

Annual Governance Report

Hatfield Town Council

Audit 2009/10

September 2010



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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

2009/10 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Town Clerk and Deputy Town Clerk on 22 September 2010 and updated it as issues have been resolved.

My 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 7 to 11);
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors; (Appendix 3);
- approve the letter of representation on behalf of the Town Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

Yours faithfully

Mark Hodgson
District Auditor

September 2010

Key messages

This report summarises the findings from the 2009/10 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.

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Audit opinion

- 1 The financial statements submitted for audit contained three material errors. Other than trivial errors, the remaining errors identified are set out in the remainder of this report.
- 2 The audit is complete and subject to my final review, I propose to issue a qualified (adverse) opinion arising from a disagreement over the inclusion of the Birchwood Playing Fields and Leisure Centre (including the Town Council's own office) and the associated income and expenditure streams within the Town Council's financial statements, given the uncertainty over the legal title of the land upon which that asset.

Financial statements

- 3 This was the first year in which the Town Council has prepared its financial statements under the Financial Reporting for Smaller Entities (FRISSE) regime.
- 4 Management have declined to amend for two non-trivial errors which I have raised for the consideration of the Audit Committee.

Value for money

- 5 I have not been able to satisfy myself that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I intend to issue a qualified (adverse) conclusion as a result.

Key messages

Independence

- 6 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

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.

7 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 11);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors; (Appendix 3) and
- approve the letter of representation on behalf of the Town Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

Financial statements

The Town Council's financial statements and annual governance statement are important means by which the Town Council accounts for its stewardship of public funds. As Town Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

- 8 Members will recall that the Town Council's 2008/09 financial statements included a qualified audit report in respect of the inclusion of the Birchwood Playing Fields and Leisure Centre (including the Town Council's own office) and the associated income and expenditure streams within the Council's accounts, given the uncertainty over the legal title of the land upon which that asset is sited.
- 9 Due to the late closure of the 2008/09 audit, the Town Council has not been able to fully resolve the above issue by the 31 March 2010, and therefore the issue remains. The 2009/10 financial statements therefore continue to include the Birchwood Playing Fields and Leisure Centre and the associated income and expenditure.
- 10 Whilst additional disclosures have been made in the financial statements to explain the issue relating to Birchwood playing fields, due to significant uncertainties relating to the outcome of this matter and the material and pervasive nature of the inclusion of the asset and associated income and expenditure streams within the financial statements, I am unable to conclude that the financial statements present fairly the financial information relating to this asset. Subject to my final review, I plan to issue an audit report including a qualified (adverse) opinion.
- 11 Appendix 1 contains a copy of my draft audit report.

Background to the Birchwood Playing Fields issue

- 12 In 1956 the Parish Council purchased the site known as Birchwood Playing Fields and agreed for it to be held "upon Trust for the perpetual use thereof by the Public for the purpose of public playing fields and Public Recreation ground pursuant to the provisions of the Open Spaces Act 1906".
- 13 The Town Council recently received advice from the Homes and Communities Agency that a charitable trust should have been registered with the Charity Commission.
- 14 The Town Council built Birchwood Leisure Centre on the site in the 1980s. The Town Council has taken legal advice and the definition of an 'open space' is such that the Town Council was in breach of trust by building the Centre and subsequently extending the Centre in 2008 to accommodate the Council Offices.

