

# Annual Governance Report

North Shropshire DC

Audit 2008/09

Date **17th September 2009**

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# Contents

<b>Key messages</b>	<b>4</b>
<b>Next steps</b>	<b>6</b>
<b>Financial statements</b>	<b>7</b>
<b>Use of resources</b>	<b>11</b>
<b>Appendix 1 – Independent auditor’s report to Members of Shropshire Council</b>	<b>12</b>
<b>Appendix 2 – Adjusted amendments to the accounts</b>	<b>15</b>
<b>Appendix 3 – Draft letter of representation</b>	<b>18</b>
<b>Appendix 4 – Action plan</b>	<b>21</b>

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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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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 Director of Resources on 8th September 2009 and has been updated since as issues have been resolved.

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 4 to 10);
- take note of the adjustments 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
- agree your response to the proposed action plan (Appendix 4).

Yours faithfully

Tony Corcoran  
District Auditor  
17th 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	7
Financial statements free from material error	Yes	7
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 audit is ongoing in areas relating to revenues and benefits reconciliations and capital accounting. We are also considering the possible need for group accounts in respect of the Community Asset Trust. In addition, we have yet to complete our testing of housing benefit and council tax benefit claims. However, we expect to issue an unqualified opinion on both the financial statements and Value for Money conclusion, subject to a satisfactory conclusion to the above issues. However should any further matters arise in concluding the outstanding work we will discuss these with the Director of Resources.

## Financial statements

- 2 We expect to issue an unqualified opinion on the financial statements. The quality of the working papers was good, which was consistent with previous years. There were only a limited number of errors and uncertainties which arose during the audit and these are detailed within the report. The main areas which required greater audit focus related to the revenue and benefit reconciliations, closure of the HRA and the effect of impairments of fixed assets. As a result of our additional testing, we expect to be able to secure the assurances needed to enable us to issue an unqualified opinion.

## Key messages

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### Use of resources

- 3 The Council's system of internal control is adequate and we therefore propose issuing an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

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### Audit Fees

- 4 The audit fee for the 2008-09 was agreed as £115,068. The Audit and Inspection Plan was agreed by the Audit Committee in May 2008. The outturn fee will only be finalised once our work on the financial statements audit is complete.

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# 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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**5** I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 4 to 10);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- take note of the VFM Conclusion;
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 4).

# Financial statements

**The North Shropshire DC financial statements and annual governance statement are important means by which North Shropshire DC accounts for its stewardship of public funds. As Shropshire 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.**

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## Opinion on the financial statements

- 6 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.
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## Errors in the financial statements

- 7 We identified errors in the financial statements (other than those of a trivial nature) and reported these to management.
  - 8 Management has agreed to adjust the financial statements for the errors identified in Appendix 2. However, because of their materiality we are reporting these errors to you.
  - 9 These adjustments primarily reflect the need to reflect impairment of Fixed Asset valuations as at 31st March 2009. The Council is currently adjusting the financial statements to reflect the total impairment of £1.053m and this will result in a number of changes to notes within the financial statements.
- 

## Material weaknesses in internal control

- 10 We identified weaknesses in the internal control environment relating to Revenues and Benefits systems. This was the result of the transfer between the outgoing systems which did not officially operate post early December 2008 and the introduction of the new systems in February 2009. As a result of the volume of the work involved in undertaking the transfer, controls which we would normally place reliance upon for gaining assurance of the relevant transactions within the financial statements, did not operate. We therefore conducted additional testing of the reconciliations work prepared by Shropshire Council to gain assurance that no material misstatement existed. We understand that Shropshire Council have ensured that appropriate arrangements and controls are now operating. However, we did note that towards the end of August, there had not been any arrears collection activity in all areas, including sundry debtors. It is important that Shropshire Council view this as a priority area as the failure to recover arrears can result in future financial pressures, as well as being politically sensitive.

**Recommendation**

- R1** Shropshire Council must ensure that all key controls are operating effectively within the Revenues and Benefits environment.
- R2** Shropshire Council must commence debtor arrears recovery as early as possible.

