

Annual Governance Report

Bromsgrove District Council

Audit 2009/10

September 2010

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Status of our reports

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

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

2009/10 Annual Governance Report

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

I discussed and agreed a draft of the report with the Executive Director of Finance and Corporate Resources on 15 September 2010.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 10);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 2); and
- agree your response to the proposed action plan (Appendix 4).

Yours faithfully

Elizabeth Cave
District Auditor

September 2010

Key messages

This report summarises the findings from the 2009/10 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements	Results	Page
Unqualified audit opinion	Yes	7-10
Financial statements free from material error	Yes	7-10
Adequate internal control environment	Yes	7-10
Value for money	Result	Page
Adequate arrangements to secure value for money	Yes	11

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 and included all the entries necessary to amend the accounting treatment of the Spatial project which was the reason for my opinion being qualified last year. I did not identify any significant errors during my audit.
- 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.

Audit fees

- 5 Further to the External Opinion plan presented to you in March 2010 I currently estimate that no further additional fee will be charged and I will consider the agreed audit fee upon completion of the audit.

Key messages

Independence

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

Next steps

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

7 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 10);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 2); and
- agree your response to the proposed action plan (Appendix 4).

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 In seeking to reach a conclusion on whether the Council's financial statements are free from material misstatement (materiality is defined as 2 per cent of Gross Expenditure). I have concluded that the accounts do not contain material misstatements.
 - 9 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.
 - 10 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.
-

Errors in the financial statements

- 11 The Financial statements were presented for audit on 2 July 2010.
 - 12 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 items that are 'non trivial' that are identified during my audit before I issue my opinion. The level of 'trivial' is defined as greater than £8,000.
 - 13 I am pleased to report that no errors in the Financial statements were identified during the course of the audit.
-

Important weaknesses in internal control

- 14 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, as reported last year we have identified a control and process weakness that has impacted upon the efficiency of my audit and has required additional audit testing. This weakness impacted upon the audit fee for this year and will also require additional work in 2010/11.
 - 15 The weakness that I have identified is in the accounting system of general ledger (journals).
-

General ledger (journals)

16 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

R1 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.

17 I have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made. I have reported only those matters which have come to my attention because of the procedures performed during the course of my audit.

Letter of representation

18 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 2 contains the draft letter of representation.

Key areas of judgement and audit risk

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

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
Spatial project - determination of the accounting treatment for the expenditure of £4.5 million accounted for in 2008/09 as an intangible asset	Your officers have revisited the accounting treatment for the expenditure of £4.5 million on the spatial project incurred in 2008/09. A schedule of expenditure considered to be capital in nature totalling £2.2 million was provided to me in February 2010 and I agreed with this classification. The remaining expenditure

Financial statements

Issue or risk	Finding
	was deemed to be revenue. Your officers were successful in obtaining a capitalisation direction from central government for £2.265 million. I have found that the Council has correctly accounted for this direction.
Disclosure of Council Tax debtors and accounting for NNDR in line with the requirements of the SORP.	The treatment of these items within the financial statements has been reviewed and no errors have been identified.

Accounting practice and financial reporting

20 I have reviewed the arrangements for the approval of the Council's financial statements and have concluded that the requirements of the Accounts and Audit Regulations 2003 (as amended in March 2009) have been met overall. However the process was fragmented. The accounts which were approved by Council were accompanied by an errata sheet and were subsequently corrected for these items and in response to a member question. This has been raised with your officers who have noted my comments.

Recommendation

R2 Improvements are made to the arrangements for the approval of the Council's financial statements

21 I also consider the non-numeric content of your financial reporting.

22 The requirements for disclosure in the Financial Statements are set out in the Statement of Recommended Practice 2009 (SORP) published by CIPFA. The SORP sets out the proper accounting practices requirement for Statement of Accounts, by section 21(2) of the Local Government Act 2003 prepared in accordance with the statutory framework established for England by the Accounts and Audit Regulations 2003. The items of incomplete disclosure identified during my audit have been raised with your officers and the financial statements adjusted for all of these items.

23 In addition I consider the qualitative aspects of your financial reporting. I am pleased to report that the working papers for the financial statements provided for my audit were generally of a good standard. However, a breakdown of individual debts by age for council tax and national non domestic (business) rates at the year end had not been retained and was not able to be subsequently recreated, although the summary figures were available.

- 24** The Council are required to collect monies from business rate payers on behalf of central government and pay these monies/receive monies over to/from central government. Each year the Council are required to prepare a grant claim to confirm the correct amount of business rate monies collected and then paid over to central government which is subject to a separate review. The review of the claim identified that a full audit trail from the computer system for business rates to support the values included within the claim had not been retained at the time of its preparation.

Recommendation

- R3** Adequate arrangements are made for the retention of documentation from the computer accounting systems for Council Tax and Business (NNDR) Rates to support final accounts working papers and claim to a government department.

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

Value for money

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

Value for money conclusion

- 26** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 3.
- 27** 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 my draft report.

Glossary

Annual governance statement

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

Audit closure certificate

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

Audit opinion

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

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

Qualified

31 The auditor has some reservations or concerns.

Unqualified

32 The auditor does not have any reservations.

Value for money conclusion

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

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

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

Opinion on the accounting statements

I have audited the accounting statements and related notes of Bromsgrove District Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement 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 published by the Audit Commission in April 2008.

Respective responsibilities of the Executive Director Finance and Corporate Resources and auditor

The Executive Director Finance and Corporate Resources’ responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

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

I report to you my opinion as to whether the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of 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 accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to

form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

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. 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. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

Opinion

In my opinion the Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

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

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 for other local government bodies specified by the Audit Commission and

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

published in January 2009. 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 other local government bodies specified by the Audit Commission and published in January 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 ended 31 March 2010.

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

Blackpole Business Centre,

Blackpole Road,

Worcestershire

WR3 8SQ

September 2010

Appendix 2 – Draft letter of representation

Draft management representation letter

To:

Elizabeth Cave

Officer of the Audit Commission

The Business Centre

Blackpole Road

Worcester

WR3 8SQ

Bromsgrove District Council - Audit for the year ended 31 March 2010

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 2010.

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 give a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

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.

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;

Appendix 2 – Draft letter of representation

- 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 valuation of land and buildings, debtors, creditors and provisions 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
- that 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.

Signed on behalf of Bromsgrove District Council I confirm that the this letter has been discussed and agreed by the Council on [date]

Signed

Name

Position

Date

Appendix 3 – Value for money criteria

KLOE	Met
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural resources	Yes

Appendix 4 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Governance Report 2009/10 - Recommendations						
8	R1. 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	Executive Director of Finance and Corporate Resources	Yes	Journal authorisation to be implemented from September 2010 and prior 2010/11 journals to be reviewed	September 2010
9	R2. Improvements are made to the arrangements for the approval of the Council's financial statements	3	Executive Director of Finance and Corporate Resources	Yes		June 2011
10	R3. Adequate arrangements are made for the retention of documentation from the computer accounting systems for Council Tax and Business (NNDR) Rates to support final accounts working papers and claim to a government department.	1	Executive Director of Finance and Corporate Resources	Yes	Accountancy services to formalise arrangements for the documentation and records required for NNDR financial information	January 2011

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, auditing the £200 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

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