

Annual Governance Report

Ribble Valley 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.
-

Ladies and Gentlemen

2008/09 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2008/09.

A draft of the report was discussed and agreed with the Chief Executive and Director of Finance in September 2009.

The report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 10);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors; (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 5).

Yours faithfully

Clive Portman
District Auditor
September 2009

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.

Financial Statements	Results	Page
Unqualified audit opinion	Yes	6
Financial statements free from material error	Yes	6
Adequate internal control environment	Yes	7
Use of resources	Results	Page
Arrangements to secure value for money	Yes	11

Audit opinion

- 1 Our work on the financial statements is now substantially complete. The financial statements submitted for audit were free from any material errors. The accounts were supported by good working papers.

Use of resources

- 2 Our assessment of how well the Council is managing and using their resources to deliver value for money and better and sustainable outcomes for local people is now complete. The basis of the assessment has changed in 2009 and defines use of resources in a broader way than previously, embracing the use of natural, physical and human resources. It also places new emphasis on commissioning services for local people and achieving value for money.
- 3 Scores were not available at the time of writing this report. We will issue a separate report setting out the Authority's scores and giving detailed feedback in due course.

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.

4 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 10);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified which management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- take note of the VFM Conclusion and Use of Resources score;
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 5).

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

- 5 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.

Errors in the financial statements

- 6 We are required to report to you any errors which are above our trivial threshold. The trivial threshold is calculated as 1% of our materiality figure of £214,000 which is £2,140.
- 7 The Council has received a number of claims in respect of equal pay back pay. At this time we understand negotiation in relation to these claims is ongoing. The SoRP requires a provision to be made in relation to these amounts and we are of the view that this would be the correct accounting treatment. The Council has disclosed the amount as a contingent liability of £50,000 rather than a provision. There is an earmarked reserve in place in relation to the liability. Officers have chosen not to amend the accounts as the amount involved is not material.
- 8 The Council does not apply accruals accounting where charges from one year to the next are not material. The SoRP requires financial statements to be prepared on an accruals basis. Departures are only expected from the accruals concept where a transaction is not yet capable of reliable measurement. We are satisfied the amounts involved are not material. Officers have chosen not to amend the accounts as the amount is not material. However, accruals accounting should be applied from 2009/10.
- 9 The Capital Financing Requirement (CFR) of £5.395m used to calculate the Minimum Revenue Provision did not agree to the Capital Financing Requirement of £8.8m in note 19 to the accounts. The difference was due to the CFR in note 19 including amounts relating to housing stock which had been transferred to Ribble Valley Homes on 31 March 2008. Note 19 has been amended.
- 10 Note 40 in the accounts sets out the financial assets and financial liabilities of the council. Note 40 did not initially include all required short and long term financial assets and liabilities. The note has been amended.
- 11 One debtor of £7,316 in relation to Lancashire County Council had been mis-classified as a sundry debtor rather than an 'Other Local Authority' debtor. Officers have amended the accounts.

Financial statements

- 12** Note 27 sets out the movements in council reserves over the last 12 months. Two of the figures in the note were not consistent with corresponding information elsewhere in the accounts. The balance as at 1 April 2008 for the Pension Reserve was shown as £10,725,273. This figure should be £10,780, 928. The balance as at 31 March 2009 for the General Fund was shown as £2,022,264. This figure should be £2,021,659. The accounts have been amended to show the correct figures.

Recommendation	
R1	Review the Council's potential liability in respect of equal pay claims on an ongoing basis and ensure this is accounted for as a provision where appropriate.
R2	Ensure accruals accounting is used for figures in the financial statements from 2009/10 onwards.
R3	Ensure the Capital Financial Requirement is consistent through the accounts and working papers in future.
R4	Ensure disclosures for financial instruments (note 40) fully comply with SoRP requirements.
R5	Ensure debtors are correctly classified.
R6	Ensure figures throughout the financial statements are consistent.

Material weaknesses in internal control

- 13** The work we have completed through the year did not identify any material weaknesses in internal control.

