

# Annual governance report

Crawley Borough Council

Audit 2011/12



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# Key messages

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**This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

## Financial statements

As at 18 September, I expect to issue an unqualified audit opinion on your financial statements. I have substantially completed my audit but I am completing a check of the final set of statements to ensure all the agreed audit amendments have been made. I am also awaiting direct bank confirmation of a £5 million long term investment balance.

The financial statements were prepared to a high standard and although we have identified errors and omissions, these were relatively minor.

## Value for money (VFM)

My detailed work to inform my value for money conclusion is now complete. I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources although I have identified some areas for improvement in your risk and performance management arrangements which are currently being revised. I include my draft conclusion in appendix 1.

You have sound financial plans which properly reflect both your priorities and the financial challenges you face. You have a good track record of delivery against those plans. You identified savings targets of £1.498 million for 2012/13 and £716,000 for 2013/14. Plans are in place or being developed to achieve these savings. You are also continuing with an ambitious capital investment programme.

Although you called on reserves to support a balanced budget in 2011/12 the level of your reserves remains healthy and these are in the top 5 per cent when compared with other similar councils. They increase your flexibility in managing your finances going forward and are in line with your agreed financial strategy. There are no plans to call on reserves to support revenue expenditure during 2012/13.

The government has announced important changes to the funding arrangements for councils. As part of my work I examined your local arrangements and I am satisfied that you are taking appropriate action to implement the new proposals and manage the financial impact on the Council of these. However, uncertainty remains regarding the amount of funding reductions expected and the full implications of these are not expected to be known until late in 2012.

Given the scale of the medium term financial challenges you face you recognise that you will need to think more radically about your current methods and level of service provision. This will be important to maintain your financial resilience and keep council tax increases to a minimum, particularly given your generally high costs, relative to other similar councils.

# Before I give my opinion and conclusion

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**My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit 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 am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2011/12.

## **I ask the Audit and Governance Committee to:**

- take note of the adjustments to the financial statements included in this report (page 7);
- approve the letter of representation (appendix 2), on behalf of the Authority before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (appendix 4).

# Financial statements

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**Your financial statements and annual governance statement are important means by which you account for the stewardship of public funds. As elected 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**

I have substantially completed my audit of the financial statements and have discussed my findings with officers. The financial statements were prepared to a high standard and although I have identified errors and omissions, these were relatively minor.

Officers are currently revising the financial statements to reflect my audit adjustments. Subject to my review of the final, corrected version of the financial statements and receipt of an outstanding bank confirmation, 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.

## **Materiality**

I calculated audit materiality to be £3.268 million (£3.680 million for balance sheet-only items). I also set a triviality level at £32,000 (£37,000 for balance sheet-only items). In accordance with International Standard on Auditing (UK&I) 320, information is 'material' to the financial statements if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. I am required to report all uncorrected items above £32,000 (or £37,000 for Balance Sheet only items), any material amendments made to the statements following the audit and any other amendments or matters which I consider relevant to your responsibilities.

## **Uncorrected errors**

There are no uncorrected errors to report to you. Management have agreed to amend all errors and omissions identified during the audit.

## Corrected errors

None of the audit amendments I identified affect the overall financial position shown in the accounts presented for audit and there were no material adjustments made to your financial statements as a result of the audit.

As noted above, all omissions and errors identified during the audit have been corrected. I have not reported the matters identified in detail as I am only required to report corrected, non-trivial items where I consider these to be relevant to your responsibilities as those charged with governance. I consider the summary set out below to be sufficient for these purposes.

The most significant amendment I identified related to the requirement to include information on exit packages paid to officers during the course of the year. This is the first year that the Council was required to disclose this information in its financial statements and this note was omitted in error in the first draft of the financial statements.

Other audit amendments include the following.

- Reclassifications between headings, such as a £125,000 reclassification between short-term and long-term debtors.
- Changes to comparative information (information relating to earlier years) such as:
  - changes to comparative information in the cash flow statement to ensure that it is consistent with the way the same information is presented in the current year; and
  - additional narrative to highlight where comparative information has changed from the amounts reported in 2010/11.
- Minor omissions or errors in disclosure notes.
- Minor casting and cross referencing errors.
- Minor amendments to your Annual Governance Statement.

