

# Annual Governance Report

Rossendale Borough Council

Audit 2008/09

Date September 2009

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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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# Key messages

This report summarises the findings from the 2008/09 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 how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.

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<b>Financial Statements</b>	<b>Results</b>	<b>Page</b>
Unqualified audit opinion	Yes	6
Financial statements free from material error	Yes	7
Adequate internal control environment	Yes	7
<b>Value for money conclusion</b>		
Arrangements to secure value for money	Yes	8

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## Audit opinion

- 1 My 2008/09 audit is substantially complete and I expect to issue an unqualified opinion by 30 September 2009.
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## Financial statements

- 2 The statement of accounts presented for audit included a number of photographs with narrative descriptions underneath. The narrative descriptions have been removed at my request to enable me to issue a standard audit opinion.
  - 3 Also, in July 2009 the Council received £826,000 in partial settlement of a VAT reclaim. This was an adjusting Post Balance Sheet event and the accounts have been altered to reflect this.
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## Use of resources

- 4 The Audit Commission has recently undertaken its Use of Resources assessment at Rossendale. The assessment judges how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people.
  - 5 This is the first year of the Audit Commission's new methodology for Use of Resources and the results will be sent to the Council on 19 October 2009.
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### Value for Money

- 6 I have assessed your corporate arrangements for securing economy, efficiency and effectiveness in the use of resources against the criteria specified by the Audit Commission. I have concluded that your arrangements are adequate and propose issuing an unqualified conclusion on the Council's value for money arrangements.

# 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.**

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**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 adjusted amendments 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
- take note of the VFM Conclusion.

# 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 the financial statements are authorised for issue.

## 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 I plan and perform my audit so as to obtain all the information I feel is necessary to give sufficient evidence and assurance that the Council's financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. Based on guidance provided by the Audit Commission the calculated materiality level for Rossendale Borough Council for 2008/09 is £796,000.
- 10 My audit of the financial statements is risk based. Most risks are inherent within any set of financial statements in terms of whether they are accurately presented and whether they report appropriately the relevant period the accounts relate to. I also consider whether there are any specific risks which I need to take account of in performing my audit. In planning my audit I have identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table 1.

**Table 1** Key areas of judgement and audit risk

Issue or risk	Finding
Valuation of Rossendale Transport Limited We will need evidence supporting the valuation of RTL.	We confirmed that the valuation methodology used complies with current guidance.
Fixed asset valuations – the downturn in the economic climate has resulted nationally in a downward fall in fixed asset valuations. As external auditors we need to satisfy ourselves the Council has correctly accounted for and undertaken the relevant revaluations to reflect the current economic climate.	The Council did consider the impact of the economic downturn in determining its asset values.

## Financial statements

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### Errors in the financial statements

- 11 I am required to report to you all misstatements that I have identified during the course of my audit, other than those that are clearly of a trivial nature. In recent years trivial items have been defined as those that are below 10 per cent of materiality ie £79,600.
- 12 The Audit Commission has updated its guidance for 2008/09 such that trivial items are now defined as below 1 per cent of the materiality level. This means that any errors or adjustments to the financial statements above £7,960 are now considered to be non-trivial and should be reported to those charged with governance. Further details are provided in Appendix 2. Also, all non-trivial errors have been amended by management.

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### Accounting practice and financial reporting

- 13 My review also considers the qualitative aspects of your financial reporting. As a result of my audit a number of amendments have been made to the accounting policies and notes improving the presentation and completeness of the accounts.
- 14 The statement of accounts presented for audit included a number of photographs with narrative descriptions underneath. The narrative descriptions have been removed at my request to enable me to issue a standard audit opinion.
- 15 The Council's Building Control Account (Note 6 to the Statement of Accounts) revealed an in-year deficit of £49,000 which was partially funded by transfer from the Accumulated Surplus Provision. The requirements of the Building (Local Authority) Charges Regulations 1998 requires that full recovery of the cost of providing the service should be achieved over a three year continuous period. The Council has failed to achieve this over the three year period ending 31 March 2009.

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### Internal control environment

- 16 We have reviewed the adequacy of your internal control arrangements and have not identified any significant issues which we need to report to you.
- 17 During 2008 we undertook a detailed review of Rossendale's Internal Audit function which we are required to undertake at least every three years. We concluded that Internal Audit meets the requirements of the CIPFA Code of Practice and provides an effective service to management at the Council. We are able to rely on the work of Internal Audit where their work is relevant to our Code of Practice objectives.

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### Letter of representation

- 18 Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation I seek to obtain from you.

# Value for money conclusion

I am required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

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## Value for money conclusion

- 19** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year which of the use of resources Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.
- 20** 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 the wording of my draft report.

