

Annual Governance Report

Charnwood Borough Council

Audit 2007/08

Date

DRAFT

Contents

Summary	3
Financial statements and Annual Governance Statement	4
Value for money	9
Formal audit powers	10
Independence	11
Appendix 1 – Draft letter of representation	13
Appendix 2 – Draft independent auditor’s report to the Members of Charnwood Borough Council	16

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.

Summary

Purpose

- 1 This report summarises the findings from our 2007/08 audit of the financial statements and the value for money conclusion, 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.

Value for Money

- 4 We propose issuing an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

Formal audit powers

- 5 We have not had to exercise any formal audit powers.

Next steps

- 6 We ask the ad-hoc sub-committee (governance matters) to:
 - consider the matters raised in the report;
 - provide us with a response if you do not agree to adjust the financial statements for the unadjusted errors set out below;
 - approve the representation letter on behalf of the Council before we issue our opinion, conclusion and certificate; and
 - respond to the recommendations contained within this report.

Financial statements and Annual Governance Statement

- 7 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 receive the audited financial statements.
- 8 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.
- 9 In addition, auditing standards require us to report to you:
- the draft representation letter which we are asking management 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

- 10 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
A full valuation of the Council's land and buildings was last carried out in 2004. There has been no exercise since to ascertain if property values have changed significantly. Fixed assets may therefore not be carried in the balance sheet at their current value.	Your in-house valuer prepared a report showing that as at the balance sheet date the current value of council dwellings was over £40 million higher than shown in the draft accounts. The value of council dwellings has been adjusted to bring it to the current value at March 2008. Further details are set out below.
Changed accounting requirements, especially revaluation reserve accounting and financial instruments.	We provided seminars on this and other issues for officers. Disclosures in the draft accounts in respect of financial instruments were subsequently

Financial statements and Annual Governance Statement

Issue or risk	Finding
	included to ensure they fully met the new requirements.
<p>When we commenced our final accounts audit visit, Internal Audit had not reported on three reviews of key financial systems:</p> <ul style="list-style-type: none"> • creditors • cash / cashiers • housing / council tax benefits. 	<p>We reviewed reports produced by Internal Audit. There were no matters that required us to perform any additional work.</p>

Recommendation

R1 Ensure that all disclosures fully meet accounting requirements before the draft accounts are presented for audit.

Draft representation letter

11 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 about 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.

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

Accounting policies and financial reporting

13 We consider the qualitative aspects of your financial reporting. Table 2 contains the issues we want to raise with you.

Table 2 Accounting practice and financial reporting

Issue or risk	Finding
<p>The Council's accounting policy for revaluation of fixed assets is that "revaluations take place at five yearly intervals, although material changes to valuations will continue to be adjusted for in the interim period, as they occur."</p> <p>The SORP requires fixed assets to be carried in the balance sheet at their current value.</p>	<p>Between the five-yearly valuations, there have been no annual reviews of asset values.</p> <p>Such information would enable an informed judgement to be made as to whether any amendment to the accounts is needed or, if circumstances demand, there should be a change to the planned valuation programme.</p> <p>We comment in detail below on the impact this has had on the valuation of council dwellings.</p> <p>The same principle applies to all classes of fixed assets.</p>
<p>The Council's accounting policy for dwelling rents is to include rental income in the accounts when it becomes payable, rather than in the year to which it relates as required by the Statement of Recommended Practice (SORP 2007). The 2007/08 HRA contains a full week's rent that was due on Monday 31 March 2008. Only one day's rent was in respect of 2007/08, the other 6 days being in respect of 2008/09. Based on average rental income the amount which relates to 2008/09 in respect of dwelling rents is approximately £250,000.</p>	<p>The accounts have been consistently prepared in accordance with the Authority's accounting policies. An additional disclosure note has been added to explain the basis on which rental income is included in the accounts.</p>

Recommendation

- R2** Issue detailed instructions to the in-house valuer, to carry out a desk top review of asset values each year (except when a full revaluation exercise is scheduled). Amend the balance sheet value of fixed assets where changes are material.
- R3** Consider amending the Authority's accounting policy on dwelling rents to account for rents in the year to which they relate.

Errors in the financial statements

- 14** We identified errors in the financial statements (other than those of a trivial nature) and reported these to management.

Adjusted errors

- 15** Management has agreed to adjust the financial statements to reflect the valuation of council dwellings provided by your in-house valuer. The net book value has increased by £43 million as shown in the table below.

Table 3 Adjustment to council dwellings

	Draft accounts	Adjustment	Revised accounts
	£ million	£ million	£ million
Council dwellings	297	43	340
Increase in net assets / additional gain included in the Statement of Total Recognised Gains and Losses		43	
Revaluation reserve	0	(43)	(43)

- 16** The valuation surplus was not included in the draft accounts that you approved in June 2008, as management relied on:
- SORP guidance, which allowed them to omit a revaluation surplus if the change was not permanent; and
 - your in-house valuer's opinion that the change was not permanent, given current trends in house prices.
- 17** We disagreed with management's reliance on 'permanent change' as a reason for excluding the valuation surplus, as the SORP itself requires fixed assets to be included in the balance sheet at their current value and given the size (£43 million) of the difference.
- 18** This adjustment has no impact on the general fund balance of earmarked reserves. However, because of the material amounts involved, we are reporting this adjustment to you.

