

Annual Governance Report

Bromsgrove District Council

Audit 2007/08

September 2008



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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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Summary

Purpose

- 1 This report summarises the findings from our 2007/08 audit, which is substantially complete. It identifies the key issues that you should consider before we issue our opinion, conclusion and certificate.
- 2 This report includes only matters of governance interest that have come to our attention in performing our audit. Our audit is not designed to identify all matters that might be relevant to you.

Financial statements

- 3 We expect to issue an unqualified opinion on the financial statements. The audit went smoothly and co-operation and working papers were good.
- 4 The financial statements submitted for audit were of a good standard and although a small numbers of amendments have been made these are minor in nature and reflect improvements or refinements to the disclosures in the financial statements.

Value for money

- 5 The Council's system of internal control is operating satisfactorily and we therefore propose issuing an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.
- 6 This represents a significant improvement over the previous two years when in a number of areas it was found that systems were not operating satisfactorily.

Next steps

- 7 We ask the Audit Committee to:
 - consider the matters raised in the report before approving the financial statements; and
 - approve the representation letter on behalf of the Council before we issue our opinion, conclusion and certificate.

Financial statements and Annual Governance Statement

- 8 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 the financial statements and Annual Governance Statement. It is therefore important that you consider our findings before you adopt the financial statements and the Annual Governance Statement.
- 9 In planning our audit we identified specific risks and areas of judgement that we have focused on during our audit. We report to you the findings of our work in those areas.
- 10 In addition, auditing standards require us to report to you:
- the draft representation letter which we are asking management and you to sign;
 - our views about the Council's accounting practices and financial reporting;
 - errors in the financial statements;
 - any expected modification to our report;
 - weaknesses in internal control; and
 - certain other matters.

Key areas of judgement and audit risk

- 11 In planning our audit we identified key areas of judgement and audit risk that we have considered as part of our audit. Our findings are set out in Table 1.

Table 1 Key areas of judgement and audit risk

| Issue or risk | Finding |
|--|---|
| Accounting requirements of the 2007 SORP eg: financial instruments and revaluation reserve | We discussed the Council's approach during the year to the new requirements and at the year end reviewed the Council's implementation in detail and found this to be satisfactory. |
| Capital Outturn position and the impact on the future commitments and reserve usage strategy. | The significant capital slippage in the year was the major factor in the increase in the General Fund balance. However, the impact of the slippage has been addressed in the 2008/09 Capital Budgeting process. |
| VAT creditor - KPMG reported that there was insufficient evidence to support this figure in 2006/07. | The VAT balance (which is now a debtor figure) is now fully supported. |

Financial statements and Annual Governance Statement

| Issue or risk | Finding |
|--|---|
| Dolphin Centre - impact on accounts of the closure for refurbishment prior to planned transfer to a Trust. | The impact of the three month closure on the income received from the Dolphin Centre was very much in line with expectations. |

Draft representation letter

12 Before we issue our opinion, auditing standards require us to obtain from you and management, written representations that:

- you acknowledge your collective responsibility for preparing financial statements in accordance with the applicable financial reporting framework;
- you have approved the financial statements;
- you acknowledge your responsibility for the design and implementation of internal controls to prevent and detect fraud and error;
- you have told me the results of your assessment of the risk that the financial statements might be materially misstated because of fraud;
- you have told me any actual or suspected fraud by management, employees with significant roles in internal control or others (where the fraud could have a material impact on the financial statements);
- you have told me of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
- you have told me about all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements;
- you have assessed the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council where relevant to the fair value measurements or disclosures;
- you are satisfied that all related parties requiring disclosure in the financial statements have been disclosed and that the disclosure is adequate;
- you are satisfied that the individual or collective impact of errors we have identified, but that you have not corrected, is not material; and
- cover areas where other sufficient appropriate evidence cannot reasonably be expected to exist, for example the completeness of the disclosure of contingent liabilities.

13 Appendix 1 contains the draft of the letter of representation we seek from you.

Accounting policies and financial reporting

- 14 We have considered the qualitative aspects of your financial reporting and have identified two issues which we need to report to you. These have previously been discussed with management.
- The Council does not have a clear methodology for identifying and reporting on its relationships with Related Parties. Amendments have been made to the 2007/08 disclosure and the Council needs to adopt a clear policy for the identification and reporting of these in the future.
 - During the year the Council disposed of two houses (Gateway Hostel) for a nominal sum to BDHT. The accounting entries were based on a dated valuation for similar properties in the area (as reported to Cabinet in August 2006). There was no impact on the financial statements as the property was disposed of during 2007/08. However, if this had not been the case the value in the Revaluation Reserve is likely to have been over-stated. In the future up to date valuations should be obtained for all properties scheduled for disposal.

Errors in the financial statements

- 15 We identified two errors in the financial statements (other than those of a trivial nature) and reported these to management. The first issue in respect of leasehold properties (see below) has been adjusted in the revised accounts.
- In reviewing the Fixed Asset base a number of properties on industrial sites were identified, which being valued at under the £10,000 de-minimus level were not included on the Asset Register. However, these properties had been leased out on long term leases which were generating significant annual income. A revised valuation has been obtained from the County Council's Valuation Officer in respect of seven industrial site properties and this total valuation is £965,000. These assets have now been reflected in the Council's Accounts at this revised valuation.
- 16 However at the present time management has not adjusted the financial statements for the second issue in respect of prepayments. We would therefore ask you to consider whether to adjust for this error. If you decide not to do so, please tell us why in the representation letter. If you believe the effect of this uncorrected error, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.
- The methodology for identifying prepayments, although improved from previous years needs further refinement. Prepayments in relation to insurance and IT licences had not been correctly treated, leading to an understatement of £71,000 in this balance. We recognise that this is a historic issue and that the equivalent of a full year's expenditure has been included in the 2007/8 financial statements, but the full year in question is not the 2007/08 financial year.

