

Annual governance report

Rossendale Borough Council

Audit 2010/11



Contents

- Key messages.....3**
 - Audit opinion and financial statements.....3
 - Value for money3
- Before I complete my audit.....4**
- Financial statements5**
 - Opinion on the financial statements5
 - Errors in the financial statements5
- Value for money.....10**
- Appendix 1 – Draft audit report.....13**
- Appendix 2 – Amendments to the draft financial statements16**
- Appendix 3 – Unadjusted misstatements to the financial statements20**
- Appendix 4 – Glossary.....22**

Traffic light explanation

Red  Amber  Green 

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.

	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

Audit opinion and financial statements

- Unqualified audit opinion.
- Financial Statements free from material error.
- Adequate internal control environment.

Value for money

- Adequate arrangements to secure value for money.

Before I complete my audit

I confirm to you

My report 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.

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 can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

I ask you to confirm to me

I ask the audit committee to:

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2); and
 - approve the letter of representation, provided alongside this report, on behalf of the Council before I issue my opinion and conclusion.
-

Financial statements

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 report.

Errors in the financial statements

Appendix 2 details the errors we identified in the financial statements which management have chosen to correct. The overall effect of the amendments was to increase the overall surplus on the Comprehensive Income and Expenditure Account by £564k to £4.559m. The majority of amendments relate to the notes to the accounts.

Appendix 3 sets out any errors which management have chosen not to adjust. There is one error of this type which management has chosen not to adjust because it is not material as detailed below:

Amount of borrowing costs eligible for capitalisation – The Council has capitalised £213K of interest associated with its borrowings to finance the Leisure Improvement project. Income of £85k, generated by the investment of these borrowings pending the capital expenditure being incurred, has been recognised in the Comprehensive Income and Expenditure Statement (CIES). This income should have been netted off the interest capitalised under the IFRS principles. As a result assets within the balance sheet and income in the CIES are overstated by £85K.

Recommendation

R1 Ensure the 2011/12 accounts correctly account for borrowing costs eligible for capitalisation.

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.

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

Key audit risk and our findings

Key audit risk	Finding
<p>1. International Financial Reporting Standards. 2010/11 saw the implementation of international financial reporting standards to local government accounts. This required careful planning to ensure an efficient transition to the new financial reporting requirements.</p>	<p>Audit work carried out on the restated financial statements under IFRS did not identify any significant issues.</p>

Financial statements

Significant weaknesses in internal control

No significant weaknesses in internal control have been identified.

Financial statements

Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and statements disclosures.

These are the issues I want to raise with you.

Accounting practices, policies, estimates and financial disclosures

Issue	Findings and recommendations
1. Presentation of the pension past service gain.	<p>The correction to presentation of pension past service gain involved moving £3.926m from section 2 of the CIES to section 1 and produced a significant movement on the Net Cost of Services line and Note 40 Segmental Reporting.</p> <p>The correction was the result of late clarification being received which stated that the pension past service gain should be presented in section 1 CIES as exceptional item.</p>

Financial statements

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. These representations are set out within the letter of representation which is on the same agenda as this report.

Value for money

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

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for money criteria and our findings

Criterion	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</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>Management and Officers understand the significant financial management challenges and risks facing the Council and are taking appropriate action to secure a stable financial position. Through its 2011/12 budget setting process the Council identified £1.6m of savings to produce a balanced budget.</p> <p>The Head of Finance is a key member of the leadership team and as such is involved in business decisions, and leads the promotion and delivery of good financial management.</p> <p>The audit committee provides effective challenge across the organisation and assurance on the arrangements for risk management, maintaining effective internal control, and reporting on financial and other performance.</p>

Medium-term financial planning and annual budgeting reflects the council’s strategic objectives and priorities for the year, and over the longer term. The Council has reviewed its Medium Term Financial Plan (MTFP) in light of the current economic climate. Its current Medium Term Financial Strategy covers the period 2011/12 – 2014/15 and projects balanced budgets for 2012/2013 and 2013/14. It is currently identifying actions to address a potential of deficit of approaching £1m from 2014/15

The Council operates within a level of reserves and balances (including earmarked reserves and the general fund balance), approved by members, and appropriate to the strategic, operational and financial risks it faces.

