

Annual

Governance

Report

Central Durham Crematorium Joint Committee

Audit 2008/09

Date **December 2009**

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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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Ladies and Gentlemen

2008/09 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2008/09.

A draft of the report was discussed and agreed with the Treasurer on 11 December 2009 and has been updated since as issues have been resolved.

The 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 7 to 12);
- 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, 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);
- take note of the qualified value for money (VfM) conclusion (page 13); and
- agree your response to the proposed action plan (Appendix 6).

Yours faithfully

Cameron Waddell

District Auditor

11 December 2009

DRAFT

Key messages

This report summarises the findings from the 2008/09 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 how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.

Financial Statements	Results	Page
Unqualified audit opinion	Yes	7
Financial statements free from material error	No	7
Adequate internal control environment	No	7
Use of resources	Results	Page
Arrangements to secure value for money	No	13

Audit opinion

- 1 The audit is now substantially complete and I plan to issue an unqualified opinion on the Joint Committee's financial statements following the meeting on 14 December 2009.
-

Financial statements

- 2 As part of my audit, I have obtained reasonable assurance that the Joint Committee's revised financial statements are free from material error. However, my audit identified:
 - a significant number of weaknesses in arrangements for producing the financial statements; and
 - a significant number of material errors which have required amendment.
 - 3 Whilst recognising the challenges posed by the need to produce a fully SORP compliant set of financial statements for the first time in 2008/09, the issues identified above highlight the need for significant improvement in future years.
-

Use of resources

- 4 My work on the Joint Committee's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. I propose to issue a qualified value for money conclusion due to identified weaknesses that need to be addressed in a number of key areas.

Audit Fees

- 5 I will be reviewing the audit fee on conclusion of the audit as an increase will be necessary due to the need to undertake significant additional testing due to:
- the absence of robust controls within key financial systems, which led us to undertake a much higher level of substantive testing than envisaged;
 - the absence of assurance that was available to support opening balances and prior year comparatives in the financial statements, which required a significant level of additional testing;
 - the quality of the original version of the draft financial statements, which contained a number of material errors, and supporting working papers that were only addressed towards the end of the audit process; and
 - the weaknesses in the Joint Committee's arrangements for securing value for money.

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.

6 I ask the Joint Committee to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 12);
- 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 which management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- take note of the qualified VfM Conclusion (page 13);
- 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 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

- 7 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix one contains a copy of my draft audit report.

Errors in the financial statements

- 8 My audit identified a number of significant weaknesses in the original draft financial statements that were approved by members in July 2009. This delayed commencement of the audit of the statements themselves until these issues were addressed and revised financial statements were received.
- 9 The revised statements were subsequently received in November 2009 and our audit work has identified further material errors that have required amendment. Appendix two contains a list of these errors.

Material weaknesses in internal control

- 10 During my audit I have identified the following material weaknesses in internal control.

Table 1 **Material weaknesses in internal control**

Issue or risk	Findings
<p>Internal Control</p> <p>The Accounts and Audit Regulations specify that there should be sufficient internal controls to ensure financial information is materially accurate, complete or coded correctly.</p>	<p>During the financial year ended 31 March 2009, the Joint Committee did not have adequate internal control processes in place to ensure that the financial accounts were free from material error. In particular, the Joint Committee did not maintain a general ledger to record all income, expenditure and capital transactions. Control</p>

Issue or risk	Findings
	<p>account reconciliations were also not undertaken and processes to maintain the asset register were weak. This made verification of transactions more complex and increased the level of material error identified in the draft financial statements.</p>
<p>Internal Audit</p> <p>The Accounts and Audit Regulations require bodies to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices.</p>	<p>Whilst Internal Audit carried out work at the Joint Committee it only covered two months and did not cover any of the Joint Committee's expenditure systems ie payroll and accounts payable. In addition, there is scope to strengthen the Joint Committee's approach to internal audit through:</p> <ul style="list-style-type: none"> ● agreement of a formal service level agreement which specifies the level of service to be provided by internal audit, including appropriate performance measures; ● the development and agreement of a formal audit plan, specific to the Joint Committee; ● the production of a formal annual report showing internal audit findings and conclusions for the year to inform the production of the Joint Committee's Annual Governance Statement.
<p>Treasury Management</p> <p>Up until its demise on 31 March 2009 due to LGR, Durham City Council undertook exchequer functions for the Joint Committee. There was a risk that this was not documented in a formal agreement.</p>	<p>Although we were able to agree the value of surplus funds held on behalf of the Joint Committee at 31 March 2009 by Durham City Council to the Council's financial statements, there was no written agreement in place between the Council and the Joint Committee setting out the terms of the agreement, including:</p> <ul style="list-style-type: none"> ● maturity dates; and ● interest rates.
<p>Annual Governance Statement</p> <p>The Joint Committee was required to prepare an Annual Governance Statement (AGS) for the first time in 2008/09.</p>	<p>The issues identified during this year's audit have identified scope for improvement in a number of areas which are not recognised in the annual</p>