## Significant risks and my findings

On 14 March 2012, I reported to you in my Audit Plan the risks that I identified as relevant to my audit of your financial statements. In table 1 I report to you my findings against each of these risks.

I provided a verbal update to the Audit Plan at the 27 June 2012 Audit and Governance Committee. I highlighted that additional substantive testing would be required due to weaknesses identified in the access controls of the payroll system. I can confirm that this additional testing was completed by Internal Audit and proved satisfactory for the purposes of my opinion.

Table 1: **Risks and findings**

Significant risk	Finding
<p><b>HRA (Housing Revenue Account) self-financing</b></p> <p>Under the new self-financing regime you were required to take a calculated share of the national HRA debt onto your balance sheet. Although the new system of HRA self-financing will not commence until 2012/13, borrowing was secured and came onto your balance sheet at the end of March 2012. There was a risk that the financial statements would not properly account for:</p> <ul style="list-style-type: none"> <li>■ the payment to or from central government;</li> <li>■ the loan from the Public Works Loan Board (PWLB);</li> <li>■ the statutory requirements relating to the HRA ring-fence; and</li> <li>■ for non-cash transactions when calculating related cash flows from transactions and balances reported in the Comprehensive Income and Expenditure Account (CIES) and Balance sheet.</li> </ul> <p>As the amounts involved were highly material and affected a number of areas within the financial statements, there was a high risk of material mis-statement.</p>	<p>I evaluated the management controls you put in place to take on and account for the debt from 28 March 2012.</p> <p>I reviewed the presentation and disclosure in your financial statements of:</p> <ul style="list-style-type: none"> <li>■ the self-financing payment to central government;</li> <li>■ the loan from the Public Works Loan Board (PWLB);</li> <li>■ the related statutory requirements relating to the HRA ring-fence; and</li> <li>■ non-cash transactions and balances reported in the Comprehensive Income and Expenditure Account (CIES) and balance sheet.</li> </ul> <p>My testing did not identify any significant issues to bring to your attention.</p>
<p><b>Heritage Assets</b></p> <p>The 2011/12 Code adopted the requirements of FRS 30 Heritage Assets. As this was a new requirement, there was a risk that you would not be able to identify and account for all heritage assets within the time available.</p> <p>A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that you hold and maintain mainly for its contribution to knowledge and culture. This may include historical monuments and museum artefacts.</p>	<p>I evaluated the management controls you put in place to recognise and value heritage assets. I also carried out testing to satisfy myself that you recognised, valued and disclosed material heritage assets in your financial statements in accordance with FRS 30, <i>Heritage Assets</i>.</p> <p>My testing did not identify any significant issues to bring to your attention.</p> <p>I note that you fully restated your balance sheet at 1 April 2010 to recognise heritage assets, valued at £51,000. As the values involved were not material the restatement could have been made in 2011/12 and full restatement was not required.</p>