**Letter of representation**

**11** 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.

**Key areas of judgement and audit risk**

**12** 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
Risks arise from the potential loss of staff leading to potential breakdown in internal controls and good governance arrangements.	Generally, the control environment was maintained during 2008/09 and Members played an effective role in ensuring that governance arrangements remained robust.
Service continuity will be at risk during the transition. Performance management and risk management must be especially robust during the change period.	The Council was able to maintain effective services during 2008/09, although there were pressures in areas such as revenues and benefits as discussed above. The Council continued to maintain performance management arrangements during this last year of the Council's existence.

**Accounting practice and financial reporting**

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



Table 2

Issue or risk	Finding
Community Asset Trust	The CAT was originally established to benefit the local community. It has rights to receive various payments under the transfer agreement. No transactions have been directly processed through the CAT since transfer. The NSDC financial statements include a creditor of £558k for amounts assigned to the CAT relating to right to buy receipts and VAT share as a result of LSVT in 2007/08. Within this sum, £277k related to sums received post 31st March 2009 and is included within Debtors. The CAT remains an active company although legal advice has confirmed that it was not registered as a charity as originally intended. As a result of this, a future Corporation Tax and / or Capital Gains Tax liability may arise for the CAT. There are a number of complex issues which Shropshire Council will need to address in determining the future of the CAT and to ensure proper compliance with legal, accounting and governance requirements.
Impairment of fixed assets	The Council did not include an impairment of fixed assets within the financial statements. As a result of audit work, the Council has reconsidered its position and calculated an impairment of £1.053m. This adjustment will impact on a number of notes within the financial statements.
Explanatory foreword	The draft financial statements did not include any details of the impairment of fixed assets. Discussions have been held with officers and details will now be included in the statements.
Reserves	Note 36 of the financial statements did not contain details of the purposes of the reserves listed in the note. We have requested that an explanation be provided within the statements to enable the user to understand the purpose of these reserves.

Issue or risk	Finding
Officers emoluments	The disclosure note within the draft financial statements was incorrectly prepared as there was a need to show two separate tables where there had been an impact on pay arising from the redundancies arising from local government reorganisation. In addition, the values used in arriving at the note in the draft statements incorrectly included lump sum payments made to officers departing through Local Government Reorganisation.
Related Party disclosures	We noted that the Council did not secure the return of all the forms issued to officers and members relating to related party disclosures. The majority of officers were below the main tier of management and others had left during the year. In respect of Members, there were two cases where no return was provided. Based upon the overall level of returns, we have not requested any further action to secure responses, however the Council should note the issue.
Planning Delivery Grant (PDG)	The Council received PDG of £249k in 2008/09 which is included within Deferred Receipts. The grant states that 67.5% of the sum is not ring fenced and can be released to other resource / capital budgets. Shropshire Council may wish to review the total PDG balance (£519k) in deferred receipts to identify if there is any flexibility in the usage of the available balance to resource other activities .

**Recommendation**

- R3** Shropshire Council will need to determine the future of the CAT and to ensure proper compliance with legal, accounting and governance requirements.
- R4** Shropshire Council should review the balance of Planning Delivery Grant held within deferred receipts to identify if there are opportunities for funding wider council activities.

# Use of resources

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

- 14 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. However, as 2008/09 was the last year of North Shropshire DC before its demise, the full use of resources review was not applicable. Therefore our review was based upon the twelve VFM criteria which were consistent with prior year reviews.
- 15 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 Shropshire Council

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## **Opinion on the financial statements**

I have audited the Authority accounting statements and related notes of North Shropshire DC 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 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 Shropshire 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 Responsible Financial Officer and auditor**

The Responsible Financial Officer’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 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 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.

## Appendix 1 – Independent auditor’s report to Members of Shropshire Council

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.

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## 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, North Shropshire DC made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

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### 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.

