



**BROMSGROVE DISTRICT COUNCIL**

**MEETING OF THE AUDIT BOARD**

**MONDAY 28TH SEPTEMBER 2009, AT 5.00 P.M.**

**THE COUNCIL HOUSE, BURCOT LANE, BROMSGROVE**

**SUPPLEMENTARY DOCUMENTATION**

The attached papers were specified as "to follow" on the Agenda previously distributed relating to the above mentioned meeting.

4. Audit Commission Annual Governance Report – Final Version (Pages 1 - 30)

K. DICKS  
Joint Chief Executive

The Council House  
Burcot Lane  
BROMSGROVE  
Worcestershire  
B60 1AA

5th November 2009

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# Annual Governance Report

Bromsgrove District Council

Audit 2008/09

September 2009

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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

## **2008/09 Annual Governance Report**

I am pleased to present the final version of my report on the results of my audit work for 2008/09.

A draft of the report was presented to the Audit Board on the 28 September 2009.

The report sets out the key issues that the Audit Board were asked to consider before I completed the audit.

It also asked the Audit Board to:

- consider the matters raised in the report before approving the financial statements (pages 4 to 13);
- 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);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree a response to the proposed action plan (Appendix 5).

Responses have been now been agreed to the proposed action plan and have been included within Appendix 5.

Yours faithfully

Elizabeth Cave  
District Auditor

September 2009

# Key messages

This report summarises the findings from the 2008/09 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.

Financial Statements	Results	Page
Unqualified audit opinion	No	15-17
Financial statements free from material error	No	7-8
Adequate internal control environment	Yes	9-13
Use of resources	Results	Page
Arrangements to secure value for money	No	14

## Audit opinion

- 1 My overall conclusion is that I propose to issue a qualified audit opinion because in my view £2.1 million of capital expenditure on the Spatial project should have been charged to revenue and because I have insufficient evidence that the £2.4m balance of expenditure on the Spatial project is all capital.

## Financial statements

- 2 The Financial statements were presented for audit on the 29 June 2009. These contained several errors and uncertainties. The most significant of these is the capitalisation as Intangible assets of costs incurred on the Spatial Project totalling £4.5 million. In my view at least £2.1 million of this expenditure is not capital and should be charged to revenue. In my opinion this expenditure should have been charged to the Income and Expenditure account in the year, the value of fixed assets should be reduced by £2.1million and the deficit for the year should be increased by the same amount, resulting in a negative general fund balance of £347,000.
- 3 This error is greater than the materiality level of £716,000 and is therefore a material misstatement in the financial statements. For this reason I propose to issue a qualified audit opinion.
- 4 For the remaining £2.4 million capital expenditure on the Spatial project I received insufficient evidence to support the capital nature of the expenditure because supporting detail relating to those amounts was not available at the time of the audit. The Authority had not put appropriate arrangements in place to assess the expenditure incurred against the specific accounting requirements for it to be determined to be capital.

## Key messages

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### Use of resources - value for money

- 5 I expect to be able to conclude that there are satisfactory arrangements in place to secure economy, efficiency and effectiveness except that you did not have in place adequate arrangements for ensuring your financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people.
- 

### Audit fees

- 6 Further to the External Opinion plan presented to you in March 2009 further audit testing beyond that originally planned has been necessary. This has been on the following areas.
- Additional work on reviewing expenditure incurred on additions to intangible assets in particular the spatial project.
  - Additional systems work arising from failings identified in the testing of the authorisation of payments and the lack of authorisation of journals.
  - Delays in the provision of information from the council's payroll system in use during 2008/09, delays in the receipt of other supporting information and responses to queries.
- 7 I will consider the full impact of these on our agreed audit fee on completion of the audit. My current estimate is that we will charge an additional £15,750 for the additional work undertaken on the opinion.

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# Next steps

**This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.**

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**8** I ask the Audit Board to:

- consider the matters raised in the report before approving the financial statements (pages 4 to 13);
- 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);
- take note of the VFM Conclusion;
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 5).



# Financial statements

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

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## Opinion on the financial statements

- 9 In seeking to reach a conclusion on whether the Council's accounts are free from material misstatement (materially is defined as 2 per cent of Gross Expenditure) I have considered the total impact of any errors and uncertainties identified by our audit testing. I have concluded that the accounts contain material misstatements.
- 10 The public and interested parties have had the opportunity to exercise their rights of inspection and challenge to the Council's financial statements and no matters have been raised.

