

# Annual Governance Report

Chorley and South Ribble Shared Services Joint  
Committee

Audit 2008/09

Date 23 September 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 Assistant Chief Executive (Business Transformation and Improvement) on 17th September 2009.

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 4 to 8);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- take note of the unadjusted error and confirm your agreement to the non-adjustment; (Appendix 3); and
- approve the letter of representation on behalf of the Joint Committee before I issue my opinion and conclusion (Appendix 4); and

Yours faithfully

Fiona Blatcher  
Engagement Lead  
23 September 2009

# 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.

<b>Financial statements</b>	<b>Results</b>	<b>Page</b>
Unqualified audit opinion	Yes	5
Financial statements free from material error	No	5
<b>Value for money Conclusion</b>	<b>Results</b>	<b>Page</b>
Arrangements to secure value for money	Yes	8

## Audit opinion

- 1 I intend to give an unqualified opinion on the statements.

## Financial statements

- 2 The audit has identified some material errors which have been corrected by management. In addition, I have identified a number of issues for the attention of the Committee.

## Value for money conclusion

- 3 I intend to issue an unqualified conclusion stating that the Joint Committee had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.

# 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.**

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**4** I ask the Joint Committee to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 8);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- take note of the unadjusted error (Appendix 3);
- take note of the VFM Conclusion; and
- approve the letter of representation on behalf of the Joint Committee before I issue my opinion and conclusion (Appendix 4).

# Financial statements

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

- 5 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

## Errors in the financial statements

- 6 This is the first year of accounts for the Joint Committee which on this occasion represent only three months of operation. The accounts were produced to an extremely tight timescale and were required to comply fully with the accounting code of practice. Errors have been identified in the accounts but they are of such nature that we would expect there to be a low risk of repetition in future years.
- 7 Material adjustments have been made to the statements in three main areas. In order to reflect more accurately the direct costs of the Partnership, there has been a reduction of £21,074 to the costs of the Assurance Service and an increase of £2,666 to the costs of Financial Services. The statements have also been adjusted to include the support costs of the Partnership; £17,425 has been allocated to Assurance Services and £50,000 to Financial Services. These adjustments have required the recalculation of the "Sources of Finance" i.e. the recharges to the two Councils.
- 8 Other non-material adjustments have been made to ensure that the balance sheet now accurately reflects the ledger. A revised Annual Governance Statement has been included which is more appropriate for the Joint Committee. A note to the statements has been added to disclose the audit fee due for 2008-09.
- 9 There is one other issue which does not have a material impact on the statements, but which I am required to draw to your attention. Financial Services employee costs have been reduced to account for the few days in January 2009 before the Shared Services arrangement began. No similar adjustment has been made in respect of the Assurance Service employee costs. This means that employee costs are over-stated. The amount is estimated to be in the region of £2,000.

## Letter of representation

- 10 Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and

## Financial statements

governance arrangements. Appendix 3 contains the draft letter of representation I seek to obtain from you.

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### Key areas of judgement and audit risk

- 11 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 1.

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**Table 1**      **Key areas of judgement and audit risk**

Issue or risk	Finding
The Joint Committee is a newly formed body and 2008/09 is the first year for which it will compile accounts.	We have completed work to ensure a full understanding of the way in which the statements have been compiled and have performed substantive tests of the resultant figures produced. We have identified a number of material errors as noted in the preceding paragraphs.

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### Accounting practice and financial reporting

- 12 I consider the qualitative aspects of your financial reporting. I consider that the statement of accounts as amended has met the requirements of the statements of accounting practice in so far as they apply to the nature of the operations of the joint committee.

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### Cost Sharing Agreement

- 13 The Administrative Collaboration Agreement relating to the Partnership indicates that all costs are to be shared equally between the two Councils. However, the direct costs of the Partnership have been allocated on a different basis as set out in Note 1 to the core financial statements. There appears to have been no formal agreement to this change in methodology of allocation of costs.

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# Value for money conclusion

**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.**

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- 14 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 5.
- 15 I intend to issue an unqualified conclusion stating that the Joint Committee had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.
- 16 The governance framework set up to oversee the shared services is a strong one which should enable the joint committee to provide the desired level of assurance to the respective councils about the operation of the shared services. Given that we have only considered the first three months of operation, we have not been able to fully evaluate the effectiveness of the implementation of those arrangements as yet.
- 17 Appendix 1 contains the wording of my draft report.



# Appendix 1 – Independent auditor’s report to Members of Chorley and South Ribble Shared Services Joint Committee

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## Opinion on the financial statements

I have audited the accounting statements and related notes of Chorley and South Ribble Shared Services 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 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 Chorley and South Ribble Shared Services 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.

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## *Respective responsibilities of the Responsible Financial Officer and auditor*

The Responsible Financial Officer’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 Joint Committee 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 required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Joint Committee’s corporate governance procedures or its risk and control procedures

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements. My responsibilities do not extend to any other information.