Issue or risk	Findings
	<p>governance statement that was approved by the Joint Committee earlier in the year.</p> <p>A revised version has now been prepared highlighting the key areas for improvement in 2009/10.</p>

Recommendations	
R1	<p>The Joint Committee should implement controls which provide assurance that transactions recorded in the accounts are materially accurate. In particular, the Joint Committee should ensure that all transactions, including income, are recorded in a single general ledger to reduce the risk of error due to manual intervention. This would then support:</p> <ul style="list-style-type: none"> • the production of a trial balance from the general ledger to inform the preparation of the draft financial statements; • the completion of a regular bank reconciliation to the ledger; and • the production of a clear reconciliation between asset data in the asset register and figures included within the accounts.
R2	<p>The Joint Committee should formalise arrangements with Durham County Council (as successor to Durham City Council) for the provision of internal audit through the development of a formal service level agreement.</p>
R3	<p>The Joint Committee should strengthen existing internal audit arrangements through agreement of an annual plan of work, ensuring that internal audit work covers all of the key financial systems for the year and production of an annual report to inform the Annual Governance Statement.</p>
R4	<p>The Joint Committee should review and formally document treasury management arrangements with Durham County Council as successor to Durham City Council. This should include the terms of agreement for all funds held by the Council on Joint Committee's behalf.</p>
R5	<p>The Joint Committee needs to ensure future annual governance statements more accurately identify areas for improvement and actions planned to address these.</p>

Letter of representation

- 11** 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 four contains the draft letter of representation I seek to obtain from you.

Key areas of judgement and audit risk

12 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in table two.

Table 2 Key areas of judgement and audit risk

Issue or risk	Finding
<p>Compliance with SORP requirements</p> <p>This year was the first year that the Joint Committee needed to produce SORP compliant financial statements, which led to an increased risk of error, particularly given the departure of a number of key finance staff at the host authority (Durham City Council).</p>	<p>Our audit work has highlighted significant scope to strengthen year-end arrangements to ensure that the financial statements presented for approval by Members are free from significant errors. This is evident from the fact that the draft financial statements approved by Members in July 2009:</p> <ul style="list-style-type: none"> • did not meet SORP requirements; • contained a number of material errors; and • missed the 30 June 2009 deadline for approval.
<p>Opening balances and prior period figures</p> <p>Given this was the first year that the Joint Committee need to produced SORP compliant financial statements, there was an increased risk that opening balances and prior period figures would be materially incorrect.</p>	<p>There were a number of errors in opening balances and prior period figures which required amendment.</p> <p>Appropriate amendments have been made to the revised financial statements to address this.</p>
<p>Ownership of fixed assets</p> <p>Given this was the first year that we have had to undertake an audit that fully complies with the requirements of auditing standards, we have tested the ownership of tangible fixed assets to ensure they are recognised in the correct bodies financial statements.</p>	<p>Our testing found that land in the draft financial statements was owned by Durham City Council up until 31 March 2009 and subsequently transferred to Durham Council following local government reorganisation (LGR).</p> <p>Appropriate amendments have been made to the revised financial statements to remove the land owned by Durham City Council at the balance sheet date.</p>
<p>Capital expenditure</p> <p>As part of our initial review, we identified a specific risk that the Joint Committee may have capitalised expenditure for assets built upon Durham City</p>	<p>Initial discussions with officers confirmed that the Joint Committee had included this expenditure in the Joint Committee's balance sheet. An</p>