Significant risk	Finding
<p><b>Valuation and depreciation of property plant and equipment (PPE)</b></p> <p>The Code requires you to value PPE at fair value (with some exceptions). The valuation is a complex process and this means there was a risk the financial statements might have been materially misstated because of:</p> <ul style="list-style-type: none"> <li>■ applying the wrong valuation basis;</li> <li>■ failing to derecognise the carrying value of assets or components of assets that you replace or restore;</li> <li>■ using inappropriate asset lives, residual values, or cost or fair value; or</li> <li>■ failing to apply the Code's requirements for componentisation for depreciation purposes.</li> </ul>	<p>I reviewed your arrangements for instructing your valuer and controls over information you provided the valuer. I also undertook:</p> <ul style="list-style-type: none"> <li>■ procedures to assess whether I can place reliance on the work of the valuer;</li> <li>■ tests of the valuations and associated depreciation calculations; and</li> <li>■ a review of the output of my own consulting valuer, Gerald Eve, to inform my review of your valuer.</li> </ul> <p>My testing did not identify any significant issues in relation to valuing and depreciating property, plant and equipment. However, I draw your attention to my comments 'other matters' in table 2 below on how you account for improvements to council dwellings.</p>
<p><b>IAS 19 – pension scheme assets and liabilities</b></p> <p>Your financial statements contained several material entries for retirement benefits, including the pension scheme assets and liabilities. On 1 February 2012, staff who worked at the Hawth Theatre transferred across to Parkwood Leisure under the new arrangement for operating the Theatre. These staff either transferred out of the West Sussex Pension Fund or remained in the Fund as deferred pensioners. The actuary needed to account for these changes in his assumptions. The valuation of these items is a complex process and this means there was a risk the financial statements could be materially misstated.</p>	<p>I reviewed management's arrangements for instructing the actuary via West Sussex County Council and controls over information provided to the actuary; I also carried out:</p> <ul style="list-style-type: none"> <li>■ procedures to rely on the work of the scheme actuary, Hymans Robertson, which included the use of my consulting actuary;</li> <li>■ procedures to obtain assurance from the actuary regarding the assets and liabilities of staff who transferred to Parkwood Leisure under the new arrangements for the operation of the Hawth Theatre; and</li> <li>■ a review of how you have accounted for and disclosed pension scheme assets and liabilities within the financial statements.</li> </ul> <p>My testing found that your financial statements still include pension scheme assets and liabilities relating to staff that transferred to Parkwood Leisure on 1 February 2012. Your actuary informed us that he had not been provided with details of the transfer. However, we are satisfied that the risk of material</p>

Significant risk	Finding
<p><b>Finance department restructure</b></p> <p>There was a Finance department review. As a result there were some changes to roles and responsibilities and one post was made redundant. In addition two other finance staff left. There was a risk, which could have become significant, that the quality and the timeliness of the financial statements would be affected.</p>	<p>misstatement is low. This is because:</p> <ul style="list-style-type: none"> <li>■ the amounts involved are unlikely to be greater than the inherent uncertainties in valuing pension scheme assets and liabilities; and</li> <li>■ any changes to the financial statements would have no impact on the Council's usable reserves.</li> </ul> <p>During the year I maintained regular communication with your officers to ensure that any delivery or quality issues were identified and resolved early. I have not identified any significant issues to bring to your attention. It is pleasing to note that despite the pressure on finance staff this year, the statements were of a good quality, with only minor audit adjustments identified.</p>
Recommendation	
<p><b>R1</b> Review your arrangements for checking that the actuary has received up to date information on staff changes and that actuarial reports are consistent with your local knowledge.</p>	

## Significant weaknesses in internal control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice. I have tested the controls of the Council only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control.

I have not identified any significant weaknesses in internal control during the audit that are relevant to preparing the financial statements.

However I note that two recommendations I raised in 2010/11 in respect of disaster recovery planning and the need for a formalised policy on End User Computing (EUC) have not yet been implemented. These had agreed implementation dates of June 2012 and March 2012 respectively. The Council is currently formulating a disaster recovery plan involving the provision of servers, a storage area network, office space and telephones in one of its remote sites. Officers anticipate that this will be in place by March 2013. Other disaster recovery options with West Sussex County Council and/or other local authorities in West Sussex are long term options and are not expected to move forward until some point in 2013 at the earliest. In respect of EUC policies, officers are currently working with Internal Audit with a view to addressing this recommendation, but no target date has been set for completion.

I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

## Recommendation

**R2** Implement proposed disaster recovery arrangements by March 2013 and ensure plans are tested for effectiveness. Set a date for finalising an EUC policy and a programme of review to ensure the policy is applied.

## Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions; and
- Other audit matters of governance interest.

As set out in table 2, I have one qualitative aspect of your accounting policies to report which I identified from my audit of your financial statements.

