

# Annual Governance Report

Bridgnorth District Council

Audit 2008/09

Date **September 17**

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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
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# Key messages

This report summarises the findings from the 2008/09 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.

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<b>Financial Statements</b>	<b>Results</b>	<b>Page</b>
Unqualified audit opinion	Yes	5
Financial statements free from material error	No	6
Adequate internal control environment	Yes/No	7
<b>Use of resources</b>	<b>Results</b>	<b>Page</b>
Arrangements to secure value for money	Yes/No	9

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## Audit opinion

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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## Financial statements

We identified errors in the financial statements (other than those of a trivial nature) and reported these to management.

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.

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## VFM conclusion

I plan to issue unqualified VFM conclusion in relation to the 2008/09 year. Appendix 1 contains a copy of my draft report.

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## Audit Fees

We reported our fee proposals as part of the Audit Plan for 2008/09. The planned fee was £ 105,003. However, due to additional work required in reviewing the revenues and benefits reconciliations and local taxpayer arrears, this is likely to increase. 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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**1** I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 8);
- take note of the 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 4); and
- agree your response to the proposed action plan (Appendix 6).

# Financial statements

The [LG body's] financial statements and annual governance statement are important means by which the [LG body] accounts for its stewardship of public funds. As [LG body] 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

2 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.

3 The key outstanding matters are:

### **The basis of valuation for housing stock**

4 The CIPFA Statement of Recommended Practice (SORP) notes that assets should be subject to an annual review at as the date of the accounts, to assess if impairment has occurred in the value of a class of assets. This would cover housing stock. The SORP gives the specific example of a significant decline in a fixed asset's market value during the period as an event that would trigger an impairment review.

5 The basis of valuation for the bulk of housing stock is Existing Use Value for Social Housing (EUV-SH). The general valuation methodology involves the selection of beacon properties. Beacon properties are then value having regard to evidence of sales of comparable houses or flats and prescribed adjustment factors are then applied. Thus, movement of house prices is indicative of the expected trend in values.

6 The Council have not included impairment for the housing stock as at 31/3/09. Their view is that the value of housing stock is unchanged from the 1/4/2008. We have asked the Council to reconsider this and provide further evidence to support the decision not to impair and they are consulting their valuers and considering other available information.

7 This is a national issue as the general value of housing has decreased due to the general economic downturn.

### **NNDR grant claim**

The Grant claim was supplied by the Council at beginning of September. Work will need to be completed on this before the Audit opinion can be given.

### **Foreword Consistency**

8 We have to ensure that financial information in the Foreword to the accounts is consistent with the financial information within the accounts. A reconciliation has not yet been provided.

## Debtors

There is no breakdown of the amounts included in the Housing benefits overpaid balance of £197,071.72. The overall amount is not material, but we have no detail of what debits and credits are included in the balances. A breakdown is to be provided.

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## Errors in the financial statements

- 9 The following errors have been corrected in the accounts and are reported here due to the size and nature of the amendment.

### Statement of Movement on the General Fund - Profit on Disposal

- 10 The Statement of Movement on the General Fund Balance (SMGFB) reconciles the surplus or deficit for the year on the Income and Expenditure Account to the movement on the General Fund Balance. Its purpose is to provide for statutory amendments that, in the main, prevent accounting requirements distorting the amount required from Council Tax payers
- 11 The council had in correctly recorded a loss on disposal of £901,879 in the Statement of Movement on the General Fund. The correct figure was a profit of £1,535,288, which had been included correctly in the Income and Expenditure (I&E) account. This was due the capital receipt of £2,437,167 being included within the SMGFB in error, instead of being directly accounted for in the Usable capital Receipts reserve.

### Statement of Movement on the General Fund - Amortisation of Intangible Fixed Assets

- 12 The SMGFB has included a balance for the amortisation (Write off) of intangible fixed assets of £1,145,759, this was incorrect and overstated by £965,049 due to the inclusion of expenditure that was revenue expenditure funded from capital Under statute, previously this would have been deferred charges, but changes to SORP have now removed this category. The £965,049 has now been correctly disclosed under its own heading within the SMGFB. The correct amortisation of intangibles is £180,710.

## Investments

An amount of £726,980 for the discounted repayment expected in relation to the Landisbanki investment of £1,000,000 had been included in short term investments. This balance has now been moved to long term investments, due the expected timing of repayments being over 1 year from the balance sheet date.

The Landisbanki investment of £1,000,000 was originally calculated at a 95% impairment, but was changed to a 83% impairment, then discounted to the balance sheet date. The change from 95% to 83% is in accordance with CIPFA guidance, but meant an additional impairment charge of £104,997 was required. This led to an increased charge to the I&E and a fall in the value of recoverable investments. The impairment was also adjusted for in the SMGFB, to prevent it falling on the council tax charge.

### Recommendation

- R1** The council should include a SORP compliance checklist within the closedown working papers.

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## Material weaknesses in internal control

### Revenues and Benefits system

- 13** 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 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.

### Treasury management

- 14** Weaknesses noted in audit trail for investment decisions. It was not possible to establish what the investment choices were when any given investment was made as records are not kept of the rates available or the selection process. The system does not prevent initiation and authorisation (i.e. placement) of an investment by same individual. There is no clear audit trail to demonstrate how the sum to be invested has been determined or by whom.

