

Government and Public Sector

September 2008

# Ribble Valley Borough Council

## 2007/08 Report to those charged with governance

The Members  
Ribble Valley Borough Council  
Council Offices  
Church Walk  
Clitheroe  
Lancashire  
BB7 2RA

17 September 2008

Ladies and Gentlemen

**2007/08 Report to those charged with governance**

We are pleased to present our report on the results of our audit work for 2007/08. We hope that the information contained in this report provides a useful source of reference for Members.

Yours faithfully

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP

**PricewaterhouseCoopers LLP**

101 Barbirolli Square  
Lower Mosley Street  
Manchester  
Telephone +44 (0) 161 245 2307  
Facsimile +44 (0) 161 2452904  
[pwc.com/uk](http://pwc.com/uk)

# Contents

Section	Page
Executive summary .....	4
Financial statements.....	5
Use of Resources .....	6
Audit plans and fee update.....	8
Appendix A: Audit reports issued in relation to the 2007/08 audit year .....	9
Appendix B: Summary of unadjusted misstatements and material adjusted misstatements.....	10
Appendix C: Use of Resources conclusion .....	11
Appendix D: Summary of recommendations contained in this letter.....	13

**Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies**

*In March 2005 the Audit Commission issued a revised version of the ‘Statement of responsibilities of auditors and of audited bodies’ which applies to the 2007/08 audit. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.*

# Executive summary

## **The purpose of this report**

This report summarises the results of our audit work from our 2007/08 audit of accounts.

It includes the issues arising from our audit of the financial statements and those issues which we are formally required to report to you under the Audit Commission's Code of Audit Practice and International Standard of Auditing (UK & Ireland) (ISA(UK&I)) 260 - "Communication of audit matters with those charged with governance".

It also includes the results of the work we have undertaken on 'Use of Resources' under the Code of Audit Practice, to support our formal conclusion in this area.

Our work during the year was performed in line with the plan that we presented to you on 25 June 2007. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate. A list of these reports is included at Appendix A to this letter.

We have set out below the most important issues and recommendations that we have discussed with you in the course of our work.

## **Financial Statements**

We are planning to issue an unqualified opinion to the Council in respect of the 2007/08 financial statements, subject to completion of our outstanding

audit work, as discussed with management on 27 August 2008. A summary of the outstanding work is detailed within Appendix E.

## **Use of Resources**

Within the 'Use of Resources' (UoR) objective, we are required to confirm that we are satisfied that proper arrangements have been made by the Council for securing economy, efficiency and effectiveness (or value for money (VfM)) in its use of resources.

We discussed our 2007 UoR assessment findings with the Council and have included our detailed findings within this report. Details of progress against the 2008 UoR assessment are included in Appendix C.

We have also set out in Appendix C, the links between the various sources of evidence referred to above and each of the Code criteria.

# Financial statements

## Accounts

Except for the areas included in Appendix E, we have completed the audit of the Authority's accounts in line with the Code of Audit Practice and Auditing Standards. We anticipate issuing an unqualified audit opinion on the financial statements.

It should be noted that we have not identified significant errors in relation to the outstanding areas in previous years and as such, do not expect to find any further audit adjustments. However, we note that some amendments, particularly with respect to disclosure, may be required prior to signing our audit report.

## Accounting issues

We are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature. We are pleased to report that there are no such items.

We did however identify one significant misstatement in relation to accounting for the housing stock transfer. This was corrected by management and is explained in more detail in Appendix B.

## Systems of internal control

We are required to report to you any material weaknesses in the accounting and internal control systems identified during the audit. We have detailed

below the control weaknesses that we have identified as part of our audit, although none of these are considered to be material;

- Our review of the controls surrounding payroll found that the report that identifies changes to standing data was not available between November 2007 and February 2008. The impact of this weakness is the possibility that changes could have been made to standing data e.g. pay scales, that would normally been highlighted on the 'changes to standing data' report were not identified. The Council has strong budget monitoring procedures in place that provide assurance that significant amendments would have been detected although the weakness indicates increased risk in this area.
- As part of our audit process we seek to rely on controls operating within the housing rents system. We had difficulties during our interim and final audit work in obtaining our selected sample of tenant files and finding the appropriate documentation within these files; particularly relating to terminated tenancies. As housing rents is now controlled by Ribble Valley Homes, a separate entity to the Council, it is recommended that the Council ensures RV Homes are completing and retaining all documentation that is required to be examined for the purpose of the external audit.
- We also identified a number of issues through our IT general controls work. These have previously been reported in detail to the Council and are therefore not repeated in this report.

