APPENDIX A

Annual governance report

Lancashire County Council

Audit 2010/11

Contents

Traffic light explanation
Red ■ Amber ◆ Green ●

Key messages

This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

	Our findings
Unqualified audit opinion	
Proper arrangements to secure value for money	

Audit opinion and financial statements

My audit of the Council's financial statements is substantially complete and I expect to provide an unqualified audit report by 30 September 2011.

I have not identified any material errors within the financial statements and those errors which have been identified have not affected the underlying financial position of the Council. All errors have been corrected and mainly relate to disclosure issues.

This has been a particularly challenging year with the introduction of a number of changes for which finance staff have needed to prepare.

The preparation of materially correct statements which met the new requirements within this context is a significant achievement.

Value for money

I expect to provide an unqualified VFM conclusion by 30 September 2011.

The Council has responded well to the demands placed on it. A strategic and realistic approach has been taken to the identification and delivery of required savings of £179 million over the next three years.

A more radical approach has been taken to a range of services in order to enable the Council to respond to this challenge. This includes:

- the implementation of a new Treasury Management Strategy which in 2010/11 has saved the council £15 million and is planned to deliver a further £10 million over the next three years; and
- the Council's new strategic partnership for the delivery of core back office services which is expected to deliver significant savings, (£14 million over the next three years), as well as improved services.

The challenge for the Council now is monitoring and managing the effective delivery of their financial and operational plans.

Before I complete my audit

I confirm to you	My report 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. **Independence** I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I identified the following threat to independence. ■ One of our members of staff is related to an employee of Lancashire County Council working in one of its primary schools. I applied the following safeguard that reduced this threat to an acceptably low level. ■ Our member of staff does not undertake, or is responsible for the review of, any of our work that we may need to undertake in relation to that school. The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.
I ask you to confirm to me	**I ask the audit committee to:** ■ take note of the adjustments to the financial statements which are set out in this report (appendix 2); and ■ approve the letter of representation, provided alongside this report, on behalf of the Council and Pension Fund before I issue my opinion and conclusion.

Financial statements

My audit of the Council's financial statements is substantially complete and I expect to provide an unqualified audit report by 30 September 2011. I have not identified any material errors within the financial statements and those errors which have been identified have not affected the underlying financial position of the Council. All errors have been corrected and mainly relate to disclosure issues. This has been a particularly challenging year with the introduction of a number of changes for which finance staff have needed to prepare. The preparation of materially correct statements which met the new requirements within this context is a significant achievement.

Opinion on the financial statements

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 report.

Errors in the financial statements

Two misclassification errors were identified which impacted on the face of the principal financial statements.

- The £7.159 million deficit on revaluation of available for sale financial assets was incorrectly classified under 'other gains and losses' within the Comprehensive Income and Expenditure Statement instead of being separately itemised in accordance with the Code.
- The accumulated absence liability of £37.9 million was classified as a provision in line with original guidance issued by CIPFA. Subsequently CIPFA revised the guidance and have made it clear that the accumulated absence liability should be classified as a creditor.

A number of other amendments have been made in response to issues raised by ourselves. These have impacted on the explanatory foreword and disclosure notes and were made to improve the internal consistency of the financial statements and improve the clarity and accuracy of disclosures.

All of the amendments made are reflected in appendix 2. All errors identified during the course of the audit have been amended for. None of the amendments have affected the reported surplus or general county fund balance.

Financial statements

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

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

Key audit risk and our findings

Key audit risk	Finding
1. PFI (Private Finance Initiative) schemes Four new schools built under the building schools for the future PFI arrangements came onto the balance sheet for the first time in 2010/11. This required complex estimations of contract values and allocations within the accounts.	Officers have made good use of the experience and knowledge developed from previous similar schemes. The assumptions used in making the accounting estimates needed to allocate the annual contract payment between the revenue and capital elements were appropriate and the assets were included on the balance sheet on an appropriately valued basis. Resultant accounting entries and disclosure notes were complete and correct.
2. First year implementation of international financial reporting standards (IFRS) 2010/11 is the first year of full implementation of the new international financial reporting standards. This has resulted in some material changes to the accounts and requires detailed work to ensure no material items are missed.	Officers adopted a thorough and systematic approach to the implementation of IFRS. Where changes were not required under IFRS this was supported by clear consideration of all the relevant factors and adequately evidenced. All required changes have been made correctly in the accounts and all new disclosure requirements have been met.