# Appendix 1 – Independent auditor’s report to Members of Rossendale Borough Council- (Draft)

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## Independent auditor’s report to the Members of Rossendale Borough Council

### Opinion on the financial statements

I have audited the Authority and Group accounting statements and related notes of Rossendale Borough Council for the year ended 31 March 2009 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 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 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 Rossendale Borough 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 prepared by the Audit Commission.

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### *Respective responsibilities of the Chief Finance Officer and auditor*

The Head of Finance’s responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 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 Code of Practice on Local Authority Accounting in the United Kingdom 2008:

- 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 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. 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.

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### **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, 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.

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### **Opinion**

In my opinion:

- The Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 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 Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

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

***Authority’s Responsibilities***

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

***Auditor’s Responsibilities***

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

***Conclusion***

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, I am satisfied that, in all significant respects, Rossendale Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

***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.

Clive Portman  
Engagement Lead  
Aspinall House  
Aspinall Close  
Middlebrook  
BOLTON, BL6 6QQ

September 2009

# Appendix 2 – Adjusted amendments to the accounts

The following misstatements were identified during the course of my audit and the financial statements have been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities.

**Table 2 Adjustments made to the Financial Statements**

Issue	Impact on the accounts
<p>In July 2009 the Council received a partial settlement of a claim for repayment of VAT overpaid in respect of Leisure activities of £826,000 (see note 35 to the Accounts).</p> <p>This falls under the definition of Adjusting Post Balance Sheet Event and the Accounts were adjusted accordingly.</p>	<p>The Income and Expenditure Account has been amended to include additional income of £826,000 (see page 22 of the Accounts).</p> <p>This amendment has also impacted on a number of other statement eg Balance Sheet, Statement of General Fund Balances, Statement of Recognised Gains and Losses.</p> <p>See separate report by Finance Manager for further details.</p>
<p>The final version of the accounts of Rossendale Transport Limited included minor changes to its Balance Sheet and Income and Expenditure Account which impacted on the Group Balance Sheet and Group Income and Expenditure Account.</p>	<p>The Group Balance Sheet and Group Income and Expenditure Account was adjusted to reflect these changes.</p>
<p>Collection Fund - NNDR income figure was shown as net of Bad Debts provision.</p>	<p>NNDR income figure was increased by £174,000 show gross NNDR income.</p>
<p>Collection Fund – Note 2 Provision for Council Tax for bad debts incorrectly includes the Provision for NNDR bad debt.</p>	<p>The column for NNDR Provision for Bad debt removed.</p>
<p>A number of minor amendments and typographical amendments were highlighted during my audit. A full list of the amendments is included in a separate report by the Finance Manager.</p>	<p>All amendments have been made.</p>

# Appendix 3 – Draft letter of representation

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Mr Clive Portman  
District Auditor  
Audit Commission  
2nd Floor  
Aspinall House  
Aspinall Way  
Middlebrook  
Bolton  
BL6 6QQ

Dear Clive

**RE: Rossendale Borough Council – Audit for the Year Ended 31 March 2009**

I understand that auditing standards require you to obtain representations from management on certain matters material to your opinion. Accordingly I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of the Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2009.

**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 present fairly the financial position and financial performance of the Council and for making accurate representations to you.

**Long term investments**

I confirm that it is management's intention to hold the long term investments disclosed in the balance sheet for longer than 12 months after the balance sheet date.

**Supporting records**

To the best of my knowledge, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by Rossendale Borough

Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and 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.

I have disclosed to you my knowledge of any:

- 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; and
- 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 have disclosed to you:

- 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 Council's financial statements communicated by employees, former employees, analysts, regulators or others.

### **Law, regulations, contractual arrangements and codes of practice**

I am not aware of any actual or potential instances of non-compliance with laws, regulations and codes of practice, likely to have a material effect on the finances or operations of the Council.

### **Fair Values**

I confirm that the presentation and disclosure of the fair value measurements of material assets, liabilities and components of equity are in accordance with the financial reporting framework.

The measurement methods and significant assumptions used in determining fair value have been applied on a consistent basis, are reasonable and appropriately reflect the best estimate of fair value of assets and liabilities required to be disclosed by these standards.

## Appendix 3 – Draft letter of representation

### 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.

### Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

### 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 Audit Committee, one significant post balance sheet events has occurred relating to the receipt of £826,000 in respect of a VAT reclaim. The accounts and notes have been adjusted to reflect this. No other significant Post Balance Sheet Events have occurred which require additional adjustment or disclosure in the financial statements.

### Specific representations

There are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements.

**Signed on behalf of Rossendale Borough Council**

I confirm that this letter has been discussed and agreed by the Audit Committee on 30 September 2009.

Signed: .....

Name: Phil Seddon

Position: Head of Finance

Date: 30 September 2009

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# The Audit Commission

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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.

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