- 15** The Town Council has requested that the Charity Commission consider that the purposes of the Charity should be extended to ratify the Trustee's actions in this regard. Initial correspondence from the Commission does not support the Town Council's proposals and indicates "We have no record of our authority being sought for the building of the Leisure Centre, in which case the charity was in breach of trust". The response from the Commission gives further evidence of the breach of trust and indicates that the current status of the Leisure Centre is likely to change.
- 16** The Town Council has proposed to replace the land occupied by the leisure centre and annex with an alternative piece of land by way of restitution but it is not known, at this stage, if this would satisfy the Charity Commission.
- 17** The value of relevant tangible fixed assets in Town Council's balance sheet, on a Depreciated Replacement Cost basis is as follows:
- Birchwood Land: £1,664,937
 - Birchwood Centre: £1,265,371.
- 18** The financial statements currently include the following income and expenditure relating to the Birchwood Centre:
- expenditure £562,275.36
 - income £340,147.62.
- 19** On the facts presented, the Birchwood land would appear to have no place in the Town Council's financial statements as, whilst the Town Council has legal ownership, it is not entitled to use the land for its own benefit. Given this scenario, it is difficult to attach any value to the economic benefits that the Town Council is entitled to obtain from the asset. As beneficial ownership is not virtually certain, the Town Council should de-recognise the land from its balance sheet and the associated income and expenditure streams within the Income and Expenditure Account, together with related note entries.
- 20** Once the charity is properly constituted, it may well be the case that a lease arrangement is formalised and the Town Council will have to evaluate any such arrangement at that time but as at 31 March 2010 no such arrangement was in place.
- 21** The Town Council has attempted to deal with the whole issue of the charity by way of a contingent liability note. As it currently stands the note does not meet the requirements of Financial Reporting Standard for Smaller Entities but a far more significant point is that the issue of asset recognition is only dealt with tangentially in the final paragraph. Whilst the nature of any future settlement with the charity is indeed uncertain, for the reasons set out above, the accounts as currently presented do not adequately deal with the recognition and measurement of the relevant assets and liabilities. In my view no amount of disclosure can enable them to give a true and fair view of the financial position of the Town Council at 31 March 2010.
- 22** For this reason, I have concluded that a qualified (adverse) audit opinion is relevant to these financial statements.

Errors in the financial statements

Adjusted

23 My audit identified a number of errors in the financial statements presented for audit, three of which were material. Management have adjusted the financial statements for these errors.

Material Amendment

24 The three material amendments are set out in the table below.

Adjusted misstatements	Nature of Adjustment
Income and expenditure account - pension costs	<p>The accounting requirements for pensions were not correctly applied in the draft accounts. This has been corrected in the revised accounts with the following amendments being made:</p> <ul style="list-style-type: none">• inclusion of the current service cost within 'other democratic, management and civic costs' of £42,000;• inclusion of the net of the interest cost and expected return of employer assets within 'other democratic, management and civic costs' of £47,000; and• inclusion of 'statutory replacement of pension costs' below the net operating surplus of £16,000.
Income and expenditure account - notional figures	<p>In order to report the true costs of the management of the Town Council, notional income and expenditure charges of £45,781.12 were included in the draft accounts. These notional charges have been removed, resulting in:</p> <ul style="list-style-type: none">• charges for services reducing from £494,494.43 to £448,913.23;• other direct service costs reducing from £472,581.00 to £449,479.80; and• other democratic, management and civic costs reducing from £96,740.91 to £74,060.91.

Adjusted misstatements	Nature of Adjustment
Statement of total recognised gains and losses	<p>The draft accounts received for audit did not include this primary statement. The statement was subsequently received and it has been amended to:</p> <ul style="list-style-type: none"> • correctly reflect the pensions actuarial loss of £865,000; and • the impact of corrections made to the income and expenditure account. <p>As a result of these amendments, the statement now reconciles to the movement between 2008/09 and 2009/10 as reported on the balance sheet.</p> <p>In addition, the comparative information has been updated to correctly disclose the prior year's pensions actuarial loss.</p>

Non-trivial amendments

- 25 There were other adjustments to the primary statements and related notes as set out in Appendix 2.
- 26 The reported surplus and the total net worth shown on the balance sheet has not changed as a result of these amendments.

Unadjusted

- 27 I have identified two non-trivial errors for which officers have chosen not to amend the financial statements for and therefore the Audit Committee is required to consider this item, as part of its role as those charged with governance. These errors are detailed in Appendix 3.

Recommendation

R1 - The Audit Committee should consider whether to adjust the financial statements for the errors that I have identified through my audit. Currently officers have chosen not to amend the financial statements for these errors. If your considerations lead you to concur with officers, I would require detail of your rationale for not amending the errors to be set out within the letter of representation.

Important weaknesses in internal control

- 28 I have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.
- 29 I have not provided a comprehensive statement of all weaknesses which may exist in internal control, or of all improvements which may be made.