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## Errors in the financial statements

- 11 The financial statements were presented for audit on 29 June 2009. We have identified errors in the financial statements (other than those of a trivial nature) and reported these to management.
- 12 As part of my audit responsibilities I am required to report to you those matters of governance interest that I feel are both important and relevant to you in your role of overseeing the financial reporting and disclosure process. I am also required to report all items that are 'non trivial' that we have identified during our audit before I issue my opinion. Our definition of 'trivial' has been revised this year and I am reporting any issues above £7,000 (compared to £69,000 last year). Not all of these errors have been amended. I have summarised all of the non-trivial adjustments which have been made in Appendix 2 and those that have not been made in Appendix 3.

## Intangible Assets

- 13 The financial statements contained a significant error and uncertainty in relation to the accounting treatment of intangible assets. The additions to Intangible Assets include the cost incurred on the Spatial project from the services of a supplier totalling £4.5 million. The Spatial project is a transformational project originally part of the Local Authority Modernisation Programme (LAMP). A breakdown was provided from the supplier of the various elements of their services which include £2.1 million on management consultancy costs. Management consultancy costs do not fall within the definition of expenditure which can be capitalised and the authority has been unable to provide any evidence to support capitalising them. Therefore in my view these costs should be charged to revenue and the accounts contain a material error.

- 14 The remaining £2.4 million of the Spatial Project expenditure is for other services from the supplier relating to software, data verification, interfaces and document management. Whilst these appear to be mainly capital the document management total includes elements which are not capital such as business process re-engineering, training costs and advice on the corporate document management policy. Supporting documentation has not been provided to us to show that these costs should be capitalised in accordance with the appropriate accounting standards of FRS10 for intangible assets or FRS 15 for tangible assets and not revenue expenditure. My proposed Opinion includes a limitation of scope because of the lack of evidence to support the £2.4 million.
- 15 The overall impact of this is summarised below.

**Table 1 Summary Adjustment to Intangible Assets**

Unadjusted misstatement	Nature of adjustment	Income and Expenditure Account		Balance Sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Intangible assets	TOTAL	2,100			2,100

### Recommendations

- R1** Consider adjusting the £2.1 million error in the financial statements I have identified which management has declined to amend (together with the small errors listed at Appendix 3) or set out the reasons for not amending the errors.
- R2** Put in place processes to review additions to intangible assets to ensure that they are correctly categorised and valued in accordance with accounting standards and sector guidance.
- R3** Maintain a register of software systems as an accounting record to ensure data and information is retained from year to year.

### Debtors

- 16 Debtors include NNDR arrears due from two companies totalling £815,561. The debts relate to prior years and have been raised in the current year because entries had been omitted from the valuation listing from the valuation office. The council makes provision against its debtors. For these debts however an error had been made in the calculation of the bad debt provision which was understated by £163,000. The error was brought to the attention of management and the accounts were adjusted as shown in Appendix 2.
- 17 Internal legal advice has been sought on the raising of these debts. As the value of these debts is greater than the materiality level of £716,000 I am asking for specific representation on the inclusion of these debts in the collection fund within the Letter of representation included in Appendix 4.

## Financial statements

### Recommendation

- R4** Processes are put in place to review the calculation of the bad debt provision to ensure that debts are treated on a consistent basis.

### Material weaknesses in internal control

- 18** We 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. However, we have identified a number of control and process weaknesses that have impacted upon the efficiency of our audit and have required additional audit testing. These weaknesses have impacted upon the audit fee for this year and will also require additional, unplanned work, in 2009/10.
- 19** The weaknesses that we have identified are in the accounting systems of fixed assets, payroll, creditors and general ledger (journals).

### Fixed Assets

- 20** The financial statements include a restatement of prior year's balances for the recognition of fixed assets of £464,000 which relate to industrial units which have been held for some years.

### Recommendation

- R5** A review of the assets owned by the Council is undertaken on a regular basis to ensure that all assets are correctly accounted for.

### Payroll

- 21** During the year the processing of the monthly payroll system transferred to Redditch Borough Council under a service level agreement. The weekly payroll system was transferred in April 2009. Although the processing arrangements have now changed we are required to bring to your attention weaknesses identified in internal control in operation during the year for both the previous and new arrangements and are set out in Table 2 below.

