

Annual governance report

Charnwood Borough Council

Audit 2011/12



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Key messages

This report summarises the findings from the 2011/12 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

As at 18 September 2012 I expect to issue an unqualified audit opinion.

The financial statements submitted for audit were submitted in accordance with the locally agreed timetable. The statements were complete and were supported by good quality working papers and responses to audit questions were promptly addressed. During the audit, officers agreed to make adjustments to the accounts in response to our recommendations. Officers declined to adjust the statements for a balance of £391k which in my view is incorrectly included in Provisions.

Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. This conclusion is based on our work which has looked at the following criteria:

- Securing financial resilience; and
- Securing economy, efficiency and effectiveness.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2011/12.

I ask the Audit Committee to:

- take note of the adjustments to the financial statements included in this report (appendices 2 and 3); and
- approve the letter of representation (appendix 4), on behalf of the Authority before I issue my opinion and conclusion.

Financial statements

The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As elected 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

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. A schedule of all matters arising from the audit has been discussed and agreed with officers.

Uncorrected errors

Our testing of Provisions identified a balance of £391k which had been established on the basis of 1 per cent of the value of total benefits. In order to establish a provision, the Council must be able to demonstrate that:

- there is a current obligation as a result of a past event;
- the transfer of economic benefit is probable rather than just possible; and
- a reliable estimate of the liability can be made.

Our view was that this did not satisfy the criteria for establishing a provision and recommended to officers that the balance of Provisions should be reduced accordingly. Officers do not agree with our terminology that this is an error and propose not to amend the accounts.

Corrected errors

My audit identified few 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 3 sets out details of individual errors which have been amended.

In addition, a number of other minor errors and inconsistencies in disclosure were identified in the financial statements. These included rounding errors, some inconsistencies between notes and prior year information being incorrect. These were of a presentational nature and are reported to members for information.

Significant risks and my findings

I reported to you in my 2011/12 Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In Table 1 I report to you my findings against each of these risks.

Risks and findings

| Risk | Finding |
|---|---|
| <p><i>Valuation of assets</i></p> <p>The value of the Council's property, plant and equipment is material. There is a risk that it may be materially misstated: you have engaged new external valuers as you no longer have professionally qualified staff in your property department.</p> | <p>I reviewed management oversight of the valuation of property, plant and equipment, including arrangements for instructing valuers and controls over information provided to them. The valuers engaged by the Council did identify a number of variations in property value since the previous year although in their opinion these variations were as a result of anomalies in previous valuation exercises.</p> <p>As part of my audit of your financial statements I carried out tests of detail on asset valuations as reflected in the accounts.</p> <p>There are no matters to draw to your attention</p> |
| <p><i>HRA reform</i></p> <p>The government plans to reform local authority housing finance by adopting a self-financing model from 1 April 2012. For Charnwood Borough Council this will be through a one-off settlement payment to central government of £79.190 million on or before 28 March 2012. Due to the complexity, magnitude and timing of the HRA reform there is risk that the financial statements will be materially misstated.</p> | <p>I reviewed the management oversight of HRA reforms and transactions required by the Council.</p> <p>I undertook tests of detail on the accounting treatment of the payment from government. My testing has not identified any significant issues to bring to your attention.</p> |

Significant weaknesses in internal control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and

- it is consistent with other information that I am aware of from my audit of the financial statements.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

There is one matter I wish to report.

Table 1: **Other matters**

| Issue | Finding |
|---|--|
| Housing Rents – control account reconciliations | <p>There is an unresolved discrepancy on the Housing Rent control account reconciliation (between the ledger and rental arrears). This imbalance of £2,852 was also identified last year.</p> <p>To date officers' attempts to resolve this issue have been unsuccessful but it is understood they will try again when the housing stock management returns to the authority in 2012/13.</p> |

Whole of Government Accounts

Alongside my work on the financial statements, I also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report were specified by the National Audit Office. I have no matters to report.

Value for money

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

I assess your arrangements against the two criteria specified by the Commission. In my 2011/12 Audit Plan I reported to you the significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the risks I identified.