Financial statements

Letter of representation

30 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 4 contains my request for a letter of representation.

Key areas of judgement and audit risk

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

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
Changes in the financial reporting framework, from statement of recommended practice to financial reporting standard for smaller entities (FRSSE).	My audit work included a review of the disclosure against the FRSSE requirements. Disclosure amendments have been made following my audit to ensure the FRSSE requirements have been met and for the internal consistency of the accounts. The key amendment related to the inclusion of a statement of recognised gains and losses.
Birchwood playing fields	See paragraph 12 of this report.

Accounting practice and financial reporting

32 I consider the non-numeric content of your financial reporting. I consider the qualitative aspects of your financial reporting. I have no issues I need to report to you in addition to the matters reported within paragraph 12 above.

Value for money

I am required to decide whether the Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. I have based my conclusion on my work on the scored use of resources judgement.

Value for money conclusion

- 33** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 5.
- 34** I have identified weaknesses in your arrangements for:
- planning its finances effectively to deliver strategic priorities and secure sound financial health;
 - financial reporting that is timely, reliable and meets the needs of internal users, stakeholders and local people; and
 - managing its risks and maintaining a sound system of internal control.
- 35** I intend to issue a qualified (adverse) conclusion stating that the Town Council does not have adequate arrangements to secure economy, efficiency and effectiveness in the use of resources, in relation to the areas highlighted above.
- 36** Appendix 1 contains my draft report.

Glossary

Annual governance statement

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

Audit closure certificate

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

Audit opinion

39 On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

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

Qualified

40 The auditor has some reservations or concerns.

Unqualified

41 The auditor does not have any reservations.

Value for money conclusion

42 The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Appendix 1 – Independent auditor’s report to the Members of Hatfield Town Council

Opinion on the financial statements

I have audited the accounting statements and related notes of Hatfield Town Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement of Reserves, the Balance Sheet, the Statement of Total Recognised Gains and Losses 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 Hatfield Town Council 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 published by the Audit Commission in April 2008.

Respective responsibilities of the Responsible Financial Officer and auditor

The Responsible Financial Officer’s responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Financial Reporting Standard for Smaller Entities (Effective April 2008), are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting 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 give a true and fair view, in accordance with relevant legal and regulatory requirements and the Financial Reporting Standard for Smaller Entities (Effective April 2008).

I review whether the governance statement reflects compliance with ‘Governance and Accountability for Local Councils: A Practitioners’ Guide (England) 2010’ published by the National Association of Local Councils (NALC) in 2010. I report if it does not comply with proper practices specified by NALC or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting 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 Town Council’s corporate governance procedures or its risk and control procedures.

Appendix 1 – Independent auditor’s report to the Members of Hatfield Town Council

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 content of the Annual Report. 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 Town Council in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Town Council’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.

Adverse opinion on the financial statements

As more fully explained in Note 7 to the financial statements, the Town Council currently recognises land and buildings and income attributable to the Birchwood site of which it is the sole trustee. In my view, the Town Council should not have recognised the assets and associated income as the nature of their tenancy does not meet the criteria specified for a finance lease in the Financial Reporting Standard for Smaller Entities. In my view the accounting treatment constitutes a fundamental error and prior period comparators should have been restated in accordance with the Financial Reporting Standard for Smaller Entities.

De-recognising the assets as a prior period adjustment would have the following effects on the financial statements:

- In the current year:
 - the carrying value of land would reduce by £1,664,937;
 - the carrying value of buildings would reduce by £1,265,371;
 - the capital finance account would reduce by £2,930,308; and
 - the net operating surplus for the year and net surplus for the year would reduce by £21,019 and the surplus for the year would increase by the same amount.
- In the prior period, corresponding amounts:

Appendix 1 – Independent auditor’s report to the Members of Hatfield Town Council

- the carrying value of land would reduce by £1,664,937;
- the carrying value of buildings would reduce by £1,281,531;
- the capital finance account would reduce by £2,946,468;
- the net operating surplus for the year and net surplus for the year would reduce by £18,619 and the surplus for the year would increase by the same amount; and
- the statement of total recognised gains and losses would show a deficit on revaluation of fixed assets of £15,098.