**Table 2 Weaknesses in internal control - Payroll**

Issue or risk	Finding
Access to data held on the previous CINTRA payroll system	In order for officers to provide us with evidence required for our audit testing it was apparent that arrangements had not been made for current employees to have received the appropriate training and access to the system. The data on payroll and HR systems has to be accessible for several years in line with statutory requirements.

Issue or risk	Finding
Monitoring of payroll reports from Redditch Borough Council or its performance against the service level agreement is not undertaken	To ensure that the service is being delivered as intended payroll reports from Redditch Borough Council should be reviewed and authorised by senior finance officers and the performance under the service level agreement routinely reviewed.
No segregation of duties in the processing of the weekly payroll	One officer was responsible for the entire system of processing the weekly payroll ie. inputting data, calculating pay and arrangements payment without referral to another officer.
Accessibility of information held by HR	Difficulty was experienced in obtaining confirmation that employees had contracts of employment with authorised pay rates.

Recommendations	
<b>R6</b>	A gross pay reconciliation is prepared during the year to ensure that all payroll costs are correctly accounted. This reconciliation will improve the control provided by the current arrangements of reconciliation of net pay and deductions.
<b>R7</b>	Arrangements are made to access the information held on the CINTRA payroll system in case of query by the Council, employees or HMCS.
<b>R8</b>	Arrangements are put in place to ensure that payroll reports are received and approved by senior finance officers prior to payments being made and costs incurred by the Council.
<b>R9</b>	The Service Level agreement in place with Redditch Borough Council is regularly monitored and reviewed to ensure the service is delivered as agreed.
<b>R10</b>	Within any payment system more than one officer is involved to ensure that payments made are bona fide, for the correct amount and appropriately authorised.
<b>R11</b>	Arrangements are made to ensure that payroll files are available when required by employees or the Council.
<b>R12</b>	Arrangements are made to ensure that all employees are issued with a contract of employment in accordance with requirements.

## Creditors

- 22** The testing of creditors identified occasions when employees were authorising amounts greater than their authorised limits and payments were made. On the occasions noted we received satisfactory confirmation that the amounts were bona fide payments. The Council in January 2009 implemented a module on their General Ledger to automate the processing of purchase ordering, receipt of goods and invoice authorisation. This includes the electronic routing of the authorisation of invoices to officers with pre-set authorisation levels. In the main this should address the weakness however the procedures will allow the receipt of manual 'yellow' pro-formas requiring manual checking of authorisation limits.

## Financial statements

### Recommendation

**R13** Arrangements are made that purchase invoice vouchers are signed by officers who have appropriate authorisation to ensure that payments made are for council obligations.

## General ledger (journals)

**23** The system for the processing of journals during the year allows any member of the accounts team to process journals on the general ledger without referral to another member of the team. The requirement for journals to be authorised by another member of the team is an internal control that safeguards the council's accounting systems. Although this requirement is met for the journals processed as part of the preparation of the financial statements it is not met for journals processed during the year.

### Recommendation

**R14** Journals are processed once reviewed by another member of the accounts team to ensure that the transaction meets the requirements of the council's accounting systems.

**24** We have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made. We have reported only those matters which have come to our attention because of the audit procedures we have performed.

## Letter of representation

**25** Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation I seek to obtain from you.

## Key areas of judgement and audit risk

**26** In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table 2.

**Table 3** Key areas of judgement and audit risk

Issue or risk	Finding
Transfer of payroll system	The monthly payroll system was transferred in September 2008. Internal audit had undertaken a review of the data transfer between the Council and Redditch Borough Council. Material weaknesses in internal control were identified in the payroll system both before and after transfer as reported separately in this report,
Impairment and valuation of Fixed Assets	An impairment review of valuations as at March 2007 had been obtained from the Council's valuer.

Issue or risk	Finding
Related Parties disclosure	No issues have been identified from our audit on the disclosure of related parties.
Prepayments	The Council had undertaken a detailed review of prepayments as part of the preparation of the financial statements.