Financial statements

Issue or risk	Finding
Council land, which under SORP requirements, should have been classed as revenue expenditure.	adjustment was required for both 2007/08 and 2008/09.
<p>Impairment of asset values</p> <p>The current economic climate increases the likelihood of impairments to the value of the Joint Committee's assets, particularly the crematorium building.</p>	<p>Our initial review of the draft financial statements showed that an impairment review had not been undertaken as required by the SORP and financial reporting standards (FRS11).</p> <p>An impairment review has subsequently been undertaken and appropriate amendments have been made to the revised financial statements to reflect this (appendix two).</p>
<p>Cut off arrangements</p> <p>The importance of implementing robust year end cut off arrangements for debtors and creditors was particularly important given this was the first year that the Joint Committee had to produce SORP compliant financial statements.</p>	<p>Cut off arrangements for the identification of year end creditors in 2008/09 did not operate effectively leading to a failure to account for a number of payments in the correct year. As a result year end creditors and expenditure in the draft financial statements was materially misstated.</p> <p>Appropriate amendments have been made to the revised financial statements to address this issue (appendix two).</p>

Recommendations
<p>R6 Strengthen year end processes for producing the financial statements to ensure the version presented for Member approval is free from error.</p>
<p>R7 Improve controls over opening balances to ensure that these are correctly brought forward and used in producing future years' draft financial statements.</p>
<p>R8 Strengthen arrangements for accounting for fixed assets to ensure that the requirements of the SORP and financial reporting standards are met, particularly in relation to capital expenditure, valuation and impairment.</p>
<p>R9 Strengthen cut off procedures for future years to effectively identify year end creditors and ensure they are included in the correct year's financial statements.</p>

Accounting practice and financial reporting

13 I also consider the qualitative aspects of your financial reporting.

- 14** Whilst recognising the challenges posed by the need to produce a fully SORP compliant set of financial statements for the first time in 2008/09 this year's audit has identified scope for improvement in some key areas, which are summarised in table three. We will work closely with officers to address these issues as part of the preparations for the 2009/10 audit.

Table 3 Weaknesses in accounting practice and financial reporting

Issue or risk	Finding
The importance of good quality working papers was particularly important given this was the first year that the Joint Committee had to produce SORP compliant financial statements.	The quality of working papers, and other evidence to support the figures in the draft financial statements was inconsistent and needs to be improved for future years.
The importance of implementing robust accounting policies was particularly important given this was the first year that the Joint Committee had to produce SORP compliant financial statements.	The Statement of Accounting Policies disclosed in the draft financial statements contained a number of key omissions and did not meet SORP requirements. Appropriate amendments have been made to the revised financial statements to address these issues.

Recommendations
R10 Improve arrangements for the production and collation of working papers, and supporting evidence, to ensure they are prepared to a consistently good standard to support the draft financial statements.
R11 Implement arrangements to ensure that up-to-date guidance is used to prepare future years' Statement of Accounting Policies, which should be approved by the Joint Committee prior to production and approval of the draft financial statements.

Use of resources

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 (VFM) conclusion.

Value for money conclusion

- 15** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out in appendix five.
- 16** Given I have identified weaknesses in your arrangements to secure economy, efficiency and effectiveness I intend to issue a qualified conclusion stating that the Joint Committee had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources, except for arrangements:
- to ensure financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people; and
 - for managing risks and maintaining a sound system of internal control.
- 17** Earlier in the report I have made recommendations to improve the Joint Committee's arrangements in a number of key areas.
- 18** Appendix one contains the wording of my draft audit report.

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

Opinion on the financial statements

I have audited the Authority accounting statements and related notes of Central Durham Crematorium Joint Committee for the year ended 31 March 2009 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 prepared by the Audit Commission.

Respective responsibilities of the Treasurer and auditor

The Treasurer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the financial 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 present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 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 financial statements. I am not

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

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 Explanatory Foreword and the Report of the Treasurer. 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's financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Joint Committee as at 31 March 2009 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

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

conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for other local government bodies. 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.

Qualified Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice. In so doing, I was unable to obtain sufficient appropriate evidence that Central Durham Crematorium Joint Committee had:

- adequate arrangements in place for ensuring its draft financial statements complied with statutory requirements, statutory and regulatory timetables, and relevant accounting and reporting standards;
- effective internal audit arrangements in place throughout the year in accordance with CIPFA standards; and
- sound internal financial controls for all key systems, particularly for income and the general ledger.

Having regard to relevant criteria specified by the Audit Commission for other local government bodies, published by the Audit Commission in May 2008 and updated in February 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 ending 31 March 2009 except that it did not put in place adequate arrangements for:

- ensuring its financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people; and
- managing risks and maintaining a sound system of internal control.