More over, as a result of the inclusion within income of sums receivable by the Town Council in its capacity as Trustee, income credited to the income and expenditure account for the year has been overstated by at least £9,094. This has been reflected in the above adjustments to the current and prior period but it is not possible at this time to identify the cumulative income generated by letting elements of the land including the income for the siting of telecommunications masts on the site.

Additionally, in my view, the contingent liability note 7 is misleading as it is predicated on the assumption that the Town Council recognises assets which is my view it should not recognise.

In view of the effect of incorrectly recognising assets and income and inappropriate disclosure referred to above, in my opinion the Town Council accounting statements do not give a true and fair view, in accordance with relevant legal and regulatory requirements and the Financial Reporting Standard for Smaller Entities (Effective April 2008), of the financial position of the Town Council as at 31 March 2010 and its income and expenditure for the year then ended.

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

Town Council’s Responsibilities

The Town Council 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 Town Council 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 specified by the Audit Commission and published in January 2009. I report if significant matters have come to my attention which prevent me from concluding that the Town Council has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Town Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Adverse Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice. In doing so, I identified the following:

- The Town Council has not set any strategic objectives, therefore it can not be demonstrated that the medium term financial strategy will support the delivery of the Town Council’s future intentions.
- The Town Council does not assess the impact of its policies and strategies on its diverse communities in compliance with the requirements of equalities legislation, mainly because a strategic direction has not been set.
- The budget monitoring information provided to Members is not sufficient to enable them to provide rigour to the scrutiny and management process.
- The Town Council did not approve the draft financial statements before the deadline set by the Accounts and Audit Regulations (2006). In addition, the draft financial statements were not compliant with the Financial Reporting Standard for Smaller Entities and contained material errors.
- The risk register was not reviewed or updated during the year.

Appendix 1 – Independent auditor’s report to the Members of Hatfield Town Council

- The Town Council does not have a sound system of internal control in place. As referred to in my opinion on the financial statements, above, the Town Council had previously failed to identify that a significant proportion of its property portfolio is subject to a charitable trust. The Town Council has built a leisure centre and offices on the Birchwood land potentially in breach of the terms of the Trust.
- The draft Annual Governance Statement does not reflect the significant issues in relation to the Birchwood Leisure Centre that led to a qualified opinion of the 2008/9 financial statements and the omission of corporate arrangements which led to the qualification of the value for money conclusion in 2008/09.

For the reasons set out above, and having regard to the criteria for other local government bodies specified by the Audit Commission and published in January 2009, and the supporting guidance, I am not satisfied that, in all significant respects, Hatfield Town Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010, in that it did not put in place adequate arrangements for:

- planning its finances effectively to deliver strategic priorities and secure sound financial health;
- financial reporting that is timely, reliable and meets the needs of internal users, stakeholders and local people; and
- managing its risks and maintaining a sound system of internal control.

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.

Mark Hodgson

Date:

Officer of the Audit Commission, Regus House, 1010 Cambourne Business Park,
Cambourne, Cambridge, CB23 6DP

Appendix 2 – Amendments to the draft accounts

I identified the following misstatements during my audit and managers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Table 2

Adjusted misstatements	Nature of Adjustment
Annual report	The draft annual report did not reflect that the Town Council now has an Audit Committee in place within its listing of Committees. This has been corrected.
Annual governance statement	<p>The following issues have been corrected in the draft statement:</p> <ul style="list-style-type: none"> • within 'the governance environment' section, reference to the annual accounts complying with statement of recommended practice has been updated to reflect the correct guidance - financial reporting standard for smaller entities; and • within the 'significant governance issues' section, the details of such issues has been expanded to include those issues raised in last year's audit relating to the Birchwood legal issue and other omissions of corporate arrangements which led to the qualification of the Town Council's value for money conclusion last year.
Statement of responsibilities for the statement of accounts	<p>The draft statement has been amended to:</p> <ul style="list-style-type: none"> • change the references of 'presents fairly' to 'give a true and fair view'; and • include a reference to the Accounts and Audit Regulations, as opposed to the FRSSE within the Deputy Town Clerk's certificate.
Statement of accounting policies	A number of amendments have been made to ensure that the accounting policies detailed are relevant and applicable to this year's accounts. For example, clarifying the treatment of bar stock within the stock policy.