Areas for improvement in internal control

- 14** As external auditors, we are required by International Standards of Auditing (ISA+ 610) to consider and understand the activities of Internal Audit, to assist us in planning the audit and developing an effective audit approach. During the year we made an assessment of the effectiveness of Internal Audit by checking its compliance with professional requirements.
- 15** Our review concluded that there is scope to improve in a number of areas in order to fully comply with the requirements of the CIPFA Code of Practice for Internal Audit. We have issued a separate report on the work carried out and conclusions reached to the Accounts and Audit Committee.

Letter of representation

- 16** 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 4 contains the draft letter of representation I seek to obtain from you.

Key areas of judgement and audit risk

17 In planning my audit I 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
Change in key personnel involved in the preparation of the accounts.	We maintained a continuing dialogue with officers and no issues arose.
Impact of the current economic climate.	We carried out substantive testing to ensure income and expenditure was recorded in the correct year. We carried out substantive testing to gain assurance over the valuation and/or impairment of fixed assets in the financial statements. No issues were identified.

Accounting practice and financial reporting

18 I consider the qualitative aspects of your financial reporting. Table 2 contains the issues I want to raise with you.

Table 2

Issue	Action
The Annual Governance Statement (AGS) contained references to the Audit Commission relying on Internal Audit’s work and Internal Audit’s compliance with CIPFA standards.	The AGS has been amended in light of our findings on Internal Audit.

Use of resources

I am required to consider how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and give a scored use of resources judgement.

I am also 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.

Use of resources judgements

19 At the time of writing this report, the Use of Resources scores were not available. The Authority will be informed of their scores on 11 September 2009. We will issue a further report giving detailed feedback in due course.

Value for money conclusion

- 20** 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 KLOE are the relevant criteria for the VFM conclusion at each type of audited body.
- 21** 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 Ribble Valley Borough Council (Draft)

Independent auditor’s report to the Members of Ribble Valley Borough Council

Opinion on the financial statements

I have audited the Authority accounting statements and related notes of Ribble Valley Borough Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, 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 Ribble Valley 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.

Respective responsibilities of the Director of Resources and auditor

The Director of Resources 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 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.

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

Appendix 1 – Independent auditor’s report to Members of Ribble Valley Borough Council (Draft)

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 accounting statements, and consider whether it is consistent with the audited 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 accounting statements. My responsibilities do not extend to any other information.

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 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 accounting statements and related notes, 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 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 accounting statements and related notes.

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.

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, Ribble Valley 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
District Auditor
Audit Commission
2nd Floor
Aspinall House
Aspinall Close
Middlebrook
Bolton
BL6 6QQ

Date:

Appendix 2 – Adjusted amendments to the accounts

The following errors 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 3

Error	Nature of Adjustment	Income and Expenditure Account		Balance Sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
The Capital Financing Requirement (CFR) of £5.395m used to calculate the Minimum Revenue Provision did not agree to the CFR of £8.8m in note 19 to the accounts.	The difference was due to the CFR in note 19 including amounts relating to housing stock which had been transferred to Ribble Valley Homes on 31 March 2008. Note 19 has been amended to include the correct CFR.	No overall effect on the I&E and Balance Sheet.			
Note 40 did not include initially include all required short and long term financial assets and liabilities.	The note has been amended to include the appropriate amounts.	No overall effect on the I&E and Balance Sheet.			
One debtor of £7,316 in relation to Lancashire County Council had been mis-classified as a sundry debtor rather than an 'Other Local	Officers have amended the accounts to show the debtor in the correct classification.	No overall effect on the I&E and Balance Sheet.			

Appendix 2 – Adjusted amendments to the accounts

		Income and Expenditure Account		Balance Sheet	
Error	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Authority' debtor.					
Two of the figures in Note 27 were not consistent with corresponding information elsewhere in the accounts.	The balance as at 1 April 2008 for the Pension reserve was shown as £10,725,273. This figure should be £10,780, 928. The balance as at 31 March 2009 for the General Fund was shown as £2,022,264. This figure should be £2,021,659. The accounts have been amended to show the correct figures	No overall effect on the I&E and Balance Sheet.			

