Annual governance report

Hampshire County Council and Hampshire Pension Fund Audit 2011/12



Contents

Key messages	3
Before I give my opinion and conclusion	5
Financial statements	6
Value for money	8
Fees	10
Appendix 1 – Draft independent auditor's report	11
Appendix 2 – Corrected errors	15
Appendix 3 – Draft letter of management representation	17
Appendix 4 – Glossary	19

Key messages

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

Subject to clearance of outstanding matters I plan to issue an unqualified audit opinion on your financial statements.

The financial statements and working papers were produced on time and were, once again, of a good standard. Accounting staff were responsive to queries which helped the timely completion of the audit. During the course of the audit a small number of errors were identified and officers have made changes to the draft financial statements to amend each of these. None of the errors had an impact on the Council's general fund or earmarked balances as at 31 March 2012.

Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

As a Council you:

- delivered your 2011/12 budget, delivered savings amounting to £55 million and retained a strong level of general fund and earmarked reserves;
- reviewed your structures for service provision as part of your transformation and efficiency programme. In doing so you are delivering on a challenging savings target whilst aiming to maintain the quality of the services you provide;
- received a report from Ofsted in November 2011 highlighting that Children's services perform excellently and the majority of services, settings and institutions they inspected were assessed as good or better; and
- have sound performance management arrangements in place to monitor performance against target and to take action where performance is below target.

It is important that you now:

- deliver the efficiencies and savings included in your medium term financial strategy; and
- continue to robustly monitor your performance to ensure the quality of service you provide is in line with the targets you set.

Certificate

I expect to complete the outstanding work and report my findings to management by 27 September 2012. I plan to issue my certificate by 30 September 2012.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I did not design my audit to identify all matters that might be relevant to you.

Independence

I confirm that I complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I am aware of the following relationship that might constitute a threat to independence and I am required to report to you. I put in place the following safeguards to reduce the threat.

Table 1: Threats and safeguards

Threat A relative of a member of my team is employed as a teacher at a Hampshire school. I applied safeguards to reduce this threat to an acceptably low level I ensured: • the teacher concerned was not involved in the preparation of accounts; and the member of my team did not undertake audit procedures relating to education or payroll systems

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

Lask the Audit Committee to:

- take note of the adjustments to the financial statements included in this report (appendix 2); and
- approve the letter of representation (appendix 3), on behalf of the Council before I issue my opinion and conclusion.

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council and Pension Fund Trustees account for their 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.

The financial statements and working papers were produced in line with agreed timetables. Overall the Council presented accounts that meet accounting requirements. Working papers were once again produced to a good standard to support the entries and disclosures in the accounts.

Opinion on the financial statements

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

Corrected errors

I am required to report to you errors identified during my audit that are, in my opinion, important and relevant to your oversight of the financial reporting process. The more significant corrections made during the audit are set out in Appendix 2.

Other than these, I identified other minor errors. These errors included omissions, casting errors, misstatements or typographical errors in the notes to the core statements, and some inconsistencies between primary statements and supporting notes. A few other minor presentational amendments to text and disclosures were made to ensure your statements fully comply with the accounting code of practice.

None of the adjustments made affected:

- the Council's general fund or earmarked reserves; or
- the pension fund account or pension fund net assets.

Significant risks and my findings

I reported to you in my March 2012 Audit Plan that I had not identified any significant risks of material misstatement relevant to my audit of the Council and the Pension Fund.

Significant weaknesses in internal control

It is the responsibility of the Council and Pension Fund 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 if 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 and Pension Fund 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 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.

I have no matters I wish to report.

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 Council's and Pension Fund'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.
- Other audit matters of governance interest.

I have no matters I wish to report.

Whole of Government Accounts

Alongside my work on the financial statements, I have also reviewed and reported to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report were specified by the National Audit Office. I have no matters to report.

Value for money

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

I assess your arrangements against the two criteria specified by the Commission. I reported in my March 2012 Audit Plan that I had not identified any significant risks requiring me to undertake specific local risk based work. I have set out below my conclusion against the two criteria. I intend to issue an unqualified conclusion stating the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources (Appendix 1).

Table 2: Value for money conclusion criteria and my findings

Criteria

1. Financial resilience

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

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.

Findings

The Council has proper arrangements to secure financial resilience.

In response to the challenging financial climate and cuts in central government financing, the Council took early action to review business configuration and service delivery. The Council is now carrying out a staged change programme to ensure services are designed on a sustainable basis and to realise opportunities for shared working and business development.