Appendix 2 – Amendments to the draft accounts

Adjusted misstatements	Nature of Adjustment
Statement of movement of reserves	Within this statement, the net movement in year in relation to the capital financing account was incorrectly detailed as £803,876.42. The correct net movement is £-33,127.10 and this has been updated in the revised accounts.
Income and expenditure account - statutory charge for capital	The draft accounts did not include the statutory charge for capital of £21,959.91 which represents the value of loan repayments made in the year. This has been corrected.
Note 2 Officers emoluments	<p>The content and presentation of this disclosure has been amended to:</p> <ul style="list-style-type: none"> • disclose remuneration within £5,000 bandings, starting from £50,000; and • an individual listing by job title of the senior officers whose salary is more than £50,000 but less than £150,000 in the year.
Note 3 Audit costs	The prior year audit costs have been updated from £9,200 to £19,500.
Note 7 Contingent liabilities	This disclosure has been updated to include reference to a disputed invoice which has not been included in the accounts.
Note 14 Payments in advance Note 15 Cash in hand Note 16 Bank position Note 17 Creditors Note 18 Deposits Note 19 Receipts in advance Note 20 Loan repayment	In the draft accounts, the disclosures within these notes were purely narrative and providing a definition of the item in question. These notes have been updated to reflect the financial values in question for the current and prior year.

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. Please attach a schedule of the uncorrected errors to the representation letter.

Table 3

Description of error	Accounts affected	Value of error £
The value determined by the actuary of the Hertfordshire Local Government Pension Fund at 31 December 2009 was £6.018 million less than the actual outturn reported in the pension fund accounts (31 March 2010). This is a timing difference and results in estimated understatement of pension fund assets / overstatement of pension fund liabilities for the Town Council, but does not change the analysis of assets between bonds, equities etc quoted in the actuary's FRS17 report.	Expenditure (Pension interest cost and expected return on pensions assets) – overstated Pension liability / pensions reserve – overstated. Note – this has no impact on the Revenue Account Balance as removed prior to calculating the surplus for the year.	£4,050
Receipts in advance include an invoice raised in 2009/10 relating to 2010/11. The income relating from this invoice has been removed from the income and expenditure account but the item should not have been included in the 2009/10 annual accounts.	Receipts in advance - overstated Debtors - overstated	£3,683 (Extrapolated)

Appendix 4 – Request for letter of representation

Our reference Letter of representation request 2009-10

21 September 2010

Ms C Lloyd
Town Clerk
Hatfield Town Council
Council Offices
Birchwood Leisure Centre
Longmead
Hatfield AL10 0AN

Direct line 0844 798 5515
Mobile 07967 623902
Email f-forth@audit-commission.gov.uk

Dear Carrie

Hatfield Town Council
Audit of Accounts 2009/10
Request for a letter of representation

International Standards on Auditing set out guidance on the use by auditors of management representations (ISA (UK&I) 580) and on possible non-compliance with laws and regulations (ISA (UK&I) 250). We have interpreted this guidance as it affects Town Councils and we expect the following points to apply:

- auditors may wish to obtain written representation where they are relying on management's representations in respect of judgemental matters (for example the level of likely incidence of a claim), which may not be readily corroborated by other evidence;
- auditors are likely to request written representations on the completeness of information provided;
- auditors may wish to obtain written representation on issues other than those directly related to the Statement of Accounts;
- the letter is dated on or near to the date on which the auditor signs the opinion and certificate;
- the letter is signed by the person or persons with specific responsibility for the financial statements; and
- the letter is formally acknowledged as having been discussed and approved by the Audit Committee, as those charged with governance of the Town Council.

