

Annual governance report

Cheshire Police Authority

Audit 2010/11



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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 the Authority's financial statements and the results of the work I have undertaken to assess its arrangements to secure value for money in its use of resources.

	Our findings
Opinion on the accounts	Unqualified
Proper arrangements to secure value for money	In place

Audit opinion and financial statements

The Authority coped well with the challenge of implementing International Financial Reporting Standards (IFRS) and produced financial statements by the 30 June 2011 deadline. There was slippage against the plans agreed with my team for producing the financial statements and supporting working papers by the middle of June. This caused a delay to the start and the completion of my audit. The financial statements will be amended to reflect a change in the treatment of estimated future liabilities for police officers' injury awards. The Treasurer is waiting for information from the actuary to enable the accounting adjustments to be made. The statements have already been amended to reclassify some pension costs (£224m) and policing costs (£1.2m). I found errors in the coding of income and expenditure to the correct year. I estimate that 2010/11 expenditure is understated by

£0.44m and income understated by £0.47m. I also estimate that payments to new retirees in 2010/11 have been overstated by £27,155. The financial statements have not been amended for these estimated errors as the value of the originating errors is trivial and I cannot be certain of the value of the overall errors. The accounts have also been amended to correct other generally minor errors identified during the audit. Subject to completing work on the valuation of land and buildings, I have reduced audit risks to an acceptably low level.

Value for money

The Authority is financially resilient and is achieving significant cost reductions by improving efficiency and productivity. In recent years there has been significant under spending against the budget. This has contributed to a healthy general reserve balance of £7.8m at the end of 2010/11. Budget setting is being strengthened. The Authority has a good track record of achieving savings. With continuing good financial management the Authority will be well placed to achieve its medium term savings target of £36m. Savings have so far been achieved without any reduction in overall performance.

Before I complete my audit

I confirm to you my independence and the scope of my audit work

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 can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

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

I ask you to confirm to me that you have approved the accounts and agree the letter of representation

I ask the Audit Committee to:

- take note of the adjustments to the financial statements which are set out in this report (Appendix 3); and
 - approve the letter of representation, attached as a draft at Appendix 2, on behalf of the Authority before the accounts are approved and I issue my opinion and conclusion.
-

Financial statements

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

Overall stewardship

Some significant amendments have been made to the draft financial statements, but there was no affect on the General Fund balance

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 on 26 September 2011. A copy of my draft report is provided at Appendix 1. I have still to complete the following audit procedures:

- testing of opening balances, policies and estimates;
- testing of movement in reserves statement;
- testing of property, plant and equipment;
- testing of some entries in the Comprehensive Income and Expenditure Statement;
- testing of pension disclosures;
- testing of some reserve balances; and
- checking the amended financial statements.

If any matters arise from this work, I will report this to you verbally at the Audit Committee meeting on 26 September.

Errors in the financial statements

The draft financial statements contained two material errors. The errors have been corrected. There was no impact on the General Fund.

- In the UK budget statement on 22 June 2010 the Chancellor announced that with effect from 1 April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). As a consequence of this change, the 2010/11 actuarial pensions liability has reduced by £153.7m. The reduction was disclosed as a non distributed cost. An amendment has been made to reclassify the costs as an exceptional item.
- Pension interest costs and returns on assets held in the pension scheme of £70.8m were incorrectly shown as other operating expenditure in the Comprehensive Income and Expenditure Statement. The costs are now shown correctly as financing and investment income and expenditure.

Due to the introduction of IFRS, the Authority needs to change how it discloses the costs associated with injury awards. The Authority needs to apply the change retrospectively and restate the balance sheet at 1 April 2009 and 31 March 2010. The Actuary has been asked to provide the information required to enable the Treasurer to make amendments to the financial statements. I will report verbally on the adjustments which are made to the statements, at the Audit Committee meeting on 26 September.

My testing of expenditure at the year end identified three transactions relating to the financial year 2010/11 that had been coded to the following financial year in error. I have extrapolated the errors over the whole populations from which the transactions were sampled and estimate that 2010/11 expenditure is understated by £0.44m and income understated by £0.47m. The Treasurer has not adjusted the accounts as the value of the originating errors is trivial and I cannot be certain of the value of the overall error.