Table 2: Other matters

Issue	Finding
Accounting for the cost of improving council dwellings	<p>The Council accounts for expenditure on improving council dwellings as capital. Some of this expenditure includes the cost of replacing items such as boilers, bathrooms, kitchens that are already included in the Council's valuation of its capital assets. This means that the balance sheet includes both the cost of the new asset and a value for the asset that has been replaced.</p> <p>The Code says that the Council should remove the carrying value of replaced assets as a loss on disposal in the year the assets are replaced. However, the Council has not introduced component accounting for its council dwellings and does not have the information or systems to be able to easily process this accounting entry. As a result, the Council's policy is to adjust the value of the assets in the year after the expenditure has been incurred as part of its annual revaluation process.</p> <p>I am satisfied that the amounts involved are unlikely to be greater than the inherent uncertainties in valuing council dwellings and so the risk of material error is low. However I consider your approach should be reviewed going forward.</p>
Recommendation	
<p><b>R3</b> Review your arrangements for component accounting for property, plant and equipment. This review should include consideration of your capital accounting systems and your accounting policy for removing the carrying value of replaced assets.</p>	

## Whole of Government Accounts

Alongside my work on the financial statements, I also review and report to the National Audit Office on your Whole of Government Accounts return. As at 18 September 2012 I have not fully completed the procedures specified by the National Audit Office. I expect to complete my report by 30 September 2012 and so do not anticipate delaying the issue of my audit certificate.

# Value for money

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**I am required to conclude whether you have put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources. This is the value for money conclusion.**

I assess your arrangements against the two criteria specified by the Commission. I am also required to consider whether you have proper arrangements in place for corporate performance and financial management. I intend to issue an unqualified conclusion stating that you have proper arrangements to secure economy, efficiency and effectiveness in the use of your resources. However, I have identified some areas for improvement in your risk and performance management arrangements which are currently being revised. I include my draft conclusion in appendix 1.

In my 14 March 2012 Audit Plan I reported to you the significant risks that were relevant to my conclusion. These related to:

- the impact of funding reductions and funding reforms such as HRA self financing on your financial plans; and
- changes to your risk and performance management arrangements.

I have set out my findings against the two criteria, the significant risks I identified and proper arrangements below.

## Assessment against the two criteria

My findings against the two specified criteria are shown in table 3.

Table 3: **Value for money conclusion criteria and my findings**

Criteria	Findings
<p><b>1. Financial resilience</b></p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p><b>Focus for 2011/12:</b></p> <p>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.</p> <p><b>Risks identified in my February 2012 Audit Plan:</b></p> <p>HRA self-financing &amp; other funding reforms.</p> <p>Reductions in future financial settlements.</p>	<p>I am satisfied that you have adequate arrangements in place to secure financial resilience.</p> <ul style="list-style-type: none"> <li>■ You have sound financial plans which reflect both your priorities and the significant financial challenges you face. You have a good track record of delivery against those plans.</li> <li>■ As in previous years, you continue to maintain spending within the planned budget. For 2011/12 you planned to use £1.7 million of reserves to achieve a balanced budget. However you were able to reduce this to £933,000, through under spending against budgets by £289,000 and due to receiving £477,000 in New Homes Bonus. The Housing Revenue Account (HRA) achieved a surplus of £271,000.</li> <li>■ Although you drew on reserves to finance 2011/12 revenue expenditure, you are still maintaining a healthy level of reserves. These are in the highest 5 per cent when compared with other similar councils. These reserves increase your flexibility in managing your finances going forward and are in line with your agreed financial strategy. You are not planning to draw on reserves to achieve your 2012/13 balanced revenue budget.</li> <li>■ In 2011/12 you took on £260.325 million of debt following national changes to the HRA funding regime. However you have established an affordable repayment regime within your medium term plans which also allows you to make capital investments to support some of your corporate objectives for housing.</li> <li>■ You have strong arrangements in place to monitor budget performance in year, with quarterly budget monitoring reports to Cabinet and monthly reports to the Corporate Management Team (CMT) on areas of concern.</li> <li>■ At June 2012, the overall outturn position on the General Fund for 2012/13 showed a projected overspend of £208,000 and the Housing Revenue Account (HRA) showed a projected under spend of £149,000. Much of the General Fund over spend relates to a fall in interest rates. You have recognised that this could have significant implications for your 2013/14 budget projections. There are a range of initiatives being investigated to mitigate this projected overspend.</li> </ul>