I would expect the letter of representation to include the following:

Compliance with the statutory authorities

An acknowledgement of your responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Financial Reporting Standard for Smaller Entities (FRSSE) which present fairly the financial position and financial performance of the Town Council and for making accurate representations to us.

Uncorrected misstatements

Confirmation that the effects of any uncorrected financial statements misstatements (to be listed in the annual governance report) are not material to the financial statements, either individually or in aggregate and that these misstatements have been discussed with those charged with governance. The reasons for not correcting any such items should be given.

Supporting records

Confirmation that all the accounting records, other records and related information, including minutes of all Town Council and Committee meetings have been made available to us for the purpose of our audit and all the transactions undertaken by the Town Council have been properly reflected and recorded in the accounting records.

Going concern

Confirmation that it is appropriate to adopt the going concern basis in the preparation of the financial statements and that the financial statements include such disclosures, if any, relating to going concern.

Irregularities

Confirmation of responsibility for the design and implementation of internal control systems to prevent and detect fraud or error and that there have been no:

- 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.

Appendix 4 – Request for letter of representation

Confirmation that you have disclosed:

- 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
- knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

Confirmation that there are no instances of non-compliance with laws, regulations and codes of practice, which are likely to have a significant effect on the finances or operations of the Town Council.

Confirmation that the Town Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Contingent liabilities

Confirmation that 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
- no financial guarantees have been given to third parties.

Related party transactions

Confirmation of the completeness of the information disclosed regarding the identification of related parties and that the Town Council's registers of interest are complete and up to date in respect of Town Councillors and senior staff. The Town Council has ensured that all senior staff are aware of the requirement to declare all interests relevant to the Town Council, including interests of families, partners and entities controlled by them.

Post balance sheet events

Confirmation that since the date of approval of the financial statements by Full Council, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements and that the Town Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Specific - Pension Fund move from Retail Price Index to Consumer Price Index for future public sector pension increases

Confirmation that the profile for Hatfield's membership of the Pension Fund is not inconsistent with the overall pension fund member profile giving rise to the estimated reduction of Employers FRS 17 liabilities (6-8%).

The above matters are examples only. There may be other matters which you would wish to include in the management letter of representation. I should be grateful if you could, after discussion with the Town Clerk and other officers as appropriate, provide a signed* management letter of representation for Hatfield Town Council at the appropriate time.

Yours sincerely



Fiona Forth
Audit Manager

* - Signed by the Deputy Town Clerk, and Chair of the Audit Committee (as 'those charged with governance' at the Council).

Appendix 5 – Value for money criteria and assessment

Managing finances

	VFM criterion met (Yes/No)	Explanation
KLOE 1.1 Financial planning and financial health	No	Two of the seven criteria have not been met.
Medium term financial planning	No	A medium term financial strategy has been developed. However, this does not link to the organisation's strategic objectives as none have been set.
Impact on communities	No	There is no evidence that Hatfield Town Council has assessed the impact of its policies and strategies on its diverse communities in compliance with the requirements of equalities legislation, mainly due to no strategic direction being set.
Budget setting	Yes	Comprehensive and balanced budget set.
Treasury management	Yes	Treasury management arrangements ensure cash is available and this is in line with the Town Council's annual investment strategy.

Appendix 5 – Value for money criteria and assessment

	VFM criterion met (Yes/No)	Explanation
Policy on balances and reserves	Yes	A policy on the level and nature of reserves and balances has been established
Forward financial planning	Yes	Although there are no strategic objectives set for the Town Council, a medium term financial strategy has been developed which is based on reasonable assumptions, and results in the maintenance of balances and minimal increases in the precept. The Town Council operates within the budget set and financial standing is sound.
Collective financial responsibility	Yes	Scrutiny by members as well as officers of the financial position.
KLOE 1.2 Understanding costs and achieving efficiencies	Yes	The key criteria have been met.
Understands costs	Yes	Costs are understood.
Information supports decision making	Yes	Financial information supports decision making.
Cost and performance information used in financial and service planning	Yes	See above
New investments	Yes	See above
Reviews costs	Yes	See above