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
Nickalls House
Metro Centre

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

GATESHEAD
NE11 9NH

15 December 2009

Appendix 2 – Adjusted amendments to the accounts

The following misstatements were identified during the course of my audit and the financial statements have been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities.

Table 4

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £s	Cr £s	Dr £s	Cr £s
Accrued interest	Incorrect treatment of accrued interest		Interest £13,000	Investments £13,000	
Accrued interest 2007/08	Incorrect treatment of accrued interest		Interest £54,000	Investments £54,000	
Bank	Incorrect treatment of items classed as cash in transit			Bank £247,000 Debtors £3,000	Creditors £250,000
Bank 2007/08	Incorrect treatment of items classed as cash in transit			Debtors £5,000	Bank £5,000
Tangible Fixed Assets 2007/08	Removal of land incorrectly capitalised			Capital Adjustment Account £250,000	Tangible Fixed Assets £250,000
Tangible Fixed Assets 2007/08	Removal of fixed assets built upon land			Capital Adjustment Account £122,552	Tangible Fixed Assets £122,552

Appendix 2 – Adjusted amendments to the accounts

		Income and Expenditure Account		Balance Sheet	
Depreciation 2007/08	Removal of depreciation of assets built upon land			Tangible Fixed Assets £36,523	Capital Adjustment Account £36,523
Tangible Fixed Assets 2007/08	Removal of brought forward balances for fixed assets incorrectly included in the asset register			Capital Adjustment Account £132,075	Tangible Fixed Assets £132,075
Revenue expenditure funded from capital 2007/08	Incorrect treatment of revenue expenditure which should have been treated as capital	Net Cost of Service £173,660	SMGFB* £173,660	Capital Adjustment Account £173,660	Tangible Fixed Assets £173,660
Depreciation of assets incorrectly capitalised in 2007/08, effecting current year.	Incorrect treatment of revenue expenditure which should have been treated as capital		Net Cost of Service £35,767	Tangible Fixed Assets £35,767	
Impairment	Reversal of impairment charges against assets incorrectly capitalised		Net Cost of Service £50,691	Tangible Fixed Assets £50,691	
Revenue Expenditure Funded from Capital under Statute	Revenue expenditure capitalised in error, specific adjustment required by SORP	I & E £17,464	SMGFB £17,464	Capital Adjustment Account £17,464	Tangible Fixed Assets £17,464
Tangible Fixed Assets	Removal of reline incorrectly capitalised			Capital Adjustment Account £22,500	Tangible Fixed Assets £22,500
Depreciation and Impairment	Removal of reline depreciation and impairment charges	Statement of movement in the General Fund Balance		Tangible Fixed Assets £8,000	Net Cost of Service £8,000 Capital Adjustments

Appendix 2 – Adjusted amendments to the accounts

		Income and Expenditure Account		Balance Sheet	
		£8,000			Account £8,000
Tangible Fixed Assets	Removal of cremators incorrectly capitalised			Capital Adjustment Account £107,000	Tangible Fixed Assets £107,000
Depreciation and Impairment	Removal of cremator depreciation and impairment charges	Statement of movement in the General Fund Balance £43,000		Tangible Fixed Assets £43,000	Net Cost of Service £43,000 Capital Adjustment Account £43,000
Tangible Fixed Assets	Removal of asset value that could not be substantiated			Capital Adjustment Account £2901	Tangible Fixed Assets £2901
Audit Fee	Audit Fee incorrectly estimated and included in accounts	Net Cost of Service £8,500			Creditors £8,500
Accruals	Expenditure in 2009/10 which relates to 2008/09	Net Cost of Service £12,035			Creditors £12,035

The audit also identified a number of presentational errors including punctuation, cross references, roundings, minor omissions and inconsistent terminology.

The above adjustments also resulted in adjustments to the cash flow statement, which have made.

These have now been amended.

