

9 December 2009

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cc

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— Dear Laura Rowley

Annual Audit Letter 2008/09 - Bridgnorth District Council

Please find below the findings from our audit of Bridgnorth District Council for the year ending 31 March 2009.

Financial statements and annual governance statement

I issued an unqualified opinion on the Council's accounts on 30 September 2009, in accordance with the deadline requirements. In my opinion the accounts present fairly the Authority's financial affairs and of its income and expenditure for the year.

I also assessed the arrangements to secure economy, efficiency and effectiveness in the Council's use of resources against criteria specified by the Audit Commission. For 2008/09, 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.

Significant issues arising from the audit

The basis of valuation for housing stock

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. The Council had not included impairment for the housing stock as at 31/3/09. Following consideration of the issues involved, the value of housing stock was reduced by £16.1m. There was no impact on the council tax requirement or the income and expenditure of the council

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

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Impairment of investments

As reported in the Authority's accounts for 2008/09, current assets included short term investments totalling £1, relating to a deposit in an Icelandic Bank, Landsbanki. The bank (along with other Icelandic banks) collapsed in October 2008 and its UK subsidiary went into administration.

Due to the uncertainty as to the amounts and timings of payments to be made by the administrators and receivers, the Council followed recommended accounting practice in making an impairment adjustment on these deposits based on information current at the time.

The Landsbanki investment of £1,000,000 was originally calculated at a 95% impairment, but was changed to an 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.

I reported in my Annual Governance Report in September 2009 that the Council had followed the latest guidance (CIPFA Local Council Accounting Panel Bulletin 82) in accounting for these deposits; and hence they had been impaired appropriately.

Material weaknesses in internal control

Revenues and Benefits system

I 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

I also reviewed the Authority's Treasury Management. Weaknesses were 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

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 de minimis 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.

Audit Fees

We reported our fee proposals as part of the Audit Plan for 2008/09. The planned fee was £105,003 and I can confirm that this is the outturn fee for the year.

Independence

I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Closing remarks

I have discussed and agreed this letter with the Director of Resources. I will present this letter at the Audit Committee in February 2010 and will provide copies to all committee members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Yours sincerely

Tony Corcoran
District Auditor

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.