

Annual

governance

report

Charnwood Borough Council

Audit 2010/11

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

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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 the Director of Corporate Services on 16 September 2011.

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);
- note the adjustments to the financial statements set out in this report (appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (appendix 3); and
- agree your response to the proposed action plan (appendix 5).

Yours faithfully

Neil Bellamy
District Auditor

16 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 |
| Important weaknesses in internal control | None | 7 |

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

| Value for money | Results | Page |
|---|----------------|-------------|
| Proper arrangements to secure value for money | Yes | 10 |

Audit opinion

1 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements.

Financial statements

2 My audit identified adjustments that were required to the draft financial statements which were certified by the Head of Finance and Property in June. The accounts have been amended and I shall issue my audit opinion on these amended statements.

Value for money

3 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.

Audit fees

4 I am not proposing any change in the opinion audit fee of £127,000 I agreed in April 2010.

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 During the year the Audit Commission's Audit Practice undertook non-audit work for the Council for a fee of £1,663. We reviewed the 2009/10 annual statement of grant usage in respect of the Social Housing Energy Savings Programme carried out by Charnwood Neighbourhood Housing (for which scheme Charnwood Borough Council is the accountable body).

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 6 to 8);
- take note of the adjustments to the financial statements which are set out in this report (appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (appendix 3); and
- agree your response to the proposed action plan (appendix 5).

Financial statements

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

Key areas of judgement and audit risk

9 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 |
|---|---|
| Medium term financial challenges due to the economic downturn and reduction in grants from Central Government. | The Council spent less than its budgeted expenditure in 2010/11. Testing has confirmed that income and expenditure has been accounted for in the correct financial year. |
| 2010/11 is the first year that the code of practice for local government accounting is based solely on International Financial Reporting Standards (IFRS). Incorrect interpretation / adoption of IFRS could potentially lead to material misstatement within the financial statements. | Officers restated all relevant accounting entries in advance of the main financial statements audit. They did a thorough job and my audit has only identified minor issues. |

| Issue or risk | Finding |
|---|---|
| There are a number of minor issues that I have identified through my annual IT risk assessment. | I reported in my Audit Plan that I was satisfied that officers' proposals are adequate. |

Errors in the financial statements

10 My audit identified some errors in the draft financial statements submitted for audit. They relate to the balance sheet and disclosure notes but have had no impact on either net expenditure or the net balance sheet position. Appendix 2 sets out details of individual material errors and other significant errors which have been amended.

11 In addition, a number of other minor errors and inconsistencies in disclosure were identified in the financial statements, for example, casting errors, inconsistencies between notes, and prior year information being incorrect. Due to their trivial impact I have not reported on them in detail in this report.

Important weaknesses in internal control

12 No important weaknesses in internal control have been identified during the audit.

Quality of your financial statements

13 I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statement disclosures. Table 4 contains the issues I want to raise with you.

Table 4: **Accounting practices, policies and estimates and financial statement disclosures**

| Issue | Finding |
|--|---|
| <p>Kitchens, bathrooms etc in council dwellings have been replaced during the year. The introduction of IFRS in 2010/11 requires that the net book value of the original 'components' replaced be written out of the accounts.</p> <p>In some cases the original expenditure dates back 40 years, and detailed accounting records going back that far are not available.</p> | <p>I have reviewed the estimate made and I am happy that it does not lead to a material misstatement.</p> <p>There is scope to refine the estimation process by taking into account average component lives, and identifying an appropriate index to apply in estimating the original cost.</p> |

| Issue | Finding |
|--|---|
| <p>This means that an estimate of the net book value to be written out must be made.</p> <p>Based primarily on the assumption that the "components" replaced had reached the end of their useful lives and therefore likely to have been fully depreciated, the Council has estimated the net book value of the replaced assets to be nil.</p> | |
| <p>The comparative amounts shown in this year's accounts are not the same as last year's published accounts, due to changes required by the introduction of IFRS.</p> | <p>The draft accounts presented for audit did not include a note which quantifies the main changes from last year's published accounts. Officers have added a note to explain the main changes.</p> |

Recommendation

R1 Refine the estimation technique for calculating the net book value of replaced components.

Follow up of 2009/10 recommendations

14 In my 2009/10 annual governance report, I recommended that the roles of Chief Executive and Chief Financial Officer should be carried out by separate individuals. I note that, following your restructuring of senior management, the role of Chief Financial Officer (Section 151 Officer) has now been allocated to the post of Director of Corporate Services.

Letter of representation

15 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 3 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.