Key audit risk	Finding
3. Inconsistent application of controls and workload pressures in payroll Audit work in previous years has identified inconsistent application of controls across the Council around payroll, creditors, schools and journals. This lessens our ability to rely on testing of controls in these areas. Additional workload pressures in payroll during 2010/11 increases the inherent risk of error around payroll.	Internal Audit testing in 2010/11 evidenced an improvement in the application of controls particularly in relation to accounts payable and journals and where possible we have relied on the testing completed by Internal Audit in this respect. Whilst there remains some inconsistency in relation to the application of controls by schools as reported by Internal Audit we have gained sufficient assurance about the material correctness of financial entries arising from school activities through a mixture of controls and substantive testing. Substantive testing of payroll costs including predictive analytical review has provided assurance over the material correctness of payroll figures within the financial statements.
4. Group accounts The Council may need to produce group accounts for 2010/11 for the first time in some years. This will depend upon the Council's assessment of the impact of the changes under IFRS and the creation of the Strategic Partnership.	Contracts for the Strategic Partnership were not signed before 31 March 2011 and therefore have not impacted on the Council's assessment of the need to prepare group accounts for 2010/11. We have reviewed the Council's updated consideration of whether it needed to produce group accounts in 2010/11 and are satisfied that group accounts were not required on the grounds of materiality. Officers have noted that Group Accounts will be prepared for 2011/12 following the commencement of the Strategic Partnership with British Telecom to provide a range of services to the Council.
5. New financial systems New financial systems and processes have been introduced during 2010/11 for accounts receivables.	A mixture of controls and substantive testing has provided assurance that the figures produced by the accounts receivables system are materially correct. The transfer between the old and new system was managed effectively ensuring that data was completely and accurately transferred to the new system.

Key audit risk	Finding
6. Changes in Treasury Management strategy The Council's new approach to Treasury Management has resulted in the Council having more complex financial instruments on its balance sheet at 31 March 2011. Valuation of such instruments is likely to be less straight forwards and require estimation of values. As the new strategy involves greater complexity, the need for a stronger skill set for both officers and members and closer management of risk profiles exists. This includes the need for careful review to ensure there is no borrowing to lend on.	Valuation of the new LOBO (lender option, borrower option) loan is appropriately supported and estimation assumptions are reasonable. Valuation of the new Bond portfolio was adequately evidenced. Correct accounting treatment has been followed for these financial instruments and the premia/discounts levied following the re-structuring of the debt portfolio. We have identified areas for improvement in the way management and members monitor performance against the regulatory framework in relation to borrowing activities. A detailed report on Treasury Management will shortly be shared with officers for their comment.

Financial statements

Significant weaknesses in internal control

I have not identified any significant weaknesses in internal control.

I have identified a number of areas for improvement within the ICT control environment within Lancashire County Council. I review the overall Information Technology (IT) environment each year to identify if this presents any risks of material misstatement to the Council's accounts. I have concluded there is a low risk of such mis-statement arising as a result of the standard of IT controls the Council applies to its financial systems. I have identified some areas which could be improved and am satisfied that effective implementation of the existing Strategic Partnership improvement plans for IT should address them.

Improvement areas include:

- access to live financial systems by IT application support staff is more widely available than usual with some staff having permanent access to live systems application facilities;
- password controls for access to the network are weaker than usually seen at similar authorities; and
- the prompt removal of leavers' access rights to the network and to individual applications is not consistent.

Quality of your financial statements

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

The Council's accounts reflect the importance which officers place on ensuring that the accounts meet the requirements set out in the Code of Practice on Local Authority Accounting. There are no matters I wish to bring to your attention.

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. These representations are set out within the letter of representation which is on the same agenda as this report.

