have concluded that the accounts do not contain material misstatements.

Key areas of judgement and audit risk

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

Table 3: **Key areas of judgement and audit risk**

Issue or risk	Finding
Bromsgrove is the host authority for the Worcestershire Shared Service Joint Committee. Expenditure for the joint committee is processed by Bromsgrove. Expenditure for the authority and the joint committee needs to be recorded accurately in the correct set of financial statements.	I found no instances where expenditure had been recorded in the accounts of the wrong body.

Quality of your financial statements

14 I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statement disclosures.

15 This is the first year that accounts have had to be prepared for the Joint Committee.

16 There is no separate specific guidance as to the required format of joint committee accounts. However, there is a general requirement to comply with the code of Practice on Local Government Accounting and to include information appropriate to the organisation.

17 The draft accounts presented for audit on 30 June 2011 did not contain all the statements and notes that in my opinion were appropriate for WSS JC. There were also a number of significant errors in these accounts. I received revised accounts on 15 August 2011 which were used as the basis for my audit.

18 My main findings on the quality of the accounts process are as follows.

- The preparation of the accounts was allocated to one officer.
- We did not see a formal close down and accounts preparation plan.
- The reporting of assets/liabilities and refunds to partner bodies was fragmented. I would expect to see formal reporting and agreement of debtors and creditors balances.
- There were insufficient working papers supporting the financial statements.

19 A more detailed report will be sent the Executive Director (Finance and Resources) which will set out my recommendations for improvement.

Errors in the financial statements

20 As part of my audit responsibilities I am required to report to you those matters of governance that I feel are important to you in your role of overseeing the financial reporting and disclosure process.

21 A number of errors affecting the treatment of pension transactions and amounts refundable to participating bodies were identified during the audit that. The net impact of these was to understate total expenditure by £48k, overstate total income by £300k and net assets by £348k. I have reported separately on these to the Executive Director (Finance and Resources) and the accounts have been adjusted for all errors identified during the audit.

Letter of representation

22 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 2 contains the draft letter of representation.

Value for money

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

23 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against the two criteria specified by the Audit Commission.

24 The two specified criteria are whether the Joint Committee has proper arrangements for:

- securing financial resilience - focusing on whether the Joint Committee is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Joint Committee secures economy, efficiency and effectiveness – focusing on whether the Joint Committee is prioritising its resources within tighter budgets and improving productivity and efficiency.

25 The Joint Committee is financially resilient because its costs are reimbursed by the partners. The Joint Committee was set up to secure greater economy, efficiency and effectiveness in the delivery of regulatory services in Worcestershire. There is evidence that progress has been made towards this objective, the organisation has reduced staff numbers and costs since it came into being.

26 I intend to issue an unqualified conclusion stating that the Joint Committee had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my draft report.

Appendix 1 Draft Independent Auditor's report to the members of Worcestershire Shared Services Joint Committee

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WORCESTERSHIRE SHARED SERVICES JOINT COMMITTEE

Opinion on the Joint Committee accounting statements

I have audited the Joint Committee accounting statements of Worcestershire Shared Services Joint Committee for the year ended 31 March 2011 under the Audit Commission Act 1998. The Joint Committee's accounting statements comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement, 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 Worcestershire Shared Services Joint Committee 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 Executive Director (finance and resources) and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Joint Committee's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting 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 accounting statements sufficient to give reasonable assurance that the accounting 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 Joint Committee's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Joint Committee and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Worcestershire Shared Services Joint Committee's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

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

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on Joint Committee's arrangements for securing economy, efficiency and effectiveness in the use of resources

Joint Committee's responsibilities

The Joint 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 to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Joint Committee 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 Joint Committee 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 Joint Committee's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

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 2010, as to whether the Joint Committee 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 Joint Committee put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

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 Joint Committee 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 2010, I am satisfied that, in all significant respects, Worcestershire Shared Services Joint Committee put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

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

Elizabeth Cave
Officer of the Audit Commission

Room 24
West Mercia Police
Hindlip Hall
PO Box 55
Worcester

Appendix 2 Draft letter of representation

To:
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Audit Commission
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PO Box 55
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WR3 8SP

Worcestershire Shared Services Joint Committee - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Worcestershire Shared Services 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 2011. All representations cover the Joint Committee's 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 which give a true and fair view of the financial position and financial performance of the Joint Committee for the completeness of the information provided to you, and for making accurate representations to you.

Supporting records

All relevant information and access to persons within the entity [as agreed in the engagement letter] has 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 financial statements.

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 that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. 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.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

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 Worcestershire Shared Services Joint Committee 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 requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of Worcestershire Shared Services Joint Committee

I confirm that the this letter has been discussed and agreed by the Joint Committee on 29 September 2011

Jayne Pickering

Executive Director (Finance and Resources)

Bromsgrove District council

26 September 2011

Appendix 3 Glossary

Annual governance statement

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

Audit closure certificate

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 financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my 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; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality (and significance)

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor's report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects'.

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

'Significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Value for money conclusion

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 based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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0844 798 7070

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



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