I intend to issue an unqualified conclusion stating that the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

Table 2: **Value for money conclusion criteria and my findings**

| Criteria | Findings |
|---|---|
| <p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p> | <p>The Authority's 2011/12 outturn position represented a net underspend of £804k against its budget and with what was reported during the year.</p> <p>The Council has set a balanced budget for 2012/13.</p> <p>The Council has developed its Medium Term Financial Strategy aligned with its objectives and performance both in terms of finances and service delivery are being monitored regularly at Senior Management Team, Performance Scrutiny, and Overview Scrutiny Committee. This Medium Term Financial Strategy is refreshed annually in accordance with a planned timetable.</p> |
| <p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2011/12:</p> | <p>The Council is on target to achieve defined budget savings.</p> <p>Efficiency savings are delivered through the service review programme and the quarterly performance reports indicate improvement throughout the year..</p> <p>The corporate requirement for service managers to benchmark their services</p> |

Criteria

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Findings

and report findings in their service plans remains in force and managers have been asked to ensure that appropriate benchmarking data is secured.

Fees

I reported my planned audit fee in the 2011/12 Audit Plan.

I will complete the audit within the planned fee.

Table 3: Fees

| | Planned fee 2011/12 (£) | Expected fee 2011/12 (£) |
|--------------------|-------------------------|--------------------------|
| Audit | 120,650* | 120,650* |
| Claims and returns | 37,800 | 37,800 |
| Non-audit work | 0 | 0 |
| Total | 158,450 | 158,450 |

*The Audit Commission has paid a rebate of £9,652 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £110,998.

Appendix 1 – Draft independent auditor’s report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF CHARNWOOD BOROUGH COUNCIL

Opinion on the financial statements

I have audited the financial statements of Charnwood Borough Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial 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 Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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 Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial 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 financial statements sufficient to give reasonable assurance that the financial 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 Chief Financial Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Charnwood Borough Council as at 31 March 2012 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

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

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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.

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 2011, 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 2012.

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 2011, 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 ended 31 March 2012.

Neil Bellamy

District Auditor

Audit Practice
Audit Commission
Unit 10, Whitwick Business Centre
Whitwick Business Park
Stenson Road
Coalville, LE67 4JP

September 2012

Appendix 2 – Uncorrected errors

I identified the following errors during the audit which management have not addressed in the revised financial statements. The reference to this being an uncorrected error is our terminology.

| | | Statement of comprehensive income and expenditure | | Balance sheet | |
|------------------------|---|---|-----------|---------------|-----------|
| Item of account | Nature of error | Dr £'000s | Cr £'000s | Dr £'000s | Cr £'000s |
| Note 18 Provisions | A Provision of £391k re Housing Benefit claim being reduced based on past history. My view is that this does not meet the requirements to establish a provision because, the Council could not demonstrate: a current obligation as a result of a past event; the transfer of economic benefit is probable rather than just possible; and a reliable estimate of the liability can be made. | | | | 391 |
| MIRS – Usable Reserves | | | | 391 | |

Appendix 3 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

| | | Statement of comprehensive income and expenditure | | Balance sheet | |
|------------------------------|--|---|-----------|---------------|-----------|
| Item of account | Nature of error | Dr £'000s | Cr £'000s | Dr £'000s | Cr £'000s |
| CIES - Investment properties | A change in fair value of investments of £811k has been charged against services in the Comprehensive Income and Expenditure Statement (and therefore reflected in the surplus/deficit on the provision of services in the MIRS) rather than included in 'Financing & Investment income & Expenditure' in the CIES reversed out through the MIRS through the adjustment between accounts and funding basis line as indicated by the Code Guidance notes. Prior year figures will need to be amended. This is a presentational issue. | | 811 | | |
| MIRS | | 811 | | | |

Appendix 4 – Draft letter of management representation

Charnwood Borough Council - Audit for the year ended 31 March 2012

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 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

There is one uncorrected misstatements detailed in the attached schedule, which has been discussed with those charged with governance. The reason for not correcting the error is that it is not material to the financial statements.

Supporting records

I have made available all relevant information and access to persons within the Council for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Council.

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 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 requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Charnwood Borough Council

I confirm that the this letter has been discussed and agreed by the Audit Committee on [date]

Signed

Name

Position

Date

Schedule to Letter of Representation - Uncorrected errors – 2011/12 Statement of Accounts

| | | Statement of comprehensive income and expenditure | | Balance sheet | |
|------------------------|---|---|-----------|---------------|-----------|
| Item of account | Nature of error | Dr £'000s | Cr £'000s | Dr £'000s | Cr £'000s |
| Note 18 Provisions | A Provision of £391k re Housing Benefit claim being reduced based on past history. The external audit view is that this does not meet the requirements to establish a provision | | | | 391 |
| MIRS - Usable Reserves | | | | 391 | |

Appendix 5 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement

within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative 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

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

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

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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.