Criteria	Findings
	<p>The government has announced important changes to the funding arrangements for councils. As part of my work I examined your local arrangements and I am satisfied that you are taking appropriate action to implement the new proposals such as changes to the business rate model where you are considering pooling arrangements with other authorities and to manage the financial impact on the Council of the proposed changes. However, uncertainty remains regarding the amount of funding reductions expected and the full implications of these are not expected to be known until late in 2012.</p> <p>Your 2012/13–2016/17 Budget Strategy was approved by the Cabinet in July 2011 and is based on reasonable assumptions, including those in respect of future funding settlements.</p> <p>Based on these assumptions, a budget gap of £574,000 was identified at that time and a total savings target of £1.498 million for 2012/13 was approved. You have identified a savings target of £716,000 for 2013/14 and are developing plans to deliver these savings. You are also continuing with an ambitious capital investment programme.</p> <p>Given the scale of the medium term financial challenges you face you recognise that you will need to think more radically about your current methods and level of service provision. This will be important to maintain your financial resilience and keep council tax increases to a minimum, particularly given that your overall net spend per head of population, whilst falling, remains high compared to other similar councils.</p>
<p><b>2. Securing economy efficiency and effectiveness</b></p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p><b>Focus for 2011/12:</b></p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>From my work I am satisfied that proper arrangements are in place to secure economy, efficiency and effectiveness.</p> <p>I reviewed your costs and other aspects of your finances using the Audit Commission's value for money profiles. Your costs remain high compared to your statistical nearest neighbours, both overall and for the majority of your services. Key matters of note from my review of the profiles are:</p> <ul style="list-style-type: none"> <li>■ Total net spend per head of population has fallen by 9 per cent but remains high relative to others.</li> <li>■ 2010/11 expenditure on council tax and housing benefits administration is in the highest third compared to other similar councils. However, benefit processing speed is good and is in the best 10 per cent.</li> <li>■ Expenditure on decent homes has increased significantly in line with Council plans.</li> <li>■ Based on 2009/10 data, you are in the highest third of similar councils for holding non operational, non investment properties and this may benefit from review.</li> </ul>

Criteria	Findings
	<ul style="list-style-type: none"> <li>■ Based on 2011/12 data your performance on major and minor planning applications is poor. In part this is reported to be due to staff vacancies. The Council recognises this is a service area requiring review. You are taking a number of actions to improve efficiency and reduce your costs:</li> <li>■ You continue with your programme of 'systems thinking' reviews designed to improve the efficiency of a number of your services.</li> <li>■ You have reviewed the scope for increasing income from fees and charges.</li> <li>■ You take a strategic approach to the prioritisation of resources aligning this with your corporate plan</li> <li>■ You use information on costs and performance, to help you identify and achieve efficiencies.</li> <li>■ You make some use of comparative information on costs.</li> <li>■ You have considered different models of service delivery to reduce your costs eg the outsourcing of the Hawth Theatre and your shared procurement service with neighbouring councils.</li> </ul> <p>However, given your relatively high level of comparative costs, it is essential that you continue to identify savings and efficiencies over the medium term. More systematic use of internal and external benchmarking may help identify areas to explore further.</p>

## Assessment of proper arrangements

As well as assessing your arrangements in respect of the two criteria above I am also required to consider whether you have proper corporate performance and financial management arrangements in place. These arrangements are defined in the Code of Audit Practice and include, for example, risk, asset and workforce management. I have no matters to report to you on those arrangements other than in respect of your arrangements for:

- managing risks and maintaining a sound system of internal control; and
- producing relevant and reliable data and information to support decision-making and manage performance.

I consider your arrangements to be adequate in these areas for the purposes of my value for money conclusion. However I have identified some areas for improvement in relation to these arrangements. The Council has embarked on a process to review its performance management arrangements but progress has been slow. This now needs to be accelerated. It has also recently begun to implement changes to its risk management arrangements. In my view there may be risks to the Council until such time as the revised arrangements for both performance and risk management are fully agreed on, embedded and effective.