Financial monitoring and forecasting is relevant, timely and accruals based, helping to ensure a clear link between the budget, in-year forecasts and actual year-end position. The Council has a good recent record of operating within its budget with no significant overspends. Management takes timely action to address any budget pressures, for example by taking corrective action to manage unfavourable variances.

2. Securing economy efficiency and effectiveness
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

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

The Council has the capacity to deliver the scale of the spending reductions required of it. It is reviewing its strategic priorities and the cost-effectiveness of its activities. It is taking a rational view of its priorities and of the short- medium- and longer-term opportunities for savings.

There are mechanisms in place to obtain input from or consultation with front-line staff and local residents to identify local priorities for spending.

It uses benchmarking against similar councils and performance information to support planning and decision making. It understands how local factors impinge on costs. The Council’s costs are commensurate with the service provided given Rossendale’s size and relative needs.

Rossendale works with the third sector to enhance its capacity to deliver the services people want and need. Further work with partner authorities has resulted in the Council sustaining its access to a wide range skills and knowledge which might otherwise challenge small authorities.

Criterion**Findings**

These include a partnership with colleagues at Burnley to procure shared Health & Safety services, and internal audit services sourced via the County Council.

It has successfully improved access to its environmental health service for disabled people. The Environmental Health Service is an example of how the authority embraces customer satisfaction surveys as a means to improve service design and delivery.

The Council has good monitoring arrangements to ensure planned efficiencies are achieved, and to understand the impact on services and on performance.

Appendix 1 – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROSSENDALE BOROUGH COUNCIL

Opinion on the Authority and Group accounting statements

I have audited the Authority and Group accounting statements of Rossendale 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, 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 Rossendale 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 Head of Finance and auditor

As explained more fully in the Statement of the Head of Finance Responsibilities, the Head of Finance 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 Rossendale 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, Rossendale 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 Rossendale Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Clive Portman
District Auditor

Audit Commission
2nd Floor, Aspinall House
Aspinall Close
Middlebrook
Bolton
BL6 6QQ

September 2011

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 aid you in fulfilling your governance responsibilities.

		Comprehensive income and expenditure statement		Balance sheet or Movement in reserves (MiRS)	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
<ul style="list-style-type: none"> Comprehensive Income and Expenditure Statement Movement in Reserves Statement 	Interest payable on the borrowing associated with the Leisure Improvement Project has been capitalised. This has reduced expenditure (interest payable) by £213k and impacted on capital expenditure in Note 15 and the Movement in Reserves Statement (MiRS).		213	213 (MiRS)	
<ul style="list-style-type: none"> Comprehensive Income and Expenditure Statement 	Correction to presentation of pension past service gain of £3.926m as an exceptional item by moving from section 2 of the CIES to section 1.	None	None	None	None
<ul style="list-style-type: none"> Comprehensive Income and Expenditure Statement 	The original version of the Accounts included an incorrect sub total on the (Surplus)/Deficit on Provision line of Services of £4.925m. This has been amended to £47.209m. No overall impact on the CIES.	None	None	None	None