The audit report

- 17 We plan to issue an unmodified report including an unqualified opinion on the financial statements. Appendix 2 contains a copy of our draft report.

Financial statements and Annual Governance Statement

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.

Other matters

- 19 There are no other matters that auditing standards require me to report to you.

Value for money

- 20 We are required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. We assess your arrangements against the 12 criteria specified by the Commission. Our conclusion is informed by our work on Use of Resources, a scored judgement reported to the Audit Commission.
- 21 We have assessed the arrangements of the Council as adequate in all 12 areas and we therefore propose to issue an unqualified conclusion.

Formal audit powers

22 We have:

- a power to issue a public interest report. We do so where we believe this is necessary to draw a matter to your attention, or to that of the public;
- a power to apply to court for a declaration that an item in the Council's accounts is contrary to law;
- a power to issue an advisory notice. An advisory notice requires the Council to meet and consider the notice before:
 - making a decision that might give rise to unlawful expenditure; or
 - taking an unlawful course of action that would give rise to a loss; or
 - making unlawful entry in the accounts; and
- a power to seek judicial review of a decision of the Council.

23 We have not and do not propose to exercise these powers.

Independence

- 24 The Code of Audit Practice and the APB's Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.
- 25 We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 26 We communicate to you:
- any relationships between us and the Council, its members and senior management that might affect our objectivity and independence and any safeguards put in place;
 - total fees charged to you for audit and non-audit services; and
 - our arrangements to ensure independence and objectivity.

Relationships with the Council

- 27 We have identified no relationships that might affect objectivity and independence.

Audit fees

- 28 We reported our fee proposals as part of the Audit Plan for 2007/08. Table 2 below reports the outturn fee against that plan.

Table 2 Audit fees (£'000)

| | Plan 2007/08 | Actual 2007/08 |
|--|---------------------|-----------------------|
| Financial statements and Annual Governance Statement | 63,750 | 63,750 |
| Value for Money | 27,900 | 27,900 |
| National Fraud Initiative | 600 | 600 |
| Total Audit Fees | 92,250 | 92,250 |
| Other work | 0 | 0 |

- 29 The analysis above shows that we contained our audit fee within the totals you have already agreed.
- 30 Under the Audit Commission's advice and assistance power it may provide non-audit services to the Council. No services have been provided under this power in 2007/08.

Independence

Our arrangements to ensure independence and objectivity

31 We have comprehensive procedures to ensure independence and objectivity. These are outlined in Table 3.

Table 3 Arrangements to ensure independence and objectivity

| Area | Arrangements |
|-----------------------|---|
| Independence policies | <p>Our policies and procedures ensure that professional staff or an immediate family member:</p> <ul style="list-style-type: none">• do not hold a financial interest in any of our audit clients;• may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; and• may not enter into business relationships with UK audit clients or their affiliates. <p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none">• the general requirement to carry out work independently and objectively;• safeguarding against potential conflicts of interest;• acceptance of additional (non-audit) work;• rotation of key staff;• other links with audited bodies;• secondments;• membership of audited bodies;• employment by audited bodies;• political activity; and• gifts and hospitality. |
| Code of Conduct | <p>The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff have to comply with ethical guidance issued by their relevant professional bodies.</p> |
| Confidentiality | <p>All staff are required to sign an annual undertaking of confidentiality as a condition of employment.</p> |

Appendix 1 – Draft letter of representation

To:
Elizabeth Cave
District Auditor
The Audit Commission
The Business Centre
Blackpole Road
Worcester
WR3 8SQ

Bromsgrove District Council - Audit for the year ended 31st March 2008

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 Council's financial statements for the year ended 31 March 2008.

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements which give a true and fair view and for making accurate representations to you.

I acknowledge my responsibilities under the relevant statutory authorities to prepare the Council's accounts in accordance with proper practices as defined in relevant legislation or guidance.

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.

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

Related party transactions

I confirm the completeness of the information provided 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.

Appendix 1 – Draft letter of representation

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;
- 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.

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.

In all material respects, the expenditure and income disclosed in the financial statements has been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

The body 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.

Assets

The following have been properly recorded and when 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.

Irregularities

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

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.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

Signed on behalf of Bromsgrove District Council

Signed:

Name: Jayne Pickering

Position: **Head of Financial Services**

Date:

Signed:

Name: Councillor S R Peters

Position: **Chairman Audit Board**

Date:

Appendix 2 – Independent auditor’s report to the Members of Bromsgrove District Council

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 2008 under the Audit Commission Act 1998. The Authority accounting statements comprise the Authority Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority Balance Sheet, the Authority Statement of Total Recognised Gains and Losses, the Authority 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 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Director of Resources and auditor

The Director of Resources responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 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 Authority’s accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007: 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.

I read other information published with the Authority accounting statements, and consider whether it is consistent with the audited Authority accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority 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 Authority 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 Authority 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 Authority 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 Authority accounting statements and related notes.

Opinion

In my opinion:

The Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 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.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, 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 2008.

Best Value Performance Plan

My predecessor issued a statutory report on the audit of the authority’s best value performance plan for the financial year 2007/08 on December 2007. He did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

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

District Auditor

Date:

The Business Centre

Blackpole Road

Worcester

WR3 8SQ

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, covering the £180 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

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