### Accounting practice and financial reporting

- 27** I consider the qualitative aspects of your financial reporting. The working papers provided were of a satisfactory standard other than for the items noted elsewhere in this report.
- 28** We are required to audit the Council's National Non domestic rates return to the Communities and Local Government department. The return had been completed which included a figure of £451,991 which was not substantiated. Subsequently it has been found that error arose from the incorrect application of pluses and minuses on other cells within the return. The return has been amended for this error.

#### Recommendation

**R15** The return is completed in accordance with instructions and subjected to a peer review prior to certification.

- 29** I have no further matters to report other than those identified elsewhere in this report.

### Other matters - Internal Audit, Officer's Gift & Hospitality registers, IT disaster recovery arrangements and Annual Governance Statement

- 30** We are required to review the arrangements for the compliance of the Internal Audit service with professional requirements. We can report that the arrangements for compliance are considered to be adequate. The Council operates a small internal audit section which is managed by a neighbouring council.

#### Recommendation

**R16** The Audit Board ensures that arrangements are in place to monitor the progress of the Internal audit service provided in line with the CIPFA Code of Practice for Internal Audit in Local Government in accordance with its agreed plan and obtains adequate assurances for completion of the Council's Annual Governance Statement.

- 31** The arrangements for the completion of Officer's Gift and Hospitality registers have not been reviewed or publicised. Upon enquiry we were advised that registers are held in departments.

#### Recommendation

**R17** Arrangements for the completion of Officer's Gift and Hospitality registers are reviewed, publicised and regularly reviewed.

## Financial statements

- 32** The council has an IT disaster recovery plan which has not been tested in the last year. Without testing it is not known whether adequate arrangements are in place should a disaster occur to enable the council to continue its operations.

### Recommendation

**R18** The IT disaster recovery plan are routinely tested to ensure that the council can continue its operations

- 33** The council has limited arrangements in place to prepare the Annual Governance Statement. The statement is prepared by two senior officers and considered by the Corporate Management Team prior to forwarding to the Portfolio Holder for Finance. The Annual Governance Statement is a rolling document which should be prepared in accordance with CIPFA guidance.

### Recommendation

**R19** The Annual Governance Statement is prepared in accordance with CIPFA guidance to meet the requirements of the CIPFA Solace framework and its preparation is monitored by the Audit Board.

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# Use of resources

**I am required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.**

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## Value for money conclusion

- 34** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body.
- 35** I have identified weaknesses in your arrangements to prepare accounts that meet statutory requirements, financial reporting standards and present fairly the financial position of the authority.
- 36** Insufficient consideration was given to the accounting treatment of the Spatial Project in the authority's financial plans and in its preparation of its 2008/09 accounts. The financial information to support strategic decision making was therefore weak and consequently the authority has a significant funding gap. When the issue was raised during the audit the authority was unable to provide any valid evidence to support its accounting treatment.
- 37** I intend to issue a qualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources, except that it did not put in place adequate arrangements for ensuring its financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people.



# Appendix 1 – Independent auditor’s report to Members of Bromsgrove District Council

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## Opinion on the financial statements

I have audited the Authority accounting statements and related notes of Bromsgrove District Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Collection Fund 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 Bromsgrove District 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 prepared by the Audit Commission.

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## Respective responsibilities of the Head of Financial Services and auditor

The Head of Financial Services' responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

## Appendix 1 – Independent auditor’s report to Members of Bromsgrove District 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 Explanatory Foreword and 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 Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’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. However, in respect of capital expenditure amounting to £2.4 million relating to the Spatial Project the evidence available to me to support the capital nature of this expenditure was limited because the supporting papers relating to those amounts were not available at the time of the audit. I was unable to obtain sufficient appropriate audit evidence regarding the capital nature of this expenditure by using other audit procedures.

In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

### Qualified opinion arising from a disagreement about accounting treatment and a limitation of scope

In addition to the expenditure of £2.4 million referred to above, a further £2.1million in respect of the Spatial Project has been capitalised and is being carried on the Council's balance sheet as an intangible fixed asset. In my opinion this expenditure should have been charged to the Income and Expenditure account in the year. Accordingly the carrying value of fixed assets should be reduced by £2.1 million and the deficit for the year should be increased by the same amount, resulting in a negative general fund balance of £347,000.

Except for the financial effects of such adjustments, if any, as might have been necessary had I been able to satisfy myself as to the nature of the £2.4 million expenditure and the effect of the inappropriate capitalisation of the further expenditure on the Spatial Project of £2.1 million referred to above, in my opinion the financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

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

#### Authority’s Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and 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 Authority 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 principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. 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.