		Comprehensive income and expenditure statement		Balance sheet or Movement in reserves (MiRS)	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
<ul style="list-style-type: none"> Comprehensive Income and Expenditure Statement 	Recharges for facilities management in Other Central Services had been overstated by £224K. Expenditure on Cultural, Environment and Planning and Trading Undertakings have reduced by £84k and £140k respectively. No overall impact on the CIES.	None	None	None	None
<ul style="list-style-type: none"> Comprehensive Income and Expenditure Statement Balance Sheet Movement in Reserves Statement Note 33 – Provisions 	The Provisions included in Note 33 included certain items that did not meet the requirement of IAS 37. The provisions for Vehicle Replacement of £262k and Corporate Contingency of £105k were transferred to Usable Reserves. This reduced the expenditure charged to Cultural, Environment and Planning and Corporate and Democratic in the CIES respectively. Usable reserves were increased accordingly through the MiRS.		£367k	£367k	
<ul style="list-style-type: none"> Note 2 Restatement of PPA Note 35a Revaluation Reserve (RR) Capital Adjustment Account (CAA) 	Balances in respect of assets reclassified from Investment Properties to Surplus assets as at 1 April 2009 remained in the RR. An adjustment was made through the relevant accounts to transfer £89k from the RR to CAA	None	None	None	None
<ul style="list-style-type: none"> Comprehensive Income and Expenditure Statement 	The Gross Expenditure for 31 March 2010 on Trading Undertakings in the CIES was reduced by £3.224m and shown separately as an Exceptional Item. This amount was the impairment on Futures Park the Council recognised in 2009/10. This was to comply with the disclosure requirements of IFRS.	None	None	None	None

		Comprehensive income and expenditure statement		Balance sheet or Movement in reserves (MiRS)	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
■ Note 13 Related Parties	An item as been added to the note to reflect the Council's £13k grant to East Lancashire Railway Trust.	None	None	None	None
■ Movement in Reserves Statement ■ Note 15 Adjustments between Accounting Basis and Funding Basis under Regulation	Note 15 incorrectly included a credit of £6,926k in respect of Actuarial (gains)/losses for Pension Fund assets. This line has been removed and a number of other amendments made to this note. The total for the year of £3,307 is now consistent with the Adjustments between Accounting Basis and Funding Basis under Regulation line in the MiRS.	None	None	None	None
■ Note 40 – Segmental Reporting	Note 40 – Segmental Reporting was revised reflect changes made which impacted on the Net Cost of Services in the CIES, reducing from £10,820k to £6,683k. The main elements were: - £3,926k Pension Gain -£367k Movement from Provision to Reserves	None	None	None	None
■ Internal inconsistencies within the Statement of Accounts (SoA)	We highlighted a number of internal inconsistencies within the SoA between £1k and £5k. Whilst these amounts are not material they do present a reputational risk.	None	None	None	None

		Comprehensive income and expenditure statement		Balance sheet or Movement in reserves (MiRS)	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
<ul style="list-style-type: none"> Textual amendments made during the course of the audit. 	<p>A number of amendments were made to the narrative within the accounts mainly to comply with the IFRS disclosure requirements. The main changes were:</p> <ul style="list-style-type: none"> Note 7 Acquisitions and Discontinued Operations and Note 9 Pooled budgets were removed since they were not relevant Note 27 Debtors and Note 32 Creditors were revised to comply with the disclosure requirements. Note 36 Pensions and Note 38 Cashflow were expanded to comply with the disclosure requirements. Note 37 Contingencies was updated Note 2 Accounting Policies and Note 2 Capital Expenditure were expanded to cover capitalisation of borrowing costs 	None	None	None	None
<ul style="list-style-type: none"> Comprehensive list of all the amendments made during the course of the audit. 	<p>A comprehensive list of all the amendments made during the course of the audit is available from the Finance Manager.</p>	None	None	None	None

Appendix 3 – Unadjusted misstatements to the financial statements

I identified the following misstatements during my audit, including uncorrected misstatements from earlier years, which management has chosen not to adjust the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements.

If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Unadjusted misstatement	Nature of required adjustment	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
<ul style="list-style-type: none"> Comprehensive Income and Expenditure Statement Balance Sheet 	The Council have capitalised £213K the interest associated with its borrowings to finance the Leisure Improvement project. Income of £85k, generated by the investment these additional funds, has been recognised in the Comprehensive Income and Expenditure Statement (CIES) but should have been netted off the interest capitalised under the IFRS principles. As a result assets within the	85	None	None	85

balance sheet and income in the CIES are
overstated by £85K.

Management have chosen not to adjust the figure
because the amount is not material.

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 Auditing Practices Board (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.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

© Audit Commission 2011.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

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.

