

Annual

governance

report

Bromsgrove District Council

Audit 2010/11

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Ladies and Gentlemen

2010/11 Annual Governance Report

I am pleased to present the results of my audit work for 2010/11.

I discussed and agreed a draft of my report with the Chief Executive and Director of Finance on 16 September 2011 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 6 to 8);
- 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 2); and
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (appendix 3).

Yours faithfully

Elizabeth Cave
District Auditor

19 September 2011

Key messages

This report summarises the findings from the 2010/11 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.

Table 1: **Key messages – financial statements**

Financial statements	Results	Page
Unqualified audit opinion	Yes	6
No important weaknesses in internal control	Yes	7

Table 2: **Key messages – value for money**

Value for money		
Proper arrangements to secure value for money	Yes	9

Audit opinion

1 My overall conclusion is that I propose to issue an unqualified audit opinion.

Financial statements

2 The Financial statements were well prepared I did not identify any material errors during my audit. There were a number of non-material errors and I bring to your attention the two that have not been adjusted for in the revised accounts.

3 I am very grateful for the co-operation and good working papers I received from your officers which has allowed me to substantially complete the audit.

Value for money

4 I expect to be able to conclude that there are satisfactory arrangements in place to secure economy, efficiency and effectiveness and therefore propose to issue an unqualified value for money conclusion.

Independence

5 I can confirm that I have complied with the Audit Practice Board's ethical standards for auditors, including ES 1 (revised) – Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

6 The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

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 Cabinet to recommend to the full Council to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 8);
- agree to adjust the errors in the financial statements I have identified that management has declined to amend or set out the reasons for not amending the errors (appendix 2); and
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (appendix 3).

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council 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 you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

8 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report. In seeking to reach a conclusion on whether the Council's financial statements are free from material misstatement I have defined materiality as 2 per cent of Gross Expenditure.

9 I have concluded that the accounts do not 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 with us.

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

Key areas of judgement and audit risk

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

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

Issue or risk	Finding
<p>IFRS Implementation of International Financial Reporting Standards. This will affect the accounting policies of the council.</p> <p>A restatement of opening balances is required. In particular the treatment of leases, investment properties, employee benefits and government grants will affect the council.</p>	<p>We carried early testing on restatement of balances and accounting policies. The council prepared well for the introduction of IFRS and there are no issues to report</p>
<p>The continuing shared services programme results in increasing joint services. There are recharges between Bromsgrove and Redditch and it is important that these charges are correctly reflected in each set of financial statements</p>	<p>We carried out specific testing of recharges between the two councils and there are no issues to report.</p>
<p>Bromsgrove is the host authority for the Worcestershire Shared Service Joint Committee. Expenditure for the joint committee is processed by Bromsgrove. Expenditure for the authority and the joint committee needs to be recorded accurately in the correct set of financial statements</p>	<p>We carried out specific testing of expenditure to ensure classification was correct. Whilst there were no errors in the Bromsgrove District Council accounts there were significant weaknesses in the preparation of the Joint Committee accounts which will be reported in the Annual Governance Report for the Joint Committee.</p>

Errors in the financial statements

- 13** The Financial statements were presented for audit on 4 July 2011.
- 14** As part of my audit responsibilities I am required to report to you those matters of governance that I feel are both important to you in your role of overseeing the financial reporting and disclosure process. I am also required to report any uncorrected errors that are 'non-trivial' that are identified during my audit before I issue my opinion. There were a number of disclosure and non-trivial numerical errors that have been corrected and these have been reported separately to the Executive Director (Finance and Resources).
- 15** There are two errors which are not material but are significant enough that I must report them to you.

16 Bromsgrove District Council owns land on which it has granted a 175-year lease to Aldi supermarkets. In return for changing the usage from industrial to retail Aldi paid a £400k premium to the council. The council treated all of this sum as a capital receipt in the year. Normal accounting practice would mean that the premium should be brought into income over the period of the lease (175 years). The accounts have not been amended for this error, therefore income in the CIES and the general fund balance are overstated by £400k. I understand that the land is due to be sold and in that case the premium would be treated as a capital receipt in the year of sale and available to finance other projects.

17 Whilst I disagree with the treatment of this receipt the issue is not significant enough to prevent me from giving an unqualified opinion.