#### Qualified Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice. In so doing, I was unable to obtain sufficient appropriate evidence that Bromsgrove District Council had satisfactory arrangements for preparing accounts that meet statutory requirements and financial reporting standards to present fairly the financial position of the authority.

Having regard to relevant criteria specified by the Audit Commission for principal local authorities, published by the Audit Commission in May 2008 and updated in February 2009, and the supporting guidance. I am satisfied that, in all significant respects, Bromsgrove District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009 except that it did not put in place adequate arrangements for:

- ensuring its financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people.

#### 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.

Elizabeth Cave  
(Officer of the Audit Commission)

Business Centre

Blackpole Road

Worcester

September 2009

# Appendix 2 – Adjusted amendments to the accounts

The following misstatements were identified during the course of my audit and the financial statements have been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities.

**Table 4**

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Provisions/Creditors	Incorrect classification of redundancy costs	-	-	55	55
Creditors: Other creditors /Government departments	Incorrect classification	-	-	127	127
Debtors/Creditors	NNDR - Incorrect calculation of bad debt provision	-	-	163	163

# 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 5**

Description of error	Accounts affected	Value of error £
Capitalisation of MDA services for Spatial Project	Intangible assets/Income & Expenditure account	At least £2.1million
Overstated debtors	I & E/Debtors	£26K
Suspense accounts included in debtors	I & E/Debtors	£19K
Fixed asset no longer owned	Fixed Assets/Capital Adjustment Account	£45K
Bank reconciliation differences	I & E/Bank	£7k

# Appendix 4 – Draft letter of representation

To:

Elizabeth Cave

The Audit Commission

The Business Centre

Blackpole Road

Worcester

WR3 8SQ

## **Bromsgrove District Council - Audit for the year ended 31 March 2009**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Bromsgrove District Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2009.

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

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which present fairly the financial position and financial performance of the Council and for making accurate representations to you.

### **Uncorrected misstatements**

I confirm that I have considered the effects of the uncorrected financial statements misstatements listed in the attached schedule, one of which is material to the financial statements. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows;

reason 1 etc;

reason 2

### **Supporting records**

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in

## Appendix 4 – Draft letter of representation

the accounting records. All other records and related information, including minutes of all Council meetings, have been made available to you.

### Irregularities

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

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.

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; and
- 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.

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

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

The 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.

### Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For the valuation of land and buildings, debtors, creditors and provision assumptions, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- subsequent events do not require adjustment to the fair value measurement.

### Assets

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

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

### **Compensating arrangements**

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in Note X to the financial statements we have no other lines of credit arrangements.

Contingent liabilities

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

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

### **Related party transactions**

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

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

### **Post balance sheet events**

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

If adoption of the financial statements and the representation are on the same day this paragraph is not required.

### **Specific representations:**

I confirm that to the best of my knowledge and belief the specific debts totalling £815,561 are due to Bromsgrove District Council.

Signed on behalf of Bromsgrove District Council.

I confirm that the this letter has been discussed and agreed by the Council on [date]

Signed



## Appendix 4 – Draft letter of representation

Name

Position

Date

# Appendix 5 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<b>Annual Governance Report 2008/09 - Recommendations</b>					
8	R1 Consider adjusting the £2.1 million error in the financial statements I have identified which management has declined to amend (together with the small errors listed at Appendix 3) or set out the reasons for not amending the errors.	3	Head of Financial Services	Y	Spatial project costs being addressed via potential capitalisation. Other issues to be addressed as part of 2009/10 closedown.	March 2010
8	R2 Processes are put in place to review additions to intangible assets to ensure that they are correctly categorised and valued in accordance with accounting standards and sector guidance.	3	Head of Financial Services	Y	Full review of assets to be undertaken prior to 2009/10 closedown.	December to March 2010
8	R3 A register is maintained of software systems as an accounting record to ensure data and information is retained from year to year.	2	Head of Financial Services	Y	The current register of software to be developed further to ensure completion together with issues arising from shared service with Redditch BC.	December to March 2010