Value for money

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

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for money criteria and our findings

Criterion	Findings
1. Financial resilience **The organisation has proper arrangements in place to secure financial resilience.** Focus for 2010/11: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	The Council has a history of strong financial management. The Council's short and medium term financial planning shows it has risen to the challenge of meeting required savings at an unprecedented level. Following close monitoring and management of the budget during 2010/11 the Council achieved a budget underspend of £24.4 million. Amongst other things the underspend has been used to set aside monies for meeting the costs of future severance costs and to establish a fund for savings plans which require upfront investment. A three-year budget plan was approved by Council on 17 February 2011 covering financial years 2011/12; 2012/13 and 2013/14. The budget savings to be achieved in those three years, after taking account of the necessary levels of reserves and balances and areas of service growth, such as highway maintenance and waste management, amounted to £179 million.

Criterion	Findings
	A strategic approach has been taken to identifying potential savings with an emphasis on taking as much out of back office services as possible before front line services are affected. 45 per cent of savings are planned to be achieved from changes to back office services. Consideration has also been given to the likely impact of the savings on services; the staffing implications; whether the savings result in a full or partial cessation of a service along with an assessment of the impact of the savings on service users and the risks associated with delivering the proposed savings. Effective consultation both within and outside the Council has taken place to help ensure the deliverability of the savings plans. Progress on the achievement of savings will be reported to the Council's Cabinet with areas where savings are not being delivered in line with expectations clearly highlighted. Latest budget monitoring reports indicate that the Council is ahead on its delivery of targeted savings in 2011/12. The Council's County Fund balance stands at £41.9 million at 31 March 2011 and is considered to be at an appropriate level by the County Treasurer in view of the delivery risk involved in such a challenging financial climate. The Council plans to re-visit this as the assessed delivery risk changes over the life of the three-year plan. The arrangements put in place to identify the planned savings over the next three years are impressive. But in many ways the identification of planned savings is just the start of the process. The real challenge for the Council over the next three years will be to ensure delivery of the planned savings at the same time as ensuring services remain efficient and effective as well as economic. The Council should ensure that the range of initiatives to measure and monitor savings and wider value for money going forward are properly co-ordinated in terms of assessments being made and reported to Members. The Council's new Treasury Management Strategy has delivered significant savings during 2010/11 (£15 million), and is a key element of planned savings for 2011/12 and future years. The achievement of such savings in the context of low interest rates is impressive and has required a significant departure from the previous traditional approach to treasury management. A move to a more complex portfolio of borrowing and investments brings with it greater flexibility and requires close and careful management to ensure the Council does not suffer unnecessarily from changes in the markets. The Council is aware of this and is taking action to ensure it can manage such risks effectively. The Council needs to ensure that it

Criterion	Findings
	continues to closely manage this area and that reports to Members are clear about the impact of significant decisions made about the portfolio on its risk exposure and how those risks are being managed.
2. Securing economy efficiency and effectiveness **The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** Focus for 2010/11: The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.	The Council has a good record of understanding its relative costs and exploring new ways of delivering services to achieve better value for money. Value for money is to be monitored through a variety of means, including: ■ service reviews; ■ unit cost comparisons; ■ a new corporate scorecard and a Cabinet Committee on Performance; and ■ regular cost and performance benchmarking. During 2011 the Council entered into a strategic partnership arrangement with British Telecom (BT) to deliver a range of services. This includes procurement, human resources and payroll services, information technology, and payments. This arrangement is expected to achieve significant improvements in value for money for the Council. The agreement with BT and the creation of One Connect Ltd are designed to: ■ reduce the cost of current services transferred to the partnership by 10 per cent of the current price; ■ deliver procurement savings of a minimum of 2 per cent of the addressable spend; and ■ establish a procurement centre of excellence. The Council's financial plan to 2013/14 includes £14 million of savings from this agreement. The guaranteed cumulative financial benefits to the County Council over the lifetime of the contract (ten years) are over £100 million. The intention of the strategic partnership is to: ■ maximise the benefit of investment in ICT; ■ improve the Council's customer service centre; ■ respond to the financial and improvement challenge; ■ integrate the HR and payroll system; and ■ act as a catalyst for innovation and improvement.