The delivery of planned savings is a key part of the transformation programme. In 2011/12 the Council delivered the £55 million savings target and by July 2012 it reported delivering £32 million of the 2012/13 £47 million savings target. The June 2012 update of the Council's Medium Term Financial Strategy outlines the Council is forecasting a stable financial position up to 31 March 2014. However, the update also highlights significant challenges for the Council to preserve overall financial health in 2014/15 and beyond. The strategy outlines potential actions that can be taken but the Council is waiting for the results of the November 2012 local government finance settlement before making any changes to the financial strategy.

Criteria

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Findings

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

As part of its transformation and efficiency programme the Council is changing its structures for service provision, delivering a challenging savings target and aiming to maintain the quality of the services it provides,

In November 2011 Ofsted reported that the Council's Children's services perform excellently. Strong performance was sustained in 2011 and the majority of services, settings and institutions inspected by Ofsted were assessed as good or better.

In 2010 the Care Quality Commission stopped its inspection regime for awarding overall quality ratings. The inspection regime was replaced by a scheme to review the regulated activities of registered organisations. In 2011/12 the majority of Council registered organisations inspected in Hampshire met the five standards reviewed. Where CQC identify improvements the Council has arrangements to monitor and track the actions relevant care homes are taking.

The value for money profile published by the Audit Commission in May 2012 shows that net spend per head is in the lowest 5% of county councils. In priority areas compared to other county councils the:

- number of adults receiving day care services is in the highest 20%;
- number of adults receiving home care services is in the highest 5%;
- Council has a good level of school provision;
- level of attainment by children (including SEN) is in the highest 25%; and
- number looked after children placed in adoption or foster care is in the highest 25% and 20% respectively

The Council has sound performance management arrangements in place. The June 2012 "Open for Business" report provides Members with a summary of performance against priorities. The performance information includes benchmark comparison and where performance is below target action plans for improvement have been established e.g. improving outcomes for children in care.

Fees

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

I will complete the audit within the planned fee.

Table 3: Fees

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Hampshire County Council Audit	258,930	258,930
Hampshire County Council Claims and returns	6,100	6,100
Hampshire Pension Fund Audit	46,500	46,500
Non-audit work	0	0

Appendix 1 – Draft independent auditor's report

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

Opinion on the Authority financial statements

I have audited the financial statements of Hampshire County 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, 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 Hampshire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer 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 financial 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 Chief Financial Officer; 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 Hampshire County 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 explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial 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.

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement 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 Hampshire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund 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 financial 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 fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword and the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012, 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 and the content of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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, Hampshire County 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 Hampshire County Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

K.L.Handy
Officer of the Audit Commission
Collins House
Bishopstoke Road
Hampshire SO50 6AD

September 2012

Appendix 2 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements. None of the adjustments affected the Council's general fund or earmarked reserves; or the pension fund account or pension fund net assets.

		Value of error
Reference	Nature of error	£'000s
Hampshire County Council		
Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet, Cash Flow Statement, note 6, note 10a and note 17	Land relating to 5 newly converted academy schools needed to be revalued.	29,596
Note 12k	To comply with the code, the outstanding debt figure at 31/3/12 has been adjusted to show only the amount that is due by the year end, rather than amounts which have not yet reached their due date.	13,629
Note 12k	The total debt portfolio was overstated; as a result amendments were made to the totals held in fixed rate and variable rate instruments.	8,591
Note 12	Payments in advance were incorrectly included as a class of financial instrument.	7,120
Balance Sheet, note 12b and 12i	Year end creditors were incorrectly classified as debtors. As a result year end debtors and creditors were both understated.	5,625
Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet, Cash Flow Statement, note 6, note 10a and note 17	Transactions relating to the impairment of fixed assets were charged in full to the income and expenditure account. Where there are relevant balances, local authority accounting guidance allows charges to be made to the revaluation reserve with only excess balances then being charged to the income and expenditure account.	1,650

		Value of error
Hampshire Pension Fund		
Reference	Nature of error	£'000s
Note 16c	As pension fund assets and liabilities are disclosed at market value, the fair value and carrying value of the pension funds financial instruments should be the same.	676,339

Appendix 3 – Draft letter of management representation

Hampshire County 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 [insert relevant details directors of Hampshire County Council, 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 Hampshire County Council

I confirm that the this letter has been discussed and agreed by the Audit Committee on 27 September 2012

Signed Name

Position

Date

Appendix 4 – Glossary

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 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.

If you require a copy of this document in an alternative format or in a language other than English, please call: **0844 798 7070**

© Audit Commission 2012.

Design and production by the Audit Commission Publishing Team. Image copyright © Audit Commission.

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.



www.audit-commission.gov.uk 2012

September