### ***Basis of audit opinion***

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Joint Committee in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Joint Committee's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

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### ***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 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.

### ***Conclusion***

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for *other local government bodies* specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, I am satisfied that, in all significant respects, Chorley and South Ribble Shared Services Joint committee made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

### **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.

## **Appendix 1 – Independent auditor’s report to Members of Chorley and South Ribble Shared Services Joint Committee**

Fiona Blatcher  
Engagement Lead  
Audit Commission  
2nd Floor, Aspinall House  
Aspinall Close  
Middlebrook  
Bolton  
BL6 6QQ

23 September 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 2**

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £	Cr £	Dr £	Cr £
Assurance Services	Reduction in costs to reflect part year effect, mainly Risk Unit and internal catering charges		21,074		
Assurance Services	Inclusion of support services costs	17,425			
Financial Services	Increase in employee costs to reflect FRS17 adjustments	2,666			
Financial Services	Inclusion of support services costs	50,000			
Sources of finance: South Ribble BC	Adjustment to reflect changes to expenditure indicated above		6,763		
Sources of finance: Chorley BC	Adjustment to reflect changes to expenditure indicated above		42,254		

## Appendix 2 – Adjusted amendments to the accounts

		Income and Expenditure Account		Balance Sheet	
Current liabilities	Additional creditors items reflecting full year position				1,347
Current assets	Balancing adjustment			1,347	

# 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.

**Table 3**

Description of error	Accounts effected	Value of error £
Accounts not adjusted to reflect the first four days in January 2009 before the Partnership formally commenced	Assurance Service – employee costs	2,000 (approximately)

# Appendix 4 – Draft letter of representation

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Ms F Blatcher, Engagement Lead  
Audit Commission  
2nd Floor  
Aspinall House  
Aspinall Way  
Middlebrook  
Bolton BL6 6QQ

Dear Fiona

**RE: CHORLEY AND SOUTH RIBBLE SHARED FINANCIAL SERVICES – AUDIT FOR THE YEAR ENDED 31 MARCH 2009**

I understand that auditing standards require you to obtain representations from management on certain matters material to your opinion. Accordingly I confirm to the best of my knowledge and belief, having made appropriate enquiries, the following representations given to you in connection with your audit of the Shared Services financial statements for the year ended 31 March 2008.

**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 Committee and for making accurate representations to you.

**Supporting records**

To the best of my knowledge, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by Shared Services have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and council meetings, have been made available to you.

**Irregularities**

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

I have disclosed to you my knowledge of any:

- 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 have disclosed to you:

- 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 Committee's financial statements communicated by employees, former employees, analysts, regulators or others.

### **Law, regulations, contractual arrangements and codes of practice**

I am not aware of any actual or potential instances of non-compliance with laws, regulations and codes of practice, likely to have a material effect on the finances or operations of the Committee.

### **Fair Values**

I confirm that the presentation and disclosure of the fair value measurements of material assets, liabilities and components of equity are in accordance with the financial reporting framework.

The measurement methods and significant assumptions used in determining fair value have been applied on a consistent basis, are reasonable and appropriately reflect the best estimate of fair value of assets and liabilities required to be disclosed by these standards.

### **Assets**

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

### **Compensating arrangements**



## Appendix 4 – Draft letter of representation

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

### **Contingent liabilities**

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

### **Related party transactions**

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

### **Post balance sheet events**

Since the date of approval of the financial statements by the Shared Services Joint Committee, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements

### **Specific representations**

There are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements.

### **Unadjusted misstatements in the accounts**

I confirm that I believe that the effects of the uncorrected financial misstatements, totalling £2,000, listed in the Audit Commission Annual Governance Report are not material to the financial statements, either individually or in aggregate and therefore no amendment is considered necessary. These issues have been discussed with those charged with governance.

### **Signed on behalf of the Shared Financial Services Joint Committee:**

I confirm that this letter has been discussed and agreed by the Shared Financial Services Joint Committee on 23 September 2009.

Signed: .....

Signed: .....

Name: Gary Hall

Chair of Governance Committee

Position: Treasurer to the Joint Committee

Date: 23 September 2009

## Appendix 5 – Value for money conclusion

The following table summarises the conclusions for each of the four value for money Key Lines of Enquiry (KLOEs) applicable to the Joint Committee.

**Table 4**      **Value for money conclusion**

KLOE	
<b>KLOE 1.2 Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?)</b> VFM criterion met	<b>Yes</b>
<b>KLOE 1.3 Is the organisation’s financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?</b> VFM criterion met	<b>Yes</b>
<b>KLOE 2.3 Does the organisation promote and demonstrate the principles and values of good governance?</b> VFM criterion met	<b>Yes</b>
<b>KLOE 2.4 Does the organisation manage its risks and maintain a sound system of internal control?</b> VFM criterion met	<b>Yes</b>

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# The Audit Commission

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

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

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

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