Internal audit did some detailed testing of pension lump sum and pensionable payments made in 2010/11. I have reviewed this work and concluded that I can rely on it for my purposes. Based on the errors found by Internal Audit, I estimate that lump sum retirement benefits and pensions have been overstated by £6,094 and £21,061 respectively in 2010/11.

I identified several other, mainly minor adjustments and additional disclosures that were needed. These are set out, for information, at Appendix 3.

Annual Governance Statement

The format of the Authority's Annual Governance Statement meets CIPFA's requirements. An additional disclosure about the weaknesses in the control over pension payments has been made. Other disclosures are consistent with the information I am aware of from my audit of the financial statements and other work.

Letter of representation

Before I issue my opinion, auditing standards require me to ask management for written representations about the Authority's financial statements and governance arrangements. The draft letter of representation is attached at Appendix 2.

Financial statements

Significant audit risks

In my audit Plan for the 2010/11 audit, I drew attention to four significant audit risk that auditing standards required me to address. The outcome of my work is set out below.

	Key audit risk	Findings
<p>I identified four significant audit risks:</p> <ul style="list-style-type: none"> • Transition to International financial reporting standards; • Property, plant and equipment valuations; • Pension payment controls; and • Coding expenditure to the correct year. 	<p>Transition to International financial reporting standards (IFRS)</p> <p>The transition to IFRS is complex requiring reconsideration of previous accounting disclosures and presentation of a significant amount of new information in a new format. Failures to implement the requirements could lead to material misstatement in the financial statements.</p> <hr/> <p>Property, plant and equipment valuations</p> <p>The Authority appointed a new valuer for 2010/11 who was instructed to revalue all land and buildings. The complexity of the process and the expertise required to carry out the valuation increased the risk of material misstatement of property values included in the 2010/11 financial statements.</p>	<p>The Finance team prepared well for the implementation of IFRS. Appropriate procedures and controls were implemented to enable the transition to be achieved in a timely and effective way. The Authority prepared its restated 2009/10 accounts in early 2011. My detailed testing of the main financial statements for 2010/11 shows that they have been prepared in accordance with the standards. I am satisfied that the statements have not been materially misstated due to the implementation of IFRS.</p> <hr/> <p>I reviewed the role of the Authority's valuer and the basis of the valuations done in 2010/11 and tested the valuations of land and buildings at 31 March 2011. Subject to no issues arising from the completion of my testing, I will conclude that the basis for the valuation of land and buildings in 2010/11 is reasonable and the values in the financial statements are fairly presented.</p>

Pension payment controls

In last year's Annual Governance Report I referred to the inadequacy of the Authority's controls for ensuring accuracy of police pension payments. Effective controls had not been introduced before the start of 2010/11 which introduced risk that payments made in the year might result in material misstatement.

Since last year's audit, Internal Audit has reviewed the police pension system and recommended controls and checks that should be introduced. Some checks were introduced in 2010/11 including testing the accuracy of payments made to retirees in the year. Checks are also now made to ensure that the data used for pension calculations is accurate. Internal Audit's testing of payments made to new pensioners in 2010/11 revealed errors in the calculation of lump sum and pensionable pay. I referred earlier to the scale of these errors and their impact on the accounts. As a result of the work performed by Internal Audit and the additional work I have carried out, I am satisfied that the figures in the police Pension Fund statement are not materially inaccurate.

Coding expenditure to the correct year

Following the Government's spending review, lower funding levels present new risks such as bringing forward 2011/12 expenditure to 2010/11.

The Treasurer and Director of Finance responded to this risk by checking all year end expenditure items over £5,000 and all income items over £50,000. I reviewed and tested this check and concluded that it operated satisfactorily. My detailed testing found that some small value payments and receipts had been coded to the wrong year. The estimated effect of this is an understatement of expenditure of £0.44m and understatement of income of £0.47m in 2010/11. I am satisfied that the risk of 2010/11 expenditure and income being materially misstated has been reduced to an acceptably low level.

Financial statements

Overall quality of the financial statements

The production of the financial statements and working papers slipped against the timetable resulting in delays to the completion of the audit.

