

Annual Audit Letter

Central Durham Crematorium Joint Committee
Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements (pages 4 to 5);**
and
- **my assessment of your arrangements to achieve value for money in your use of resources (page 6).**

I have included only significant recommendations in this report. The Joint Committee has accepted these recommendations.

Audit opinion and financial statements

1 I issued an unqualified opinion on your accounts for 2009/10. I also issued my certificate of completion of the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

2 I am pleased to report the quality of your accounts, and supporting working papers, was much higher than last year.

Value for money

3 You have improved your approach to financial reporting and internal control in several key areas over the past 12 months. I have therefore concluded that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources for the year ending 31 March 2010.

Current and future challenges

4 The economic downturn continues to have a significant impact on public finances and the bodies that manage them. The Government's October spending review has also set out significant reductions in funding across the public sector. While the Joint Committee has a history of sound financial performance, and balances remain healthy, the need to fit Mercury Abatement equipment to cremators remains a key priority. Given the projected cost of this project it is important that it is kept under review.

5 In 2010/11 your accounts will need to comply with International Financial Reporting Standards (IFRS) for the first time. From ongoing discussions, it appears that reasonable progress is being made to ensure next year's accounts are produced and approved by the statutory deadline of 30 June 2011.

Independence

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

Financial statements and annual governance statement

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

I gave an unqualified opinion on the Joint Committee's 2009/10 financial statements on 30 September 2010, the statutory target date.

Overall conclusion from the audit

7 You prepared your accounts in time to meet the statutory deadline of 30 June 2010 this year. The quality of the accounts was also much better this year, with fewer amendments required following the audit. Working papers to support the accounts were also much improved.

8 Although a number of errors were found during the audit none of these led to any change in year-end balances or reserves. Nevertheless, there is scope to reduce the number of errors identified and good internal quality review is an important way of achieving this. This will be particularly important given the 2010/11 accounts will be prepared under International Financial Reporting Standards (IFRS), which will be a significant challenge for all local government organisations.

Significant weaknesses in internal control

9 Over the last 12 months you have strengthened your internal control arrangements in a number of key areas and I did not identify any significant weaknesses in internal control arrangements this year.

10 However, my work showed that processes used to prepare the draft accounts were not always efficient and involved a lot of staff time in carrying out manual checks which could usefully be automated.

Treasury management

11 In 2008/09 we identified that there was no written agreement in place between Durham County Council and the Joint Committee setting out the terms of treasury management agreements.

12 This remains the case and there is still no written agreement in place with Durham County Council. In addition, there is need for a regular reconciliation of regular formal agreement of the account balance between the two parties.

Recommendations

R1 Officers and members should review the current arrangements for maintaining the books and records for the Joint Committee and consider possible alternatives to the significant staff time which is used in carrying out manual checks.

R2 Officers should implement a written agreement between Durham County Council and the Committee setting out the terms of the treasury management agreements.

R3 A formal agreement of the account balance used for all transactions between Durham County Council and the Committee should be agreed.

Value for money

I considered whether the Joint Committee is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

VFM conclusion

13 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

14 Last year I identified significant scope for improvement in financial reporting and internal control arrangements and concluded that you did not have adequate arrangements to secure economy, efficiency and effectiveness in all of the areas assessed.

15 Good progress has been made in both of these areas over the past 12 months. As a result I issued an unqualified conclusion stating you had satisfactory arrangements to secure economy, efficiency and effectiveness in your use of resources.

16 The table below summarises my findings.

Criteria	Adequate arrangements?	
	2009/10	2008/09
Managing finances		
Understanding costs and achieving efficiencies	Yes	Yes
Financial Reporting	Yes	No
Governing the business		
Good Governance	Yes	Yes
Risk management and internal control	Yes	No

Current and future challenges

Future challenges and developments

17 The Joint Committee, along with all public sector organisations, faces significant challenges in managing its finances. The current economic situation, together with the implications of the Comprehensive Spending Review, make it more important than ever that resources are managed strategically, getting value for money in all areas of spend.

18 While the Joint Committee's financial position remains comparatively healthy the need to fit Mercury Abatement equipment to cremators by 31 December 2012 remains a significant operational and financial challenge.

19 From 2010/11, you will be required to produce accounts that comply with International Financial Reporting Standards (IFRS). Although the size and nature of the Joint Committee's business will limit the impact this has in practice it will nevertheless require additional work in a number of key areas, notably on accounting for property, plant and equipment. Ongoing discussions suggest you are making reasonable progress, but further work needs to be done before the 2009/10 accounts can be restated and the 2010/11 accounts produced.

Closing remarks

20 I have discussed and agreed this letter with the Treasurer. I will present this letter at the next meeting of the Joint Committee. I will also provide copies to all members.

21 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Joint Committee during the year.

Report	Date issued
Audit Fee Letter	April 2010
Audit Opinion Plan	June 2010
Annual Governance Statement	September 2010

22 You have taken a positive and helpful approach to our audit and I wish to thank all members and staff for their continued support and cooperation during the audit.

Cameron Waddell
District Auditor
November 2010

Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	11,540	11,540	0
Value for money	1,460	1,460	0
Total audit fees	13,000	13,000	0

Appendix 2 Glossary

Annual governance statement

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.

It comprises the systems and processes, 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.

The annual governance statement is a public report by the Joint 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 opinion

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.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

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 money, people and time.

Appendix 3 Action Plan

Recommendations

Recommendation 1

Officers and members should review the current arrangements for maintaining the books and records for the Joint Committee and consider possible alternatives to the significant staff time which is used in carrying out manual checks.

Responsibility	Head of Finance, HR and Business Support (Neighbourhoods, Durham County Council)
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Priority	Medium
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Date	April 2011
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Comments	Options report to be considered by the Joint Committee in January 2011. Manual checking/existing systems to be maintained (for control and assurance purposes) until decision reached with regards to any changes going forward.
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Recommendation 2

Officers should implement a written agreement between Durham County Council and the Committee setting out the terms of the treasury management agreements.

Responsibility	Head of Finance, HR and Business Support (Neighbourhoods, Durham County Council)
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Priority	Medium
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Date	March 2011
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Comments	Currently in progress.
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Recommendation 3

A formal agreement of the account balance used for all transactions between Durham County Council and the Committee should be agreed.

Responsibility	Head of Finance, HR and Business Support (Neighbourhoods, Durham County Council)
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Priority	Medium
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Date	March 2011
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Comments	Account balance will be agreed on a regular basis.
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