*SMFGB (Statement of Movement in General Fund Balance)

Appendix 3 – Unadjusted misstatements in the accounts

The following misstatements were identified during the course of my audit and the financial statements have not been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities. If you decide not to do so, please tell us why in the representation letter. If you believe the effect 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 5

Description of error	Accounts affected	Value of error (£)
Year end debtors include two items of £440 each, which are unpaid as at 19 November 2009. A provision for doubtful debt should be considered to reflect this.	Dr Net cost of services Cr Provision for bad debt	£880
An invoice was paid on 23 April 2009, which included an element relating to 2008/09.	Dr Net cost of services Cr Creditors	£344
The JC failed to accrue invoices paid in 2009/10 which related to goods and/or services received in 2008/09.	Dr Net cost of services Cr Creditors	£3,441
Cash flow statement was not adjusted to reflect revised debtor or creditor figures.	Note 17 Reconciliation of revenue surplus/deficit to net cash flow Note 18 Reconciliation of movement in cash to movement in funds. Cash flow statement net	£5,000

Appendix 3 – Unadjusted misstatements in the accounts

Description of error	Accounts affected	Value of error (£)
	(decrease) increase in cash	

Appendix 4 – Draft letter of representation

FAO

Cameron Waddell
District Auditor
Audit Commission
Nickalls House
Gateshead
NE11 9NH

Central Durham Crematorium Joint Committee - Audit for the year ended 31 March 2009

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers 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 2009.

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 present fairly the financial position and financial performance of the Joint 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 as follows:

- reason 1 etc.

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.

Going Concern

I am satisfied that it is appropriate to adopt the going concern basis in the preparation of the financial statements and that the financial statements include, such disclosures, if any, relating to going concern.

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.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements, including those in relation to tangible fixed assets. For these assumptions, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;

Appendix 4 – Draft letter of representation

- the completeness and appropriateness under the financial reporting framework; and
- 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:

- losses arising from sale and purchase commitments;
- agreements and 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.

Provisions and contingent liabilities

There are no provisions and 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 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

Appropriate procedures have been followed to ensure that all and only income and expenditure relating to Central Durham Crematorium Joint Committee has been recorded in the correct year in the financial statements.

All assets, particularly tangible fixed assets and debtors, have been reviewed for impairment and re-valued or impaired in accordance with relevant financial reporting standards.

There are no significant issues in respect of title, rights and obligations of assets, particularly tangible fixed assets, disclosed in the accounts.

All recharges to Central Durham Crematorium Joint Committee from Durham City Council have been made with the consent of the Joint Committee.

The Joint Committee is fully conversant with the investment included in the accounts of Central Durham Crematorium Joint Committee with Durham City Council.

Signed on behalf of Central Durham Crematorium Joint Committee.

I confirm that this letter has been discussed and agreed by the Joint Committee on 14 December 2009.

Signed

Position

Name

Appendix 5 – Value for money conclusion

The following tables summarise the key findings and conclusions for each of the three use of resources themes.

Managing finances

<p>KLOE 1.2 (understanding costs and achieving efficiencies)</p> <p>VFM criterion met</p>	<p>Yes</p>
<p>The Joint Committee has adequate arrangements to ensure it understands is cost and achieves efficiencies.</p> <p>Arrangements to monitor income to ensure costs are covered are in place using the cost plus method of pricing. Fees and charges are also reviewed annually in April each year through consideration of a number of factors including:</p> <ul style="list-style-type: none"> • competitor prices; • the need to cover increases in running costs; and • the need for infrastructure investment. <p>At the same time the Joint Committee also considers the need to revise other charges for its services. For example, the fee for scattering of ashes was increased to reflect an increased understanding of the costs involved in the provision of this service.</p> <p>The Crematorium can explicitly demonstrate a link between its environmental impact and its financial position. For example, money is being earmarked to fund a new set of cremators required by law to ensure the environmental impact of mercury is abated.</p>	
<p>KLOE 1.3 (financial reporting)</p> <p>VFM criterion met</p>	<p>No</p>

There is scope to improve the Joint Committee's approach to budget monitoring and forecasting as, at present, it does not report such information on a regular basis. However, the Treasurer's outturn report does include an analysis of budgeted versus actual financial performance. In addition, performance on cremations for each quarter alongside income. Income generated from the sale of plaques and vases is also reported regularly.

Whilst recognising the challenges posed by the need to produce a fully SORP compliant set of financial statements for the first time in 2008/09, the issues identified above highlight the need for significant improvement in future years. In particular, our audit work has highlighted significant scope to strengthen year-end arrangements to ensure that the financial statements presented for approval by Members are free from significant errors. This is evident from the fact that the draft financial statements approved by Members in July 2009:

- did not meet SORP requirements;
- contained a number of material errors; and
- missed the 30 June 2009 deadline for approval.