# Use of Resources

## Work performed

In accordance with the Code of Audit Practice, we have performed work to conclude on the Authority's arrangements for achieving economy, efficiency and effectiveness in its use of resources. Our work to support our conclusion comprised the following elements:

- Use of Resources assessment for CPA:
  - Financial Reporting;
  - Financial Management;
  - Financial Standing;
  - Internal Control; and
  - Value for Money.
- Mandatory Data Quality Review work;
- Review of the Annual Governance Statement;
- Audit of the Best Value Performance Plan.

## Use of Resources Conclusion

Under the Code of Audit Practice we are required to provide a conclusion on

the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. This conclusion is reached by assessing the Authority's arrangements against a set of criteria issued by the Audit Commission. Our conclusion is based on the use of resources assessment undertaken in December 2007 as part of the CPA process and updated as necessary, our Local Government data quality work, and other information that came to our attention during the course of our audit work.

We intend to issue an unqualified use of resources conclusion.

## Data quality work

We have completed the majority of the Audit Commission's mandated work in relation to Data Quality (DQ), which comprises:

- Stage 1: Management Arrangements (review of overall management arrangements to ensure data quality).
- Stage 2: Completeness Check (review of information submitted to the Audit Commission in relation to the 2007/08 BVPIs, including arithmetic check of calculations for BVPIs and investigation of variances between current and prior year).
- Stage 3: DQ Spot Checks (in-depth review of a sample of PIs [from a list of specified BVPIs and non-BVPIs]).

The findings from Stage 1 of the assessment have been used to inform:

- Our VfM conclusion - in relation to Code criterion 4, “The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.”
- The number of PIs selected for in-depth review at Stage 3.

### **Stage 1**

The Audit Commission designed a detailed sub-set of DQ specific KLoE that were used to assess the Council’s arrangements at Stage 1. Our approach to this work involved review and testing of the Council’s self-assessment against the DQ criteria, together with follow up interviews with key officers.

We scored the Council’s arrangements according to the scale below (as specified by the Audit Commission):

Score / Level	Description
1	Below minimum requirements - inadequate performance
2	Only at minimum requirements - adequate performance
3	Consistently above minimum requirements - performing well
4	Well above minimum requirements - performing strongly

We completed our Stage 1 work in August 2008 and concluded that the Council’s DQ arrangements in place during the 2007/08 financial year justified an overall score of level 3. This translated into ‘adequate’ for the purposes of concluding upon the UoR Code criterion 4.

### **Stages 2 and 3**

Our work programme for the remaining two stages was informed by a risk assessment methodology designed by the Audit Commission, using the outcome from Stage 1 as its basis, together with previous audit work carried out on the Council’s BVPIs.

The work at stage 2 and 3 is currently underway and we anticipate that we will be able to report in line with the deadlines set by the Audit Commission.

### **Annual Governance Statement**

Local Authorities are required to produce an Annual Governance Statement (AGS) which is consistent with guidance issued by CIPFA / SOLACE. The AGS was included in the financial statements.

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE guidance and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

### **Best Value Performance Plan**

Our work on the 2007/08 Best Value Performance Plan (BVPP), issued by the Authority in June 2007, resulted in an unqualified opinion, issued to the Council in December 2007.

# Audit plans and fee update

## Audit Plan 2007/08

We issued our Audit Plan for 2007/08 and presented it to Members on 9 April 2008.

We have performed appropriate reporting procedures for each of the risks identified in our Audit Plan of 2007/08. In this report we comment only on those areas where we believe we need to communicate with those charged with governance.

## Audit fees update for 2007/08

We reported our fee proposals as part of the Audit Plan for 2007/08.

Our fees varied from our original proposal our fees because the level of input on the Health Inequalities work included within our original audit fee has not been required.

Our fees charged were as in the table opposite:

	2007/08 Fee Proposal	2007/08 Outturn
Accounts	£53,805	£53,805
Use of Resources	£26,195	£26,195
Health inequalities study	£4,013	£0
<b>Total</b>	<b>£84,013</b>	<b>£80,000</b>

The fees set out above do not include £5,899 charged by the Audit Commission's Comprehensive Area Assessment lead.