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

- Securing financial resilience - focusing on whether the Authority is managing its financial risks to secure a stable financial position for the foreseeable future. This covers :
 - Financial governance
 - Financial planning
 - Financial control.
- Challenging how the Authority secures economy, efficiency and effectiveness - focusing on whether the Authority is prioritising its resources within tighter budgets and improving productivity and efficiency. This covers:
 - Prioritising resources
 - Improving efficiency and productivity.

17 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.

18 If auditors become aware of any significant risks in these areas they will need to consider if they impact on the vfm conclusion.

19 From the work carried out, I have concluded that the Authority has proper arrangements in place. My conclusion on each of the two specified criteria is set out below.

Table 5: **Value for money conclusion criteria**

| Criterion | Finding |
|--|--|
| Securing financial resilience | <p>The Authority's 2010/11 outturn position was in line with its budget and with what was reported during the year. The Council maintained its General Fund balance well above its approved minimum level of £1 million.</p> <p>The Council has set a balanced budget for 2011/12.</p> <p>The Council is currently updating its Medium Term Financial Strategy in response to the Comprehensive Spending Review.</p> |
| Securing economy, efficiency and effectiveness | <p>The Council is on target to achieve defined budget savings.</p> <p>The service delivery programme monitors the delivery of efficiency targets. Generally they are on track.</p> <p>There is a corporate requirement for service managers to benchmark their services and report findings in their service plans.</p> <p>There are a number of shared service initiatives aimed at reducing costs and enhancing services.</p> <p>The Council undertook a 'soft market testing' exercise to assess the likely level of interest that partner organisations might have in working with the Council to develop new methods of service delivery.</p> <p>The Council is now reviewing services on a case by case basis in the light of a service prioritisation exercise.</p> |

20 I expect to issue an unqualified conclusion stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of a draft unqualified report.

Report by exception

21 The Audit Commission requires me to report by exception where significant matters come to my attention, which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in our use of resources.

22 There are no such matters of such significance which I need to refer to in the wording of my formal value for money conclusion.

Appendix 1 Draft independent auditor's report to Members of Charnwood Borough Council

Opinion on the Authority and Group accounting statements

I have audited the Authority and Group accounting statements of Charnwood Borough 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 Charnwood Borough 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 Chief Financial Officer 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 Charnwood Borough 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, *Charnwood Borough 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 Charnwood Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

[Signature]Neil Bellamy

District Auditor

Address

Appendix 2 Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities.

Table 6:

| Adjusted mis-statement | Balance sheet | |
|---|---|--|
| | Dr £'000 | Cr £'000 |
| Bank balances and overdrawn accounts need to be shown separately on the face of the balance sheet. | Cash and cash equivalents (current assets) 2,214 | Cash and cash equivalents (current liabilities) 2,214 |
| Adjusted mis-statement | Other statements | |
| | | |
| Three other non trivial errors which impact on the core financial statements (CIES, Balance Sheet, Cash Flow Statement, MIRS, Collection Fund, HRA) | CIES | CIES |
| | Non distributed costs 221 | Exceptional item (pensions) 221 |
| | MIRS | MIRS |
| | Unusable reserves 49 | Usuable reserves 49 |
| | Collection fund | Collection fund |
| | NNDR expenditure 101 | NNDR income 101 |

In addition to the adjustments shown in the table above, the following material amendments have been made to disclosure note 11 (financial instruments). These amendments have no impact on the balance sheet.

- Short term investments are incorrectly split. £6 million has been moved from 'Financial assets valued at fair value through profit and loss' to 'Loans and receivables'.
- Debtors and creditors exclude housing rents and bad debt provisions. Debtors have been reduced by £821,000 while creditors have been increased by £378,000.

Appendix 3 Draft letter of representation

To:
Neil Bellamy
District Auditor
[Address]

Charnwood Borough 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 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 2011. All representations cover the 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 / International Financial Reporting Standards 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.

Supporting records

All relevant information has 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 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 the Council's 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 Charnwood Borough Council

I confirm that this letter has been discussed and agreed by the Audit Committee on 20 September 2011.

Signed

Simon Jackson

Director of Corporate Services

Date

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.

Appendix 5 Action Plan

| Recommendations | |
|--|--|
| Recommendation 1 | |
| Refine the estimation technique for calculating the net book value of replaced components. | |
| Responsibility | Head of Finance and Property |
| Priority | Medium |
| Date | 31/03/12 |
| Comments | We will consider this point again for 2011-12 as the guidance may be clearer at that time. |

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- any third party.



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