## **Risk management**

I reported in my February 2012 Audit Plan that you are revising your approach to your risk management arrangements. I identified this as a risk to my value for money (vfm) conclusion. The Council's revised approach to risk management is in the early stages and in my view there are some issues which the Council should consider to ensure that its approach to risk management is both effective and transparent both during the transition phase process and beyond.

I have been provided with evidence that shows how risk is currently being managed across the Council. Whilst you no longer maintain a strategic risk register, CMT has identified and monitors key strategic risks and risks are discussed with Directors, Portfolio Holders and relevant Heads of Service through regular one to ones.

Whilst existing arrangements remain largely in place, the Council is now seeking to secure two main changes to its current arrangements as reflected in its revised risk management strategy:

- a move away from a risk adverse to a risk cautious culture. This will challenge the need for some controls; and
- a move away from completing forms (such as risk matrices) and towards ensuring that due consideration is given to risks and that they are managed. However, there is a need to ensure that officers are given adequate support and guidance to make informed and measured judgements about risk in this new environment.

The revised risk management strategy was presented to the Audit and Governance Committee (A&GC) in June 2012 for comment prior to approval by the Leader. I set out a range of matters for the Head of Finance, Revenues and Benefits to consider in respect of the proposed revised approach to risk management. The Committee also made a number of requests including that:

- there should be periodic reports to the Committee on the management and effectiveness of the new Risk Management Strategy; and
- the Committee should be given the opportunity to review periodically the list of strategic risks.

It was felt important that the Council demonstrate to Members and to the wider community that risk was being effectively managed and that all reasonable steps were being taken to achieve this.

The A&GC has important responsibilities to review the effectiveness of the Council's risk management arrangements. The Committee has only received one early update in June 2012 setting out the revised risk management strategy. It has received no other reports to support it in assessing the effectiveness of risk arrangements in the year. The current proposal is that annual reports will go to AG&C on the effectiveness of risk management arrangements, but the first one not due until February 2012.

## Recommendations

- R4** Identify ways to support officers in making measured judgements about risk, under the revised strategy.
- R5** Review your arrangements for risk reporting (content and frequency) to the Audit and Governance Committee to:
- ensure this is sufficient to allow members to discharge their responsibilities; and
  - provide assurance that arrangements are effective.
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### Performance management

I am satisfied that there are adequate arrangements in place to manage performance via a range of mechanisms. Performance and value for money are assessed and reported on through, for example:

- systems thinking reviews;
- complaints and customer satisfaction reporting;
- one to one meetings between directors and heads of service, and heads of service and their managers
- departmental reviews of performance information; and
- budget reports.

The Performance Monitoring Scrutiny Panel, Budget Advisory Group and Overview and Scrutiny Committee, and portfolio holders also all receive important reports in relation to different aspects of performance through the year.

In my 2010/11 Annual Governance report I reported that you were reviewing your processes to ensure that the performance information that is reported and reviewed is relevant and meaningful. I made a recommendation that you should ensure that you have appropriate arrangements and processes to ensure that members are kept informed of the value for money being delivered by the Council. It was agreed with officers that this would be implemented by March 2012. However, the Council is still working on developing a consistent corporate framework for performance measurement and reporting. Progress on this has been slow:

- The Council no longer corporately monitors performance indicators (PIs) and in 2011/12 there were no performance indicator reports to members. It is now working on measures as a result of systems thinking interventions, but this is still in its infancy.
- In November 2010, a draft list of PIs for the Improvement Planning Group and Performance Monitoring and Scrutiny Panel was presented to Corporate Management Team (CMT). This was taken to departmental management teams (DMTs) for discussion.
- In May 2011, CMT considered a further report on PIs. It concluded that it would identify 10 PIs for reporting, with other indicators to be discussed at DMT level only. However, at that meeting CMT did not agree on which 10 PIs to report on.

There is a need to develop a performance measurement framework and reporting arrangements against this as soon as possible. This is necessary to support clear member, scrutiny and public accountability requirements and to help demonstrate that value for money is being achieved.