We have not, at the time of writing, fully completed the audit but we anticipate being able to complete the audit within the above fee.

Fees have also been charged by PricewaterhouseCoopers LLP Performance Improvement Consultants in advising the Council during their Large Scale Voluntary Transfer. This work and fees are entirely independent to the audit via a separate appointment. The fees incurred during the 2007/08 financial year in respect of this amounted to £110,207.

# Appendix A: Audit reports issued in relation to the 2007/08 audit year

In addition to this document, the following audit reports in relation to the 2007/08 audit year have already been issued:

- Interim audit letter (June 2008).
- Review of IT general controls (June 2008).

The following report will be issued shortly:

- Audit opinion on the 2007/08 financial statements incorporating the conclusion on the Use of Resources.

# Appendix B: Summary of unadjusted misstatements and material adjusted misstatements

We have not identified any material misstatements that have not been adjusted by management.

We identified two material misstatements during our audit which management have corrected, but which we consider should be communicated to you to assist you in fulfilling your governance responsibilities:

- On the 31 March the Council undertook a Large Scale Voluntary Transfer (LSVT) of Housing Stock which resulted in a number of one-off complex transactions accounted for within the 2007/08 financial statements. The Council had initially recognised a provision of £6.5m in relation to the overhanging debt repayment liability. Through our discussions with management and consultation with our technical department, this has been amended in the financial statements to reflect the repayment of the liability through the Capital Adjustment Account and the Statement of Movement on the HRA Balance. The impact of this adjustment is to move the Council's Balance Sheet from a position of net liability to one of net assets.
- A balance of £344,728 was included within the 'other' line in the 'Statement of Total Recognised Gains and Losses' (STRGL) in the draft accounts. Following review by our technical department it was identified that this balance had not been correctly treated as per the SORP and was required to be included within the Net Costs of Services within the Income & Expenditure Account. This has now been amended and the balance of £344,728 no longer appears within the STRGL.

# Appendix C: Use of Resources conclusion

The Audit Commission has published twelve Code of Practice criteria on which auditors will be required to reach a conclusion on the adequacy of an audited body's arrangements for economy, efficiency and effectiveness in its Use of Resources.

These code criteria are linked to the CPA and Data Quality Review Key Lines of Enquiry (KLoEs). A score of Level 2 or higher under the KLoEs will result in an assessment of adequate for the purposes of the Code criteria. The Code criteria and the linked KLoEs are shown in the table below along with the scores for the 2007 assessment.

We are currently assessing the Council against the 2008 criteria. We have sufficiently completed the assessment to determine that a minimum of level 2 will be achieved.

Code Criteria	Description	Associated KLoE	2007/08 CPA Score	Use of Resources Conclusion
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	N/A	N/A	Adequate
2	The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	N/A	N/A	Adequate
3	The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	N/A	N/A	Adequate
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	LG DQ Stage 1	3	Adequate

Code Criteria	Description	Associated KLoE	2007/08 CPA Score	Use of Resources Conclusion
5	The body has put in place arrangements to maintain a sound system of internal control	4.2	3	Adequate
6	The body has put in place arrangements to manage its significant business risks.	4.1	3	Adequate
7	The body has put in place arrangements to manage and improve value for money.	5.2	2	Adequate
8	The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	2.1	2	Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	3.1	3	Adequate
10	The body has put in place arrangements for managing performance against budgets.	2.2	3	Adequate
11	The body has put in place arrangements for the management of its asset base.	2.3	2	Adequate
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	4.3	2	Adequate

# Appendix D: Summary of recommendations contained in this letter

Page	Recommendation	Management Response	Target Implementation Date
5	Our review of the controls surrounding payroll found that the report that identifies changes to standing data was not available between November 2007 and February 2008. The impact of this weakness is the possibility that changes could have been made to standing data e.g. pay scales, that would normally be highlighted on the 'changes to standing data' report were not identified. The Council has strong budget monitoring procedures in place that provide assurance that significant amendments would have been detected although the weakness indicates increased risk in this area.		
5	As part of our audit process we seek to rely on controls operating within the housing rents system. We had difficulties during our interim and final audit work in obtaining our selected sample of tenant files and finding the appropriate documentation within these files; particularly relating to terminated tenancies. As housing rents is now controlled by Ribble Valley Homes, a separate entity to the council, it is recommended that the council ensures RV Homes are completing and maintaining all documentation that is required to be examined for the purpose of the external audit.		

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