Unadjusted errors

- 19 Management has not adjusted the financial statements for £719,000 LABGI grants receivable in respect of 2007/08. This was omitted as the final determination was not issued by CLG until 26 June 2008, although provisional amounts were published on 2 April 2008.
- 20 We ask you to consider whether to adjust this error. If you decide not to do so, please tell us why in the representation letter. If you believe the effect of the uncorrected error is immaterial, please reflect this in the representation letter.
- 21 We have not identified any other errors (other than those of a trivial nature) that management has declined to correct.

The audit report

- 22 We plan to issue an unmodified report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of our draft report.

Material weaknesses in internal control

- 23 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

- 24 We have identified the following matters that we require you to consider.

Table 4 Other matters

Issue or risk	Finding
New Financial Reporting Standards were introduced this year, requiring changes to accounting for financial instruments and detailed disclosure notes.	There was no impact on the carrying value of financial instruments in the accounts, but no disclosure notes were included in the draft accounts presented for audit. Appropriate disclosure notes have been added subsequently.

Value for money

- 25 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 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.
- 26 We have assessed the arrangements of the Council as adequate in all 12 areas and we therefore propose to issue an unqualified conclusion.

DRAFT

Formal audit powers

27 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.

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

DRAFT

Independence

- 29 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.
- 30 We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 31 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

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

Audit fees

- 33 We reported our fee proposals as part of the Audit Plan for 2007/08. The table below reports the outturn fee against that plan.

Table 5 Audit fees

	Plan 2007/08 £	Expected 2007/08 £
Financial statements	85,725	8,725
Use of resources and data quality	26,900	26,900
Other performance work	11,700	11,700
Whole of Government accounts	1,950	1,950
National Fraud Initiative	625	625
Total Audit Fees	126,900	126,900

- 34 The analysis above shows that we expect to contain our audit fee within the totals you have already agreed. We will report the actual cost of our work on certification of claims and returns in our annual audit and inspection letter.
- 35 Use of resources and data quality work was carried out by PricewaterhouseCoopers and has been billed directly by them.

Our arrangements to ensure independence and objectivity

36 We have comprehensive procedures to ensure independence and objectivity. These are outlined in Table 6.

Table 6 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:
Neil Bellamy
District Auditor
Audit Commission
7 Lewis Court
Grove Park
Enderby
Leicestershire
LE19 1SU

Charnwood Borough Council - Audit for the year ended 31 March 2008

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors of Charnwood Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2008.

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/United Kingdom Generally Accepted Accounting 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 believe that the omission from the financial statements of a debtor in respect of LABGI monies amounting to £719,000 is not material to the financial statements. This omission has been discussed with those charged with governance within the Council and the reasons for not restating the financial statements are as follows:

- the receipt of this amount was not assured at or immediately after the balance sheet date and I did not consider it prudent to accrue for this income within the financial year 2007/08;
- the inclusion, or otherwise, of the LABGI debtor has no impact on the financial resources available to the Council in the financial year 2007/08; and
- in my opinion the amount is not material in the context of the Council's balance sheet.

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 and Committee 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.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. We have no other lines of credit arrangements.

Contingent liabilities

There are no other contingent liabilities that are required to be disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation;
- there are no material commitments or contractual issues; and

Appendix 1 – Draft letter of representation

- 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 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 Charnwood Borough Council

I confirm that this letter has been discussed and agreed by the ad-hoc sub-committee (governance matters) on 15 September 2008.

Signed

S Jackson

Chief Financial Officer

Date

DRAFT

Appendix 2 – Draft independent auditor’s report to the Members of Charnwood Borough Council

Opinion on the financial statements

I have audited the Authority and Group accounting statements and related notes of Charnwood Borough Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, the Housing Revenue Account, 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 Charnwood Borough 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 Chief Financial Officer and auditor

The Chief Financial Officer’s 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 and Group 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; and
- the financial position of the Group 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

Appendix 2 – Draft independent auditor’s report to the Members of Charnwood Borough Council

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 and Group accounting statements, and consider whether it is consistent with the audited Authority and Group accounting statements. This other information comprises the Explanatory Foreword [and the content of the Annual Report]¹. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority and Group 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 and Group 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 and Group 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 and Group 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 and Group 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; and
- The Group 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 Group as at 31 March 2008 and its income and expenditure for the year then ended.

¹ if published before we give our opinion.

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, Charnwood Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2008.

Best Value Performance Plan

I have issued our statutory report on the audit of the Authority’s best value performance plan for the financial year 2006/07 in December 2007. I 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.

Neil Bellamy – District Auditor
Audit Commission
Rivermead House
7 Lewis Court
Grove Park

Appendix 2 – Draft independent auditor’s report to the Members of Charnwood Borough Council

Enderby
Leics. LE19 1SU

September 2008

DRAFT