Criterion	Findings
	The key objective of the partnership is to improve outcomes and at the same time to reduce costs. The partnership demonstrates a strong commitment to reduced costs, better value for money and innovation and improvement in service delivery. The key to success will be in the ability to measure and assess the difference the partnership is making in each of the above areas. Monitoring the delivery of planned improvements and effective reporting to Members on the performance of the partnership will be important going forward. The Council has a significant long term contract for waste management with contractual obligations over its lifetime estimated to be £2.1 billion. This 25-year contract was entered into in 2007 with the aim of reducing waste going to landfill thus achieving environmental improvements whilst also achieving savings in future landfill tax costs and landfill allowance penalties. As with any contract of this type, long term and wide ranging assumptions needed to be made to develop the original business case including financial projections of future costs. The contract clearly allocated where the Council and the contractor were bearing specific risks around such assumptions. During 2010-11 the two waste treatment sites built under this contract have become operational and entered their test phase. The Council is now able to assess the potential impact on the Council's finances of the actual operation of the facilities. Key factors influencing the costs to the Council which are being reviewed currently include the overall level of household waste being produced, the extent to which waste is being diverted from landfill, energy prices, and transport costs. Government policy changes could also impact on the cost of taking waste to landfill. Officers are taking appropriate action to understand and model the impact of the changes in the key factors affecting Council finances as well as exploring a variety of options to improve the value for money of its waste management arrangements.

Appendix 1 – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LANCASHIRE COUNTY COUNCIL

Opinion on the Authority accounting statements

I have audited the accounting statements of Lancashire County Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Lancashire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the County Treasurer and auditor

As explained more fully in the Statement of Responsibilities, the County Treasurer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the introduction to the statement of accounts and the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

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

Opinion on other matters

In my opinion, the information given in the Introduction to the statement of accounts and the content of the Annual Report for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

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

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets 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 Lancashire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Treasurer and auditor

As explained more fully in the statement on the Responsibilities for the Statement of Accounts, the Treasurer is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. I read all the information in the introduction to the statement of accounts to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011 and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the introduction to the statement of accounts for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

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

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects Lancashire County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the accounts of Lancashire County Council and Lancashire County Pension Fund in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Clive Portman
District Auditor
Audit Commission
2nd Floor, Aspinall House
Aspinall Close
Middlebrook
Bolton
BL6 6QQ

September 2011

Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Adjusted misstatement	Nature of adjustment	Impact on financial statements
Accumulated absence liability	The accumulated absence liability of £37.9 million was classified as a provision in line with original guidance issued by CIPFA. Subsequently CIPFA revised the guidance and the accumulated absence liability should be classified as a creditor.	Amendment increases the creditor and reduces the provision totals within the balance sheet. Also affected are the related disclosure notes and the notes to the cash flow statement.
Deficit on revaluation of available for sale financial assets	The £7.159 million deficit on revaluation of available for sale financial assets was incorrectly classified under ‘other gains and losses’ within the Comprehensive Income and Expenditure Statement (CIES) instead of being separately itemised in accordance with the Code.	Amendment reduces the ‘other gains and losses’ within the CIES and shows the £7.159 million separately within the CIES under ‘movement in available for sale financial instruments’.
Capital financing requirement Note 31	The original disclosure note incorrectly omitted the capital bond investments of £7.6 million and was incorrectly totalled.	Amendment affects only disclosure note 31

Adjusted misstatement	Nature of adjustment	Impact on financial statements
Financial Instrument Adjustment Account Note 54	The original disclosure note was incorrectly completed meaning that it did not add up or agree back to the opening balance at 31 March 2010.	Amendment only impacts on disclosure note 54 and does not affect the final balance as at 31 March 2011.
General disclosure issues	A range of amendments to the introduction and disclosure notes have been agreed including a mixture of formatting issues, updating to cross references, changes to reflect the new terminology introduced by the code and to ensure internal consistency within the statements.	None of the amendments affected the underlying financial position of the Council.
External audit costs note 26	The original disclosure note did not include the separate audit fee of £61k for the pension fund for 2010/11 although the comparator for 2009/10 did so. The year on year comparison therefore indicated a significant reduction in the audit fee incorrectly.	Amendment only impacts on disclosure note 26.
Contingent asset note 66	The original disclosure note referred to the value of a full year's guaranteed savings under the contract of £4.2 million rather than the value of the amount which related to 2010/11 of £1.1 million.	Amendment only impacts on disclosure note 66.

Appendix 3 – Glossary

Annual governance statement

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

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

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

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

Materiality and significance

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

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

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

Weaknesses in internal control

A weakness in internal control exists when:

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

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

Value for money conclusion

The auditor’s conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

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

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

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

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- any third party.

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September 2011