The complete and signed financial statements were made available on 27 June 2011, in advance of the statutory deadline of 30 June 2011. The finance team performed well in preparing financial statements in IFRS format earlier in the year. However, in the final few months of the closedown process, the team had difficulty in getting the information required to complete the financial statements. The Authority planned to have its financial statements ready for audit on 13 June 2011 and I made arrangements for my audit to start on that day. Although I started my audit on 13 June as planned, it quickly became clear that it would be inefficient to continue without a complete set of accounts and supporting working papers. I therefore suspended the audit. My team returned to the Authority in August 2011 to recommence the audit.

I liaised closely with The Treasurer and Director of Finance over the summer to ensure that the audit was completed as quickly and as efficiently as possible. The main actions which are required to ensure that next year's closure and audit run to plan are as follows:

- make sufficient staff available to prepare the financial statements and support the audit;
- ensure all staff involved in the closure and audit processes are clear about their responsibilities;
- prepare a file of information supporting all the main figures in the financial statements for the start of the audit; and
- quality review the financial statements and working papers before the audit starts.

The slippage in producing the financial statements was discussed at the June Audit Committee. Subsequent to the meeting, the Treasurer has written to the Chairman explaining why the delays arose and setting out the changes that will be made for next year. The actions proposed are broadly consistent with those I have listed above. The Treasurer's letter to the Chairman is included on the agenda for the Audit Committee meeting on 26 September.

The overall quality of the financial statements was satisfactory but the timeliness of their availability and quality of working papers was less so. I have already referred to the amendments that have been made to the financial statements to correct errors and improve disclosures.

Value for money

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

I have assessed the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources against two criteria specified by the Audit Commission. My findings and conclusion on each of the two criteria are set out below. Based on my work, I intend to issue an unqualified conclusion stating that the Authority has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

In recent years the Authority has had significant under spends against its budgets which has enabled healthy reserves to build up.

With continuing good financial management the Authority will be well placed to achieve its medium term savings target of £36m.

Criteria

Findings

1. Financial resilience

The organisation has proper arrangements in place to secure financial resilience.

Focus for 2010/11:

The Authority has robust systems and processes to manage financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Authority has good arrangements for financial governance, planning and control. It has done well to maintain a strong financial performance again this year - in the face of many challenges. In recent years good levels of reserves have been maintained. The general fund balance was £7.8m at 31 March 2011.

The Authority set a budget of £177.5m for 2010/11 including savings of £6.7m. Savings of £6.5m that were not planned when the 2010/11 budget was set have also been achieved. The total savings in the year were £13.2m enabling the Authority to report an under spend of £6.5m at the year end. Making precise budget projections is difficult in the current economic climate. However, the Treasurer and Director of Finance acknowledge that work is required to ensure that budgeted savings are more accurately predicted for inclusion in future budgets.

The report on the financial position at the end of the first quarter of 2011/12 shows a projected under spend at the year end of £3.3m. The medium term financial plan for 2011/12 to 2014/15 sets out how the Authority will manage resources over the medium term. It projects a shortfall of £36m and reflects the outcome from the comprehensive spending review. The Authority has a good record of delivering significant savings and with continued good financial management, the medium term savings target should be achievable.

The Authority is effectively challenging the way it uses its resources through the transformation programmes.

The Authority has a track record of delivering significant savings. Savings of £13m were achieved in 2010/11.

There is a good focus on achieving value for money.

The Authority's internal controls are effective. I am satisfied that Internal Audit is providing a valuable contribution to the maintenance and strengthening of internal controls. Internal Audit has not reported any significant control weaknesses following the work performed during 2010/11.

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 Authority has effective arrangements in place for prioritising resources and improving efficiency and productivity. It is committed to delivering more efficient and effective policing services from a reduced cost base. This is being enabled by the implementation of the transforming policing and business services projects. The transforming policing project involves radical new ways of working to more effectively meet service demand.

The Authority has a good track record of delivering significant savings in recent years. The Authority made savings of £13.2m in 2010/11 mainly by reducing the number of police officers and staff and working more effectively. The Chief Constable has set up a gold group to closely monitor the financial position and achievement of planned savings.

