

Annual governance report

South Ribble Borough Council

Audit 2010/11



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Traffic light explanation

Red ■ Amber ◆ Green ●

Key messages

This report summarises the findings from the 2010/11 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 your arrangements to secure value for money in your use of resources.

	Our findings
Unqualified audit opinion	
Proper arrangements to secure value for money	

Audit opinion and financial statements

My 2010/11 audit is now substantially complete and I expect to issue an unqualified opinion by 29 September 2011.

I identified a small number of errors in the accounts which have been adjusted for. These were not of a significant nature and did not affect the underlying financial position of the council. I have recommended that officers introduce further checks in future years to ensure that all transactions with related parties are identified.

This year the Council, for the first time had to restate comparative figures to follow international financial reporting standards. The Council demonstrated a good understanding and appreciation of the new requirements, with all disclosures met.

Value for money

I am required to assess whether the Council put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources. I propose to issue an unqualified certificate in this respect.

The Council has adopted a strategic approach to dealing with a significant reduction in resources. It has a good track record in identifying and delivering significant savings whilst also maintaining or improving services. In 2010/11 the Council over achieved its efficiency target resulting in savings of £1,181,000 being delivered. Budget monitoring in 2011/12 shows the council is again on track to deliver its targeted efficiency savings.

Plans for future years' savings are not yet fully developed and the key challenge for the council is to continue to identify further significant efficiency savings whilst continuing to provide good services to the local community. Its response to the current financial climate together with its track record, indicate it is well placed to meet this challenge.

Before I complete my audit

I confirm to you

My report 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.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

I ask you to confirm to me

I ask the audit committee to:

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2); and
 - approve the letter of representation, provided alongside this report, on behalf of the Council before I issue my opinion and conclusion.
-

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

My work on your financial statements is now substantially complete and 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.

Key areas of judgement and audit risk

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Key audit risk	Finding
The implementation of international financial reporting standards (IFRS) to local government accounts in 2010/11 will require good planning to ensure an efficient transition to the new financial reporting requirements.	The Council had to restate its comparative figures to follow IFRS requirements. We have had ongoing discussions with key finance staff throughout the course of the year and shared advice to aid the restatement exercise. Officers demonstrated a good understanding of the new requirements and have dealt well with the implementation of IFRS. I am satisfied that the resultant figures within the statements are materially correct.

Errors in the financial statements

A summary of the errors identified are shown in appendix 2. All of these were amended by the Council and none of the amendments made affected the overall financial position of the Council. The changes were mainly movements between balance sheet headings.

Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statement disclosures. A small number of relatively minor amendments have been made to the accounting policies and disclosure notes to improve presentation and completeness. In the context of the significant changes to the format of the accounts and the disclosure requirements under IFRS this is a significant achievement.

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation.

I consider aspects of your accounting policies, accounting practices, accounting estimates and financial statement disclosures.

Financial statements

Significant weaknesses in internal control

The weakness reported below is one which I identified during the course of the audit that is relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

Internal control issues and our findings

Description of weakness	Potential effect	Management action
<p>Related Party Transactions</p> <p>Arrangements are in place to record registerable interests of members and senior officers. However, the Council had not established arrangements for identifying whether there had been any transactions between the Council and those organisations where members had disclosed an interest.</p>	<p>The note on related party transactions could be incomplete and inaccurate.</p>	<p>A report was run from the creditors system to establish whether any disclosures were necessary. This confirmed that for 2010/11 no transactions had occurred which would require disclosure.</p>

Recommendation
<p>Ensure that arrangements are in place to identify any related party transaction arising from members' and senior officers' declarations of interests and ensure disclosure where appropriate.</p>

Value for money

I am required to conclude whether the Council put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

The key findings from my work are set out below.

Value for money criteria and our findings

Criterion	Findings
1. Financial resilience Does the Council have proper arrangements in place to secure financial resilience?	<ul style="list-style-type: none">■ The Council clearly understands the significant and rapidly changing financial management challenge and risks facing the organisation and is taking appropriate action to secure a stable financial position. The Council has a good track record of identifying and delivering efficiency savings.■ In 2010/11 the Council again achieved significant savings whilst continuing to deliver services which are valued by the local community. The efficiency savings target of £920,000 was exceeded by £261,000. The 2011 Citizens Panel survey showed that 72.3 per cent of respondents are satisfied with the way the Council is run.■ The Council's medium term financial planning shows that it needs to continue to achieve additional ongoing savings over the next three years of between £1.8 million and £1.9 million each year. Continuing to deliver annual savings to this level is a significant challenge.