Appendix 5 – Value for money criteria and assessment

	VFM criterion met (Yes/No)	Explanation
KLOE 1.3 Financial reporting	No	The key criteria have not been met.
Budget monitoring and forecasting	No	The budget monitoring information provided to the Resources and Policy Committee does not compare actual to date to budget to date, nor is there a covering report to highlight the salient financial points.
Accounts	No	The draft accounts were not approved before the deadline set by the Accounts and Audit Regulations 2006. In addition, the draft accounts were not compliant with the Financial Reporting Standard for Smaller Entities and contained material errors.
Supports an efficient audit	Yes	Working papers are generally adequate and requests dealt with appropriately.
Accounts and annual audit letter on website	Yes	The latest set of accounts and annual governance report [more up to date than the annual audit letter for 2008/09] have been published on the Town Council's website. The Town Council communicates with its community through its quarterly newsletters and considers alternatives such as texting to responses to consultations.

Governing the business

	VFM criterion met (Yes/No)	Explanation
Governing the body	Yes	On a rounded judgement, I conclude appropriate arrangements are in place.
Roles and responsibilities	Yes	Roles and responsibilities are published.
Constructive working relationships between members and officers. Induction and ongoing development opportunities including training.	Yes	Constructive working relationships are in place. Induction, training and development opportunities are available.
Leadership and vision	No	The Town Council does not have any vision which is supported by strategic objectives. However, the Town Council is in the process of developing its town plan and there some information available in this respect, for example in the 2009/10 annual plan, to outline what the Town Council is seeking to do in terms of a purpose for its community.
Standards of conduct	Yes	The Town Council has arrangements in place for proper standards of conduct. No breaches in these arrangements have occurred during 2009/10.
Complaints and whistleblowing	Yes	Complaints procedure and whistleblowing policy in place, and these have been communicated internally and to the wider community.
Significant partnerships	Yes	Governance arrangements are in place for the Town Council's significant partnership with the police.

Appendix 5 – Value for money criteria and assessment

Risk management and internal control

	VFM criterion met (Yes/No)	Explanation
Risk management and internal control	No	This KLOE was re-assessed because it was a 'fail' in 2008/9 although it is not a specified criteria for 2009/10. Three of the four criteria are not met.
Risk management	No	The Town Council have a risk management policy and the risk register was available at the start of the financial year. Key activity based risk assessments have been undertaken which are available for public viewing. However, the risk register itself has not been reviewed or updated during the year.
Counter fraud and corruption	Yes	A counter fraud and corruption strategy is in place which was approved by members and circulated to all staff. Reviews are undertaken by internal audit as part of the annual programme of work. Criminal records bureau checks are undertaken on relevant staff.
Sound system of internal control	No	The Town Council does not a sound system of internal control in place. I reported last year that a significant legal issue had arisen in relation to the Birchwood playing fields as it had been identified that this site is actually 'owned' by a 'charity trust', set up under a 1956 conveyance. The Trust was set up to provide 'open space' facilities to the residents of Hatfield in perpetuity. However, this Trust is currently not registered with the Charity Commission and a leisure centre has been built on this site, and extended to accommodate the Town Council itself, which is potentially in breach of the covenant. This legal issue was not resolved during 2009/10.

Appendix 5 – Value for money criteria and assessment

	VFM criterion met (Yes/No)	Explanation
Annual governance statement	No	The draft annual governance statement was compliant with requirements. However, the draft did not reflect the significant issues in relation to the Birchwood playing fields which led to the audit opinion being qualified in 2008/09, nor the omission of corporate arrangements which led to the qualification of the 2008/09 value for money conclusion. Amendments to the 2009/10 statement have been made to address these points.

Appendix 6 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Governance Report 2009/10 – Recommendations						
7	R1 The Audit Committee should consider whether to adjust the financial statements for the errors that I have identified through my audit. Currently officers have chosen not to amend the financial statements for these errors. If your considerations lead you to concur with officers, I would require detail of your rationale for not amending the errors to be set out within the letter of representation	3	Carrie Lloyd, Town Clerk	Yes	Audit Committee agreed not to amend the financial statements. Rationale for not doing so included in the letter of representation.	23 Sep 2010

The Audit Commission

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