Achieving value for money (VFM) is one of the Authority's priorities. The Authority monitors performance regularly and robustly. Although savings of over £13m were made in 2010/11, overall performance has remained good. There are only a few areas where performance in 2010/11 was below expectations and improvement had not been made compared with the previous year.

Appendix 1 – Draft audit report

Independent Auditor's Report to the Members of Cheshire Police Authority Opinion on the Authority and Pension Fund accounting statements

I have audited the accounting statements and the police pension fund accounting statements of Cheshire Police Authority 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. The police 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 Cheshire Police Authority 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 of the Treasurer's Responsibilities, the Treasurer is responsible for the preparation of the Authority's Statement of Accounts, including the police pension fund accounting statements, 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 Practice's 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 and Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority and the Pension Fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Cheshire Police Authority's affairs as at 31 March 2011 and of its income and expenditure for the year then ended;
- give a true and fair view of the financial transactions of the police 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, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

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

Matters on which I report by exception

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

Conclusion on 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, Cheshire Police Authority 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, including the police pension fund accounting statements, of Cheshire Police Authority in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Julian Farmer, Officer of the Audit Commission
2nd Floor, Aspinall House
Aspinall Close
Middlebrook, Horwich
Bolton, BL6 6QQ

September 2011

Appendix 2 – Letter of representation

To: Julian Farmer, District Auditor
Audit Commission
2nd Floor, Aspinall House
Aspinall Close
Middlebrook
Horwich
Bolton
BL6 6QQ

Cheshire Police Authority - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2011. All representations cover the Authority's accounts and Pension Fund accounts included within the financial statements.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority for the completeness of the information provided to you, and for making accurate representations to you.

Supporting records

All relevant information and access to persons within the entity has been made available to you for the purpose of your audit, and all the transactions undertaken by the Authority have been properly reflected and recorded in the financial statements.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

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

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

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

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of Cheshire Police Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

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

Signed on behalf of Cheshire Police Authority

I confirm that the this letter has been discussed and endorsed by the Audit Committee, on behalf of Cheshire Police Authority, on 26 September 2011

Signed.....

Liz Lunn
Treasurer

September 2011

Appendix 3 – 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.

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Pensions interest cost and expected return on assets	To correctly classify expenditure as financing and investment income & expenditure	70,777	70,777		
Exceptional items	To show the impact of the change in calculating pension liabilities using CPI instead of RPI as an exceptional item	153,683	153,683		
Policing expenditure	To correct misclassification of expenditure & income between local policing and special investigations	1,179	1,179		
Unusable reserves	Misclassification of capital grants unapplied as unusable reserve			637	637

Significant disclosures/narrative adjustments

Pensions	Correction of a number of disclosure errors and omissions				
Property, plant & equipment	Correction of a number of disclosure omissions				
Private finance initiative (PFI)	Correction of omitted disclosure of value of, and analysis of movements in, PFI liabilities at the balance sheet date				
Cash flow statement	Additional disclosure notes to the cash flow statement included, in response to late guidance issued after the financial statements were produced				
Financial instruments	Correction of errors in amounts disclosed for creditors and PFI & finance leases				
Accounting policies	Additional disclosures required to show the judgements and estimates used in applying the accounting policies and to show any changes in accounting policies				
Statement of responsibilities	Amended to reflect wording required by the Code of Practice on Local Authority Accounting				

Appendix 4 – Unadjusted misstatements in the financial statements

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities

Unadjusted misstatement	Nature of required adjustment	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Income	Extrapolated potential error relating to 2010/11 income incorrectly included in 2011/12.		468	468	
Expenditure	Extrapolated potential error relating to 2010/11 expenditure incorrectly included in 2011/12.	445			445
Police pensions top-up grant	Difference between year end balance in the financial statements and the monies received from Home Office. The accounting entries have to be agreed but amount involved is				

		Comprehensive income and expenditure statement	Balance sheet
	£762,000.		
Pension payments	Extrapolated potential error relating to errors found in Internal Audit testing	21	21
pension lump sums	Extrapolated potential error relating to errors found in Internal Audit testing	6	6

Appendix 5 – 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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