

Annual Governance Report

Central Durham 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.
-

Ladies and Gentlemen

2009/10 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Treasurer on 10 September 2010 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 4 to 10);
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- 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 (Appendix 3);
- approve the letter of representation on behalf of the Joint Committee before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

Yours faithfully

Cameron Waddell
District Auditor

September 2010

Key messages

This report summarises the findings from the 2009/10 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	Results	Page
Unqualified audit opinion	Yes	7
Financial statements free from material error	No	7
Adequate internal control environment	Yes	7
Value for money	Results	Page
Adequate arrangements to secure value for money	Yes	10

Audit opinion

- 1 I plan to issue an audit report including an unqualified opinion on the financial statements.

Financial statements

- 2 The Joint Committee prepared the financial statements in time for the statutory deadline of 30 June with working papers provided to support the accounts. I am pleased to report that the financial statements were prepared to a much higher standard than last year. I identified a small number of errors in the accounts, with two material errors. Appendix 2 provides a summary of errors that have been adjusted by officers.

Internal Control

- 3 Last year's report contained recommendations around internal control. I can report that the majority have now been addressed and while income is not yet included in the General Ledger, there are robust controls in place over income at both the crematorium itself but also within Neighbourhood Services at the County Council (including reconciliations between records, receipts and bank accounts).
- 4 However, my work shows that the processes used to prepare the draft financial statements are not always efficient ie significant staff time is used in carrying out manual checks which could usefully be automated. However I have concluded that due to the existence of manual controls there is not a lack of control in practice.

Key messages

Value for money

- 5 I plan to issue an unqualified conclusion stating the Joint Committee has adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. We have considered the possible inefficiency noted above when considering the value for money criteria 'Risk management and internal control'. However, as inefficiency is not in itself part of the criteria for internal control, this is not a relevant consideration in this area.

Independence

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

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 Joint Committee to:

- consider the matters raised in the report before approving the financial statements (pages 4 to 10);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified that management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- approve the letter of representation on behalf of the Joint Committee before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

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 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

- 8 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.
 - 9 My team and I have again found officers helpful and responsive to the queries raised during the audit, and I appreciate the assistance that was provided in enabling us to undertake our audit work effectively. I am pleased to report that the financial statements were prepared to a much higher standard than last year.
-

Errors in the financial statements

- 10 A number of errors have been found as a result of our audit. Appendix 2 provides a summary of the errors which officers agreed to amend in the financial statements. These amendments have not changed the General Fund balance for the year.
 - 11 Appendix 3 contains the errors management has decided not to amend, and the uncertainties identified in my audit.
 - 12 I ask you to consider these errors and uncertainties, and where you do not agree to adjust the errors in the financial statements I have identified, I ask you to set out the reasons for not doing so.
-

Important weaknesses in internal control

- 13 My audit work has not identified any material weaknesses in internal control. However, as noted above, we have highlighted inefficiencies in maintaining the books and records for the Joint Committee which should be reviewed by officers.

Recommendation

- R1 Officers and members to 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.

Letter of representation

14 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 4 contains the draft letter of representation.

Key areas of judgement and audit risk

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

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
<p>Internal Control</p> <p>Our work on the Committee's financial systems has shown there has been some improvement since 2008/09. However, there are some remaining gaps in control that need to be addressed in future years.</p>	<p>A predictive analytical review on payroll has provided sufficient audit evidence that that staff costs are not materially incorrect.</p> <p>Substantive testing on creditor payments has not highlighted any material errors in 2009/10.</p> <p>A predictive analytical review on income has provided sufficient audit evidence that that income is not materially incorrect.</p>
<p>Compliance with SORP requirements</p> <p>Last year's audit highlighted significant scope to strengthen year end arrangements to ensure that the draft financial statements:</p> <ul style="list-style-type: none"> • are prepared in a timely fashion to ensure approval by members by the 30 June deadline; • meet disclosure requirements; and • are free from error. 	<p>The Joint Committee met the 30 June 2010 deadline for producing and approving its 2009/10 financial statements.</p> <p>Completion of the SORP checklist, and testing on the draft financial statements, suggest that arrangements for producing the draft financial statements have improved significantly in 2009/10.</p>
<p>Statement of accounting policies</p> <p>Last year's audit found that the statement of accounting policies disclosed in the draft financial statements contained a number of key omissions and did not meet SORP requirements.</p>	<p>A review of the statement of accounting policies showed that all key policies were disclosed, appropriate and accurately reflected processes used by the Joint Committee.</p>
<p>Opening balances and prior period figures</p> <p>Last year's audit identified a number of errors in opening balances and prior period figures which required amendment.</p>	<p>Detailed testing on opening balances and prior period comparatives in the draft financial statements has not identified any material errors.</p>

Financial statements

Issue or risk	Finding
<p>Fixed assets</p> <p>Last year's audit identified a number of errors in valuing and accounting for fixed assets, and the related disclosures, which required amendment.</p>	<p>Detailed testing on the completeness, existence, ownership and valuation of fixed asset balances disclosed in the draft financial statements, including relevant notes, has not identified any material errors.</p>
<p>Cut off arrangements</p> <p>Last year's audit showed that arrangements for identifying year end creditors did not operate effectively. This led to a failure to account for payments in the correct year. This meant creditors and expenditure in the draft financial statements were materially misstated.</p>	<p>Detailed testing on year end payments has not identified any material errors.</p>
<p>Treasury management</p> <p>In 2008/09 we identified that there was no written agreement in place between Durham County Council and the Committee setting out the terms of the treasury management agreements.</p>	<p>There continues to be 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.</p>
<p>Annual Governance Statement (AGS)</p> <p>The Committee prepared an AGS for the first time in 2008/09, which did not fully comply with requirements.</p>	<p>Our review of the AGS in the draft financial statements identifies that it meets requirements and is consistent with our knowledge of the Committee.</p>
<p>Internal Audit</p> <p>Last year's audit identified scope to improve the Committee's internal audit arrangements and coverage.</p>	<p>Arrangements have improved this year. The Durham County team gave suitable coverage and produced an audit report following in January 2010.</p>