Tony Corcoran

(Officer of the Audit Commission)

Suite 1

Observer House

Horsefair

Abbey Foregate

Shrewsbury

Shropshire SY2 5DB

30th 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 3**

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Revaluation Reserve	Effect of impairment of fixed assets	838			
I and E services	Effect of impairment of fixed assets	215			
Fixed Assets	Effect of impairment of fixed assets		1053		
Capital Adjustment Account	Effect of impairment of fixed assets	215			
Statement of Movement on General Fund Balance	Effect of impairment of fixed assets		215		
deferred receipts-other	being misclassification of sums payable relating to Community Asset Trust			558	
Creditors - Sundry	being misclassification of sums payable relating to Community Asset Trust				558

## Appendix 2 – Adjusted amendments to the accounts

		Income and Expenditure Account		Balance Sheet	
<b>Statement of Movement on HRA</b>	<b>Repairs and maintenance work which is not revenue funded from capital and should have been part of profit / loss on disposal of housing to Meres and Mosses Housing Association.</b>	<b>72</b>			
<b>Statement of Movement on HRA</b>	<b>Repairs and maintenance work which is not revenue funded from capital and should have been part of profit / loss on disposal of housing to Meres and Mosses Housing Association.</b>		<b>72</b>		
<b>HRA Loss on disposal</b>	<b>Repairs and maintenance work which is not revenue funded from capital and should have been part of profit / loss on disposal of housing to Meres and Mosses Housing Association.</b>	<b>72</b>			
<b>HRA Repairs &amp; Maintenance</b>	<b>Repairs and maintenance work which is not revenue funded from capital and should have been part of profit / loss on disposal of housing to Meres and Mosses Housing Association.</b>		<b>72</b>		



## Appendix 2 – Adjusted amendments to the accounts

<b>Capital Adjustment Account</b>	<b>Repairs and maintenance work which is not revenue funded from capital and should have been part of profit / loss on disposal of housing to Meres and Mosses Housing Association.</b>	<b>72</b>			
<b>Statement of Movement on HRA</b>	<b>Repairs and maintenance work which is not revenue funded from capital and should have been part of profit / loss on disposal of housing to Meres and Mosses Housing Association.</b>		<b>72</b>		
<b>Environment services-spend</b>	<b>SWP omitted entries</b>	<b>25</b>			
<b>Environment services-income</b>	<b>SWP omitted entries</b>		<b>25</b>		

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# Appendix 3 – Draft letter of representation

To: Tony Corcoran  
Appointed Auditor  
Suite 1, Observer House,  
Horsefair, Abbey Foregate  
Shrewsbury  
SY2 5DB

## **North Shropshire District Council - Audit for the year ended 31 March 2009**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors and officers of North Shropshire District 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 give a true and fair view of 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 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.
- There have been no irregularities involving management or employees who have significant roles in the system of internal accounting control;
- There have been no irregularities involving other employees that could have a material effect on the financial statements;

## Appendix 3 – Draft letter of representation

- There have been no 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**

The following significant assumptions have been made in the financial statements for fair value:

I confirm the reasonableness of the significant assumptions within the financial statements. For each assumption, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- Subsequent events do not require adjustment to the fair value measurement.

### **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 already 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 and accuracy 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 North Shropshire District Council, 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.

### 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 North Shropshire District Council

I confirm that the this letter has been discussed and agreed by the Council on

Signed

Name      Laura Rowley

Cllr Brian Williams

Position    Director of Resources

Chair of the Audit Committee

Date

# Appendix 4 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Annual Governance Report 2008/09 - Recommendations</b>						
8	R1 Shropshire Council must ensure that all key controls are operating effectively within the Revenues and Benefits environment.	3				
8	R2 Shropshire Council must commence debtor arrears recovery as early as possible	3				
10	R3 Shropshire Council will need to determine the future of the CAT and to ensure proper compliance with legal, accounting and governance requirements.	3				

10	R4 Shropshire Council should review the balance of Planning Delivery Grant held within deferred receipts to identify if there are opportunities for funding wider council activities.	2				
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# 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.

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

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

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