## Appendix 5 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	R4 Processes are put in place to review the calculation of the bad debt provision to ensure that debts are treated on a consistent basis.	2	Head of Financial Services	N	The initial 2008/09 provision was calculated and mistakenly amended – this was considered to be a one off and a process is in place to be checked by senior officer.	
9	R5 A review of the assets owned by the Council is undertaken on a regular basis to ensure that all assets are correctly accounted for.	3	Head of Financial Services	Y	Full review of assets to be undertaken prior to 2009/10 closedown.	December to March 2010
10	R6 A gross pay reconciliation is prepared during the year to ensure that all payroll costs are correctly accounted for.	3	Head of Financial Services	Y	Full reconciliation to be undertaken monthly by finance team.	October 2009
10	R7 Arrangements are made to access the information held on the CINTRA payroll system in case of query by the Council, employees or HMCS.	3	Head of Financial Services	Y	Arrangements already in place to access system and accounts team trained in use of system and reporting.	September 2009
10	R8 Arrangements are put in place to ensure that payroll reports are received and approved by senior finance officers prior to payments being made and costs incurred by the Council.	2	Head of Financial Services	Y	Process to be documented to ensure reports are checked by senior officer prior to payment.	November 2009

## Appendix 5 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
10	R9 The Service Level agreement in place with Redditch Borough Council is regularly monitored and reviewed to ensure the service is delivered as agreed.	2	Head of Financial Services	Y	Review of SLA to be undertaken to ensure all issues/concerns addressed as part of the agreement.	December 2009
10	R10 Within any payment system more than one officer is involved to ensure that payments made are bona fide, for the correct amount and appropriately authorised.	3	Head of Financial Services	Y	Discussions to be held with Redditch BC to ensure segregation of duties in the payments made.	November 2009
10	R11 Arrangements are made to ensure that payroll files are available when required by employees or the Council.	2	Head of Financial Services	Y	Discussions to be held with Redditch and HR to ensure files are available and complete.	October 2009
10	R12 Arrangements are made to ensure that all employees are issued with a contract of employment in accordance with requirements.	3	Head of Financial Services	Y	Discussions to be held with Redditch and HR to ensure contracts are completed.	October 2009
11	R13 Arrangements are made that purchase invoice vouchers are signed by officers who have appropriate authorisation to ensure that payments made are for council obligations.	3	Head of Financial Services	Y	This issue is recognised but is of low risk as the Purchase Ordering System which was implemented in January 2009 requires authorisation levels prior to invoices and orders being placed. Staff are to be reminded of authorisation limits for any invoices that are not processed through the POP system.	September 2009

Appendix 5 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
11	R14 Journals are processed once reviewed by another member of the accounts team to ensure that the transaction meets the requirements of the council's accounting systems.	2	Head of Financial Services	N	The checking of journals by another member of the team is accepted as an issue but is judged as being low risk as detailed monthly monitoring reports are produced and reviewed which would highlight any mispostings of journals in the ledger.	
12	R15 The return is completed in accordance with instructions and subjected to a peer review prior to certification.	3	Head of Financial Services	Y	The return will be checked by the Head of Financial Services.	November 2009
12	R16 The Audit Board ensures that arrangements are in place to monitor the progress of the Internal audit service provided in line with the CIPFA Code of Practice for Internal Audit in Local Government in accordance with its agreed plan and obtains adequate assurance for completion of the Council's Annual Governance Statement.	2	Head of Financial Services	Y	The Audit Board presently monitor the performance and workload of the Internal Audit team. It is agreed that there will be a statement from Heads of Service to ensure they are meeting the governance arrangements across the Council.	May 2010
12	R17 Arrangements for the completion of Officer's Gift and Hospitality registers are reviewed, publicised and regularly reviewed.	3	Head of Financial Services	Y	Review to be undertaken prior to 2009/10 final accounts.	March 2009

## Appendix 5 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
13	R18 The IT Disaster recovery plan should be routinely tested to ensure that the council can continue its operations.	2	Head of IT	Y	Plan to be tested and issues to be documented for improvement in the future.	March 2009
13	R19 The Annual Governance Statement is prepared in accordance with CIPFA guidance to meet the requirements of the CIPFA Solace framework and its preparation is monitored by the Audit Board.	3	Head of Financial Services	Y	Governance Statement currently developed with CMT and portfolio holder. Process to be revised to ensure Audit Board monitor preparation of statement for 2009/10 accounts.	May 2010

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# The Audit Commission

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