### Recommendation

**R6** Establish a clear corporate framework for performance measurement and reporting of this as soon as possible.

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# Fees

## I reported my planned audit fee in the 14 March 2012 Audit Plan.

I will complete the audit within the planned fee.

Table 4: **Fees**

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	143,640	143,640
Claims and returns (estimated)	43,600	43,600
Non-audit work	0	0
<b>Total</b>	<b>187,240</b>	<b>187,240</b>

The Audit Commission has paid a rebate of £11,491 to reflect internal efficiency savings, reducing the net amount payable to the Audit Commission.

# Appendix 1 – Draft independent auditor's report

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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CRAWLEY BOROUGH COUNCIL

### Opinion on the Authority financial statements

I have audited the financial statements of Crawley Borough Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Crawley Borough 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 Head of Finance, Revenues and Benefits and auditor

As explained more fully in the Statement of the Head of Finance, Revenues and Benefits' Responsibilities, the Head of Finance, Revenues and Benefits is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on 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 financial statements sufficient to give reasonable assurance that the financial 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 Head of Finance, Revenues and Benefits; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword 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 financial statements**

In my opinion the financial statements:

- give a true and fair view of the financial position of Crawley Borough Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

## **Opinion on other matters**

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

## **Matters on which I report by exception**

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

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

### **Respective responsibilities of the Authority and the auditor**

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.

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.

### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

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 2011, 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 2012.

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 2011, I am satisfied that, in all significant respects, Crawley Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

## **Certificate**

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

Lizzie Peers

Engagement Lead

Audit Commission,

Ground floor, Bicentennial Building,

Southern Gate, Chichester, West Sussex PO19 8EZ.

27 September 2012



# Appendix 2 – Draft letter of management representation

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## **Crawley Borough Council - Audit for the year ended 31 March 2012**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

### **Compliance with the statutory authorities**

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on 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**

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

### **Internal control**

I have communicated to you all deficiencies in internal control of which I am aware.

### **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 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 the 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 requirements of the Code.

### **Subsequent events**

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Crawley Borough Council

I confirm that the this letter has been discussed and agreed by the Audit and Governance Committee on 26 September 2012

Signed  
Name  
Position  
Date

# Appendix 3 – Glossary

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## **Annual Audit Letter**

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

## **Annual Governance Statement**

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.

## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

## **Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

**Auditor(s)**

Auditors appointed by the Audit Commission.

**Code (the)**

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

**Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

**Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

**Financial statements**

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

**Group accounts**

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

**Internal control**

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative 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**

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

## **Those charged with governance**

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit and Governance Committee.

## **Whole of Government Accounts**

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

# Appendix 4 – Action plan

## Recommendations

### Recommendation 1

Review your arrangements for checking that the actuary has received up to date information on staff changes and that actuarial reports are consistent with your local knowledge.

**Responsibility**

**Priority**

**Date**

**Comments**

### Recommendation 2

Implement proposed disaster recovery arrangements by March 2013 and ensure plans are tested for effectiveness. Set a date for finalising an EUC policy and a programme of review to ensure the policy is applied.

**Responsibility**

**Priority**

**Date**

**Comments**

### Recommendation 3

Review your arrangements for component accounting for property, plant and equipment. This review should include consideration of your capital accounting systems and your accounting policy for removing the carrying value of replaced assets.

Responsibility

Priority

Date

Comments

### Recommendation 4

Identify ways to support officers in making measured judgements about risk, under the revised strategy.

Responsibility

Priority

Date

Comments

### Recommendation 5

Review your arrangements for risk reporting (content and frequency) to the Audit and Governance Committee to:

- ensure this is sufficient to allow members to discharge their responsibilities; and
- provide assurance that arrangements are effective.

Responsibility

Priority

Date

Comments



### Recommendation 6

Establish a clear corporate framework for performance measurement and reporting of this as soon as possible.

**Responsibility**

**Priority**

**Date**

**Comments**

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- any director/member or officer in their individual capacity; or
- any third party.