18 Each year, as part of its budgeting process, the council identifies an amount of staff salaries that it will capitalise as overheads to capital projects. This is to take account of the fact that in its view some of the time spent by staff is spent on acquiring capital assets. However Section B23 of the 'Code of Practice on Local Government Accounting in the UK – Guidance Notes for Practitioners 2010/11' specifically prohibits the capitalisation of such overheads.

19 Expenditure that can be capitalised has to be directly attributable to bringing an asset into use and excludes management of the capital programme and grant applications.

20 The accounts have been amended to remove the £138k initially capitalised in 2010/11 and charge it to the revenue account.

21 We requested a review of the asset balances to establish whether the similar capitalised amounts in earlier years have resulted in a materially mis-stated balance of Property, Plant and Equipment.

22 The amount which remains on the balance sheet after revaluation and depreciation amounted to £238k. No adjustment has been made for this, therefore the asset balance is overstated by this amount.

23 The recommended adjustment entries are shown in appendix 2. If the Council decides not to adjust this will not prevent me from issuing an unqualified report.

Recommendation

R1 That Bromsgrove District council adjust its financial statements to:

- amend the treatment of the lease premium received from Aldi so that it is written off to revenue over the full life of the lease; and
- eliminate the remaining un-depreciated administration charge capitalised in earlier years.

Quality of your financial statements

24 I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statement disclosures.

25 There are no matters that I wish to bring to your attention.

Letter of representation

26 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 the draft letter of representation.

Value for money

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

27 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against the two criteria specified by the Audit Commission.

28 The two specified criteria are whether the Authority has proper arrangements for:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

29 Our risk assessment carried out as part of our planning identified that the Council is facing pressure on its finances whilst at the same time implementing a substantial shared services and transformation programme. We planned audit procedures to monitor progress of the shared services implementation to establish how the two aspects of Value for Money are being achieved.

30 I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my draft report.

Appendix 1 Draft Independent Auditor's report to the members of Bromsgrove District Council

NDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BROMSGROVE DISTRICT COUNCIL

Opinion on the Authority and Group accounting statements

I have audited the Authority and Group accounting statements of Bromsgrove District council for the year ended 31 March 2011 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and 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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Executive Director (finance and resources) and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Authority and Group's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the

reasonableness of significant accounting estimates made by the Authority and Group; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Bromsgrove District Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended;
- give a true and fair view of the state of the Group's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

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

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on Authority's 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 to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the

Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Bromsgrove District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the Authority and Group accounts of Bromsgrove District Council 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
Room 24
West Mercia Police
Hindlip Hall
PO Box 55
Worcester

Appendix 2 Unadjusted misstatements in the financial statements

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements. If you decide not to amend, please tell me 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 4:

Unadjusted mis-statement	Comprehensive income and expenditure statement		Balance sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
Description	Account entry and value			Account entry and value
1. Lease premium reversal				
Income for year	400			
Surplus for the year		400		
Receipts in advance			400	
Reserves				400
Income-1/175 of lease premium for year		0.2285		
surplus for the year	0.2285			
Receipts in advance				0.2285

Unadjusted mis-statement	Comprehensive income and expenditure statement	Balance sheet
Reserves		0.2285
2. Reversal of previous years capitalisation		
Fixed assets		238
Reserves		238

Appendix 3 Draft letter of representation

To: Elizabeth Cave
Audit Commission
Room 24
West Mercia Police Headquarters
Hindlip Hall
PO Box 55
Worcester
WR3 8SP

Bromsgrove District Council – Audit for the year ended 31 March 2011

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 's financial statements for the year ended 31 March 2011. All representations cover the Council's accounts and Group Accounts included within the financial statements.

Compliance with the statutory authorities

I have fulfilled 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 which give a true and fair view of the financial position and financial performance of the council for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

Supporting records

All relevant information and access to persons within the entity [as agreed in the engagement letter] has been made available to you for the purpose of your audit, and all the transactions undertaken by the [insert type of audited body] have been properly reflected and recorded in the financial statements.

Irregularities

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

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The 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.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of Bromsgrove District council related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of Bromsgrove District Council

I confirm that the this letter has been discussed and agreed by the Council on 26 September 2011

Signed

Jayne Pickering

Executive Director (Finance and Resources)

26 September 2011

Appendix 4 Glossary

Annual governance statement

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

Audit closure certificate

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 financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my 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; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality (and significance)

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

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

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Value for money conclusion

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 based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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- any third party.



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