### Fixed Assets and capital expenditure

- 15** Weaknesses in relation to reconciliations, in terms of timeliness and level of information provided to members. Quarterly reports on capital expenditure are no longer being produced for members, which represents a weakening of controls in place in the system. The asset register is not updated or reconciled to the ledger until the year end. There is no periodic review of expenditure to ensure that all items purchased above the deminimis threshold are actually coded to capital. Also, there is no periodic confirmation by department managers that assets for which they are responsible are still being held and have not been disposed of

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## 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 3 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
The basis of valuation for housing stock	The Council have not included impairment for the housing stock as at 31/3/09. Their view is that the value of housing stock is unchanged from the 1/4/2008. We have asked the Council to reconsider this and provide further evidence to support the decision not to impair and they are consulting their valuers and considering other available information
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.
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 effective performance management arrangements during this last year of the Council's existence.

**Accounting practice and financial reporting**

**18** I consider the qualitative aspects of your financial reporting. my audit. I draw members attention to the issues noted above in relation to Treasury management and investment and Fixed Assets and capital expenditure at paragraphs 14 and 15, which have internal reporting implications as well as demonstrating control weaknesses.



# 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

- 19** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission for demising councils.
- 20** I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my draft report.

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

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## **Opinion on the financial statements**

I have audited the Authority accounting statements and related notes of Bridgnorth District 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 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 Bridgnorth District 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, Bridgnorth District Council 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

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 2 Adjusted amendments to the accounts**

Adjusted misstatements	Nature of Adjustment
Statement of Movement on the General Fund - Profit on Disposal	<p>The Statement of Movement on the General Fund Balance (SMGFB) reconciles the surplus or deficit for the year on the Income and Expenditure Account to the movement on the General Fund Balance. Its purpose is to provide for statutory amendments that, in the main, prevent accounting requirements distorting the amount required from Council Tax payers</p> <p>The council had in correctly recorded a loss on disposal of £901,879 in the Statement of Movement on the General Fund. The correct figure was a profit of £1,535,288, which had been included correctly in the Income and Expenditure (I&amp;E) account. This was due the capital receipt of £2,437,167 being included within the SMGFB in error, instead of being directly accounted for in the Usable capital Receipts reserve.</p>
Statement of Movement on the General Fund - Amortisation of Intangible Fixed Assets	<p>The SMGFB has included a balance for the amortisation (Write off) of intangible fixed assets of £1,145,759, this was incorrect and overstated by £965,049 due to the inclusion of expenditure that was revenue expenditure funded from capital Under statute, previously this would have been deferred charges, but changes to SORP have now removed this category. The £965,049 has now been correctly disclosed under its own heading within the SMGFB. The correct amortisation of intangibles is £180,710.</p>
Investments	<p>An amount of £726,980 for the discounted repayment expected in relation to the Landisbanki investment of £1,000,000 had been included in short term investments. This balance has now been moved to long term investments, due the expected timing of repayments being over 1 year from the balance sheet date.</p> <p>The Landisbanki investment of £1,000,000 was originally calculated at a 95% impairment, but was changed to a 83% impairment, then discounted to the balance sheet date. The change from 95% to 83% is in accordance with CIPFA guidance, but meant an additional impairment charge of £104,997 was required. This led to an increased charge to the I&amp;E and a fall in the value of recoverable investments. The impairment was also adjusted for in the SMGFB, to prevent it falling on the council tax charge.</p>
I&E - Local Authority Housing (HRA) charge	<p>It was noted that there was an inconsistency between the I&amp;E statement and the Housing Revenue Account (HRA) disclosures in relation to the Net Cost of HRA Services per the HRA statement and the disclosure of this in within the Net Cost of Services disclosure for the HRA on the face on the I&amp;E statement</p>

## Appendix 2 – Adjusted amendments to the accounts

	of £166,443, this has been corrected. There was a similar charge that was put through the reserves and not the I&E as required which reduced this some disclosure by £44,536
Cashflow	£555,553 Was classified as Other Capital Cash, should have been purchase of fixed assets

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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

## **Bridgnorth 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 Bridgnorth 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.

### **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;  
reason 1 etc;  
reason 2

### **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;
- 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 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 Bridgnorth 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.

I also confirm that:

- there are no material leases that require separate lessor disclosure in the financial statements.
- there are no material prepayments or payments on accounts that have been omitted for the financial statements

**Signed on behalf of Bridgnorth 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

# Appendix 4 – Definition Existing Use Value for Social Housing (EUV–SH)

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## Existing Use Value – Social Housing (EUV–SH)

**21** Existing Use Value for Social Housing (EUV–SH) is the estimated amount for which a property should exchange, on the date of valuation, between a willing buyer and a willing seller, in an arm’s-length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion, subject to the following further assumptions that:

- the property will continue to be let by a body and used for social housing
- at the valuation date, any regulatory body, in applying its criteria for approval, would not unreasonably fetter the vendor’s ability to dispose of the property to organisations intending to manage their housing stock in accordance with that regulatory body’s requirements
- properties temporarily vacant pending re-letting should be valued, if there is a letting demand, on the basis that the prospective purchaser intends to re-let them, rather than with vacant possession
- any subsequent sale would be subject to all of the above assumptions.

# Appendix 5 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Annual Governance Report 2008/09 - Recommendations</b>						
6	R1 The council should include a SORP compliance checklist within the closedown working papers.	2	Chief Finance Officer			

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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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