Recommendations
<p>R2 Officers to obtain a written agreement in place between Durham County Council and the Committee setting out the terms of the treasury management agreements.</p>
<p>R3 In addition, there is need for a formal agreement of the account balance used for all transactions between Durham County Council and the Committee.</p>

Value for money

I am required to decide whether the Joint Committee put in place satisfactory 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 (VFM) conclusion

- 16** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 5. The Joint Committee has managed its finances effectively.
- 17** I have identified no weaknesses in your arrangements but have commented earlier in the report on possible inefficiencies and have included a recommendation in the action plan at Appendix 6.
- 18** 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 my draft report.

Glossary

Annual governance statement

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

Audit closure certificate

20 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

21 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; and
 - whether they have been prepared properly, following the relevant accounting rules.
-

Qualified

22 The auditor has some reservations or concerns.

Unqualified

23 The auditor does not have any reservations.

Value for money conclusion

24 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 Central Durham Crematorium Joint Committee

Opinion on the accounting statements

I have audited the Joint Committee accounting statements and related notes of Central Durham 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 on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, 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 Central Durham 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 Treasurer and auditor

The Treasurer's responsibilities 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 Joint Committee and its income and expenditure for the year.

Appendix 1 - Independent auditor's report to Members of Central Durham Crematorium Joint Committee

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 Joint Committee'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 Explanatory Foreword. 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 Joint Committee in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the 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.

Opinion

In my opinion the 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 Joint Committee 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

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 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 Joint Committee 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 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 Joint Committee has made such proper arrangements. 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.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice 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, Central Durham Crematorium Joint Committee made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

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.

Cameron Waddell
Officer of the Audit Commission
2nd Floor
Nickalls House
Metro Centre
GATESHEAD
NE11 9NH

September 2010

Appendix 2 – Amendments to the draft accounts

I identified the following misstatements during my audit and managers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Table 2

		Income and Expenditure Account		Balance sheet	
Adjusted misstatements	Nature of adjustment	Dr £	Cr £	Dr £	Cr £
Investments	Investments reduced to include only accrued interest at the year end, not total interest received in year.	-	-	2,964 Debtors	2,964 Invests
Creditors	Balance of monies due to Spennymoor Town Council £15,312.50 reduced to exclude an unrepresented cheque amount at the year end.	-	-	15,313 Creditors	15,313 Bank
Cash flow statement	In addition, the cash flow statement was amended to reflect an additional £12,814 increase in short-term deposits and £12,814 bank interest.	-	-	-	-

Appendix 3 – Unadjusted misstatements in the accounts

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities. If you decide not to amend, please tell us why in the representation letter. If you believe the affect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Table 3

Description of error	Accounts affected	Value of error £
NPower electric costs accrued / estimated at year end as £3,500 but based on post year actual should have been £3,136.58. Difference with estimate £363.	Dr Creditors Cr I&E	363
£3,639 accrued re Gas but bill only covered period to 25/3/10 - a further 6 days should have been accrued = $£3,639 .45 \times 6 / 31st = 704.41$.	Dr I&E Cr Creditors	704
£72.51 bank interest was part of the year end bank balance but was received 1/4/10 so should have been in debtors.	Dr Debtors Cr Bank	72
Post year end the Joint Committee received a refund on rates and part of the amount related to a number of years pre-31/3/10 but this element has not been accrued at the year end.	Dr Debtors Cr I&E	1,800

Appendix 4 – Draft letter of representation

September 2010

Mr C Waddell

District Auditor

Audit Commission

Nickalls House

Metro Centre

Gateshead

NE11 9NH

Dear Mr Waddell

Central Durham 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 directors of Central Durham Crematorium 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. All representations cover the Joint Committee's accounts and group accounts included within the financial statements.

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 Council and for making accurate representations to you.

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed below 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.

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

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.

Appendix 4 – Draft letter of representation

Fair values

I confirm the reasonableness of the significant assumptions within the financial statements. For depreciation, accruals, provisions and contingent liabilities, 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 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:

- year end valuations, including the effects of impairments in the year;
- 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.

The Joint Committee has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Specific representations:

Durham County Current Account balance

The current account balance with Durham County Council amounts to £214,896 at 31 March 2010.

Cremator reline life expectancy

The life of a cremator reline of 10 years as reflected in the depreciation calculation is an accurate reflection of life expectancy as they are relined on a rotational basis.

Signed on behalf of Central Durham Crematorium Joint Committee

Treasurer

I confirm that this letter have been discussed and agreed by the Joint Committee on 29 September 2010.

Councillor M Plews
Chair of the Central Durham Crematorium Joint Committee

Appendix 5 – Value for money criteria

KLOE	Met
Managing finances	
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Good governance	Yes
Risk management and internal control	Yes

Appendix 6 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Governance Report 2009/10 - Recommendations						
7	Officers and members to 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.	2	Head of Finance/ HR and Business Support (Neighbourhoods, Durham County Council (DCC))	Yes	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.	13 September 2010
9	Officers to obtain a written agreement in place between Durham County Council and the Committee setting out the terms of the treasury management agreements.	2	Head of Finance/ HR and Business Support, DCC)	Yes	Currently in progress.	
9	There is need for a formal agreement of the account balance used for all transactions between Durham County Council and the Committee.	2	Head of Finance/ HR and Business Support (DCC)	Yes	Account balance will be agreed on a regular basis.	

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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