Criterion	Findings
	<ul style="list-style-type: none"> ■ Timely budget monitoring during 2010/11 placed the Council in a good position to monitor its financial position and progress made against efficiency targets. This allows the Council to respond, where necessary, to any non delivery and take quick decisive action. ■ For 2011/12 firm plans are in place to deliver the £1.8m savings required. Progress has already been good through a variety of measures including recurrent savings from the previous year. ■ For the following two years, clear plans have been agreed to achieve part of the required savings but plans for bridging the remaining gap of £800k in 2012/13 and a further £1.6 million for 2013/14 are not yet determined. In line with many other authorities, these are expected to be developed over the coming months. ■ The general fund balance of just over £4 million at 31/3/11 provides some contingency against the increased risks of delivering against such challenging efficiency savings targets giving the Council time to respond to under delivery or new spending pressures. ■ The key challenge for the council is to manage and monitor the delivery of planned efficiency savings and continue to identify further significant efficiency savings for future years whilst aiming to provide good services to the local community. Its response to the current financial climate together with its track record, indicate it is well placed to meet this challenge.
<p>2. Securing economy efficiency and effectiveness</p> <p>Does the Council have proper arrangements for challenging how it secures economy, efficiency and effectiveness?</p>	<ul style="list-style-type: none"> ■ The Council has in place strong leadership and is adopting a strategic approach to identifying cost reductions and challenging spending. This is evidenced through the use of cabinet workshops, task and finish groups and managers forums all working together to identify and work through proposals for delivering efficiencies. ■ There is good engagement, including local consultation, in identifying and delivering the necessary changes to services and securing cost improvements. ■ The Council has clear information on costs, including transaction costs and unit costs for specific services. This information is used to review and challenge value for money. The Council uses costs and performance information well in decision making and commissioning to determine opportunities for improving value for money. Current examples include proposals for making changes in the way in which the Council interacts with local communities aimed to improve services whilst also reducing costs and gaining wider benefits to the council as a whole from community working.

Criterion**Findings**

- The Council is continuing to extend its shared working with Chorley Borough Council around Revenues and Benefits, and joint procurement exercises to improve the value for money delivered to both Councils.
-

Appendix 1 – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH RIBBLE BOROUGH COUNCIL

Opinion on the Authority accounting statements

I have audited the accounting statements of South Ribble Borough Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and 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 South Ribble Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of Responsibilities, the Chief Executive, as Chief Financial Officer, is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the Foreword by the Chief Executive to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of South Ribble Borough Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the Foreword by the Chief Executive for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on Authority's 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 to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, South Ribble Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the accounts of South Ribble Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Fiona Blatcher
Officer of the Audit Commission
Audit Commission
Aspinall House, Aspinall Close
Middlebrook,
Bolton

29 September 2011

Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Issue	Impact on the accounts
<p>Creditors</p> <p>The year end creditors total included a small number of debit balances. This figure has now been correctly reclassified within the Council's debtors balance.</p>	<p>The Council's creditor and debtors balance were each understated by £19,253. These have now been correctly amended on the Balance Sheet.</p> <p>There is no impact on the Comprehensive Income and Expenditure Account from this adjustment.</p>
<p>Cash and Cash Equivalents</p> <p>The Council's bank overdraft figure had been deducted from the cash and cash equivalents balance shown on the Balance Sheet. Bank overdrafts should be disclosed separately as part of current liabilities.</p>	<p>The overdrawn balance of £1,241,000 is now separately disclosed within current liabilities. The cash and cash equivalent figure has been increased by the same amount.</p> <p>There is no impact on the Comprehensive Income and Expenditure Statement from this adjustment.</p>
<p>Contingent Liabilities Note</p> <p>Note 44 discloses whether there are any on-going claims against the Council. The note had failed to refer to an on-going claim in connection with private search companies.</p>	<p>The note has now been updated to reflect the current position.</p>

Issue

Impact on the accounts

Related Party Transactions

Note 38 discloses transactions with related parties. The Council has representation on the board of New Progress Housing and has contracts with them for maintenance of grounds and vehicles.

This had not previously been disclosed within the note.

The note has now been updated to outline the related party interest and transactions with New Progress Housing during 2010/11.

Impaired Bank Loans

Note 46 summarises the bank deposits made with Icelandic banks. The Council received repayments of £125,946 in April 2011 in connection with Heritable Bank deposits. This had been incorrectly included within the year end carrying amount figure within the note. The repayments relate to 2011/12 rather than 2010/11.

Note 46 has now been correctly amended to reflect the correct carrying amount at year end for Heritable Bank.

Appendix 3 – Letter of representation

Fiona Blatcher
Engagement Lead
Audit Commission
2nd Floor, Aspinall House
Aspinall Close
Middlebrook
Bolton
BL6 6QQ

South Ribble Borough Council - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of South Ribble Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year/period ended 31 March 2011. All representations cover the Council's accounts included within the financial statements.

Compliance with the statutory authorities

I have fulfilled 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 which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to.

Supporting records

All relevant information and access to persons within the entity has 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 financial statements.

Unadjusted misstatements in the accounts

All misstatements identified during the course of the audit have been adjusted.

Irregularities

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

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;
- 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; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. 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.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of South Ribble Borough Council related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of South Ribble Borough Council

I confirm that the this letter has been discussed and agreed by the Governance Committee on 28 September 2011

Signed

Name M Nuttall

Councillor G O'Hare

Position chief Executive

Chair Governance Committee

Date September 28 2011

Date September 28 2011

Appendix 4 – Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term 'materiality' applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

'Significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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0844 798 7070

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- any third party.