In addition, there is a clear need to improve arrangements for the production and collation of working papers, and supporting evidence, to ensure they are prepared to a consistently good standard to support the draft financial statements.

Governing the business

KLOE 2.3 (good governance)	
VFM criterion met	Yes
<p>The Joint Committee has adequate arrangements to promote principles of good governance and focuses on the needs of the local community in the realms of what is possible for a single service organisation. For example:</p> <ul style="list-style-type: none"> • the Joint Committee has a published constitution which confirms the individual roles of the chair and vice chair and confirms the relations between the constitutional authorities; • it is evident from our work that constructive working relationships exist between members of the Joint Committee and staff; • the Joint Committee's objectives and plans are set out in its business plan; • arrangements are in place to receive and investigate allegations of breaches of proper standards of conduct as part of constituent authority 	

Appendix 5 – Value for money conclusion

<p>arrangements;</p> <ul style="list-style-type: none"> • codes of conduct are in place for Members and officers as part of constituent authority arrangements; and • whistle blowing and complaints arrangements are in place as part of constituent authority arrangements. 	
<p>KLOE 2.4 (risk management and internal control)</p> <p>VFM criterion met</p>	<p>No</p>
<p>Risk management arrangements are in place to identify and mitigate the business risks facing the Joint Committee, including a risk register which identifies risks, their likelihood, their impact and mitigating controls.</p> <p>There is a counter fraud and corruption strategy in place as part of constituent authority arrangements.</p> <p>The Joint Committee fulfils the role of audit committee as it receives all internal audit and external audit reports.</p> <p>There is significant scope to strengthen internal control, which are set out earlier in this report including internal audit arrangements in order to full meet the requirements of the Accounts and Audit Regulations. Further details on this are provided in the main body of the accounts.</p> <p>Durham City Council provides the internal audit service to the JC as host authority. Work undertaken in June 2008 to examine and evaluate the adequacy, reliability and effectiveness of the internal control system, in particular:</p> <p>Standing orders, standing financial instructions and a scheme of delegation are also in place.</p> <p>There is also scope to improve arrangements for producing the annual governance statement leading to the production of a revised version which now highlights the key areas for improvement in 2009/10.</p>	

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Appendix 5 – Value for money conclusion

Appendix 6 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Recommendations						
9	<p>R1 The Joint Committee should implement controls which provide assurance that transactions recorded in the accounts are materially accurate. In particular, the Joint Committee should ensure that all transactions, including income, are recorded in a single general ledger to reduce the risk of error due to manual intervention. This would then support:</p> <ul style="list-style-type: none"> the production of a trial balance from the general ledger to inform the preparation of the draft financial statements; the completion of a regular bank reconciliation to the ledger; and the production of a clear reconciliation between asset data in the asset register and figures included within the accounts. 	3				
9	R2 The Joint Committee should formalise arrangements with Durham County Council	2				

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	(as successor to Durham City Council) for the provision of internal audit through the development of a formal service level agreement.					
9	R3 The Joint Committee should strengthen existing internal audit arrangements through agreement of an annual plan of work, ensuring that internal audit work covers all of the key financial systems for the year and production of an annual report to inform the Annual Governance Statement.	3				
9	R4 The Joint Committee should review and formally document treasury management arrangements with Durham County Council as successor to Durham City Council. This should include the terms of agreement for all funds held by the Council on Joint Committee's behalf.	3				
9	R5 The Joint Committee needs to ensure future annual governance statements more accurately identify areas for improvement and actions planned to address these.	3				
11	R6 Strengthen year end processes for producing	3				

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	the financial statements to ensure the version presented for Member approval is free from error.					
11	R7 Improve controls over opening balances to ensure that these are correctly brought forward and used in producing future years' draft financial statements.	3				
11	R8 Strengthen arrangements for accounting for fixed assets to ensure that the requirements of the SORP and financial reporting standards are met, particularly in relation to capital expenditure, valuation and impairment.	3				
11	R9 Strengthen cut off procedures for future years to effectively identify year end creditors and ensure they are included in the correct year's financial statements.	3				
12	R10 Improve arrangements for the production and collation of working papers, and supporting evidence, to ensure they are prepared to a consistently good standard to support the draft financial statements.	3				
12	R11 Implement arrangements to ensure that up-to-date guidance is used to prepare future years' Statement of Accounting Policies, which should be approved by the Joint Committee prior to production and approval	3				

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	of the draft financial statements.					