Appendix 3 – Unadjusted misstatements in the accounts

The following misstatements were identified during the course of my audit and the financial statements have not been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities. If you decide not to do so, please tell us 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.

Table 4

Description of error	Accounts effected	Value of error
The Council has received a number of claims in respect of back pay. At this time we understand negotiation in relation to these claims is ongoing. The SoRP requires a provision to be made in relation to these amounts. The Council has disclosed the amount as a contingent liability of £50,000 rather than a provision. There is an earmarked reserve in place in relation to the liability.	Income & Expenditure account	£50,000
The Council does not apply accruals accounting where charges from one year to the next are not material. The SoRP requires financial statements to be prepared on and accruals basis. Departures are only expected from the accruals concept where a transaction is not yet capable of reliable measurement. Officers have chosen not to amend the accounts as the amount involved is not material.	Income & Expenditure account	Four quarters are charged within the year and we are satisfied that difference is not material.

Appendix 4 – Draft letter of representation

Clive Portman
District Auditor
Audit Commission
2nd Floor
Aspinall House
Aspinall Close
Bolton
BL6 6QQ

Council Offices
Church Walk, Clitheroe
Lancashire BB7 2RA

Tel:01200 425111
www.ribblevalley.gov.uk

Ribble Valley Borough Council - Audit for the 2008/09 year ended 31 March 2009.

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Ribble Valley Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year 2008/09 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.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows;

- The Council has been aware of a number of equal pay claims over the last few years and therefore set aside funds by means of an earmarked reserve to provide for

Appendix 4 – Draft letter of representation

such payments when and if they may materialise. The amount of such payments has not been determined and therefore a reliable estimate cannot be made. As such we have made reference to the claims via the contingent liabilities section within the statement of accounts and we have also set aside funds via an earmarked reserve.

- For non material transactions such as gas, electricity and telephone charges we ensure each financial year is charged with the relevant invoices, rather than apply strict accruals accounting. This is mainly due to the fact that invoices contain forward looking costs such as rental charges/standing charges and also historical transaction costs. Given the amounts are not material it is not felt appropriate to account for these costs by charging the various elements of the invoices to different financial years.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- 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; or
- 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 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; and
- 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.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

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. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements including the appropriateness of the measurement method, the completeness and appropriateness under the financial reporting framework and where relevant, if subsequent events require adjustment to the fair value measurement.

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 Accounts and Audit Committee, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Signed on behalf of Ribble Valley Borough Council

I confirm that the this letter has been discussed and agreed by the Accounts and Audit Committee on 16 September 2009

Signed

Name Jane Pearson
Position Director of Resources
Date 16 September 2009

Schedule of unadjusted misstatements.

1. The Council has received a number of claims in respect of back pay. At this time we understand negotiation in relation to these claims is ongoing. The SoRP requires a provision to be made in relation to these amounts and we are of the view that this would be the correct accounting treatment. The Council has disclosed the amount as a contingent liability of £50,000 rather than a provision. There is an earmarked reserve in place in relation to the liability. Officers have chosen not to amend the accounts as the amount involved is not material.
2. The Council does not apply accruals accounting where charges from one year to the next are not material. The SoRP requires financial statements to be prepared on and accruals basis. Departures are only expected from the accruals concept where a transaction is not yet capable of reliable measurement. Officers have chosen not to amend the accounts as the amount involved is not material.

Appendix 5 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Governance Report 2008/09 - Recommendations						
7	Review the council's potential liability in respect of equal pay claims on an ongoing basis and ensure this is accounted for as a provision where appropriate.	3				
7	Ensure accruals accounting is used for figures in the financial statements from 2009/10.	3				
7	Ensure the Capital Financial Requirement is consistent through the accounts and working papers in future.	2				
7	Ensure disclosures for financial instruments fully comply with SoRP requirements.	3				
7	Ensure debtors are correctly classified.	2				
7	Ensure figures throughout the financial statements are consistent.	3				

The Audit Commission

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.

Copies of this report

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk
