

# Annual Governance Report

Barrow-in-Furness Borough Council

Audit 2009/10

September 2010

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# Contents

<b>Key messages</b>	<b>3</b>
<b>Next steps</b>	<b>5</b>
<b>Financial statements</b>	<b>6</b>
<b>Value for money</b>	<b>13</b>
<b>Glossary</b>	<b>20</b>
<b>Appendix 1 – Independent Auditor’s report to Members of Barrow-in-Furness Borough Council</b>	<b>22</b>
<b>Appendix 2 – Amendments to the draft accounts</b>	<b>25</b>
<b>Appendix 3 – Unadjusted misstatements in the accounts</b>	<b>27</b>
<b>Appendix 4 – Draft letter of representation</b>	<b>28</b>
<b>Appendix 5 – Value for money criteria</b>	<b>32</b>
<b>Appendix 6 – Action Plan</b>	<b>33</b>

# Key messages

This report summarises the findings from the 2009/10 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.

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<b>Financial statements</b>	<b>Results</b>	<b>Page</b>
Unqualified audit opinion	Yes	6
Financial statements free from material error	Yes	6
Adequate internal control environment	Yes	6
<b>Value for money</b>	<b>Results</b>	<b>Page</b>
Adequate arrangements to secure value for money	O/S	13

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## Audit opinion

- 1 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.
- 2 The financial statements were prepared, approved and submitted for audit on time. I received a full set of financial statements and supporting working papers in accordance with the timetable agreed with officers.

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## Financial statements

- 3 I have identified errors in the financial statements and reported these to management. Management has agreed to amend the financial statements for the errors identified in appendix 2. I have identified errors in the financial statements which management has declined to amend and these are summarised in appendix 3.
- 4 Management has taken a positive and constructive approach to the audit, and I would like to thank the Council's staff for their cooperation during the audit.

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## Value for money

- 5 I have identified some significant weaknesses in the Council's arrangements for tendering and contracting. I am still considering the implications of these weaknesses on my Value for Money Conclusion. I will provide a verbal update to the Audit Committee on 29 September 2010.

### Independence

- 6 I can confirm that there were no relationships giving rise to a threat to independence, objectivity and integrity.

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### Audit Fees

- 7 I received a Public Interest Disclosure Act (PIDA) referral during the year. I have considered the issues raised by this disclosure and this has required additional work which was not reflected in my indicative fee. As a result of this additional work, I will need to charge the Council additional fee.
- 8 My work to consider the issues raised by the PIDA referral is still in progress. I will discuss the additional fee with the Borough Treasurer and report the final audit fee to a future Audit Committee.

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

- consider the matters raised in the report before approving the financial statements (pages 6 to 12);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified (that management has declined to amend) or set out the reasons for not amending the errors (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

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# 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.**

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## Opinion on the financial statements

- 10** 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

- 11** I identified errors during the course of my audit and these have been corrected by management. In addition, some presentational adjustments have been agreed with management. The adjustments arising from my audit and other adjustments agreed with management are summarised in appendix 2. These amendments do not impact on either the General Fund Balance or the Net Worth of the Council.
- 12** I identified errors and uncertainties during the course of my audit which management has declined to amend. All the unadjusted errors and uncertainties are summarised in appendix 3. If these errors were to be amended the General Fund balance would be increased by £270,000 and the Net Worth of the Council would increase by £270,000.

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## Important weaknesses in internal control

- 13** I have not identified weaknesses in the design or operation of internal controls that might result in a material error in your financial statements. I report only those matters that have come to my attention because of the audit procedures I have performed. My audit is not designed to identify all matters that might be relevant to you.

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## Explanatory Foreword

- 14** The Local Authority Statement of Recommended Practice (SORP) states that the explanatory foreword fulfils a similar purpose to a directors' report in company accounts, and that it should provide a concise and understandable guide for the reader of the accounts of the most significant aspects of its financial performance and year-end position.
- 15** My review of the Council's explanatory foreword to the accounts has identified that the following recommended elements are not included:

## Financial statements

- Commentary on the major influences affecting the Council's income and expenditure and cashflow, and information on the financial needs and resources of the authority;
  - Commentary on specific items of expenditure, such as service expenditure, interest payable and other operating costs compared to the budget; and
  - Commentary on planned future developments in service delivery including a summary of revenue and capital investment plans.
- 16** Management has declined to make amendments to the explanatory foreword to include these elements which are recommended by the SORP.

### Recommendation

**R1** The Council should ensure that the explanatory foreword to the accounts covers the areas recommended by the SORP and that it provides an understandable guide for the reader of the accounts of the most significant aspects of its financial performance and year-end position.

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## Annual Governance Statement

- 17** The purpose of the Council's Annual Governance Statement (AGS) is to provide an accurate representation of the Council's governance arrangements in place during the year and to highlight those areas where improvement is required.
- 18** The AGS is a key corporate document. The most senior officer and the most senior member have joint responsibility as signatories for its accuracy and completeness. As a corporate document the AGS should be owned by all senior officers and members of the Council. The CIPFA Guidance for Practitioners includes detailed guidance and recommended practice for the preparation of the AGS
- 19** The AGS should accurately reflect the corporate governance environment as described in the Council's Local Code of Corporate Governance. Barrow's Local Code states that 'as part of the Audit Committee's governance role, the formal annual review (of Corporate Governance) will be undertaken by the Audit Committee on behalf of the Council'.
- 20** My review of the Council's AGS for 2009/10 identified the following weaknesses:
- The CIPFA guidance expects that the AGS will be based on evidence gathered to support the assurances made in the AGS, for example the steps taken by the Council to ensure that good quality services have been provided. The AGS report presented to the Audit Committee on 29 June 2010 did not provide members with information about the way in which evidence was gathered to prepare the AGS. It is not clear whether there has been an evidence gathering process to prepare the AGS for 2009/10.

- The signatories to the AGS need to ensure that the AGS accurately reflects the governance framework for which they are responsible. There is no evidence available to demonstrate that signatories were provided with assurances on the evidence gathering arrangements for the AGS. The draft AGS was not formally considered by either the Executive or Audit Committee.
- Internal Audit's Annual Report identified that only restricted assurance could be provided in respect of Risk Management, IT General Controls, Asset Management, Contract Probity, and IT Asset Management. None of these areas have been identified in the AGS as significant governance or internal control issues. In the absence of evidence to support the assurance gathering process, it is not clear how the Council has determined whether or not these issues should be included in the AGS as significant governance or internal control issues which require action to make improvements
- The AGS should include a prioritised action plan setting out the actions required to address significant weaknesses. There is no such action plan as nothing has been identified as needing action despite the weaknesses identified by Internal Audit.

### Recommendation

- R2** The process for the compilation of the Annual Governance Statement (AGS) should be improved. In particular:
- The preparation of the AGS should be supported by an evidence gathering process to provide Members and Management with assurances over the governance arrangements which are required to be reported.
  - The draft AGS should be considered and reviewed by Management and Members prior to finalisation and approval.
  - Significant weaknesses should be identified in the AGS and the AGS should include an action plan setting out how the weaknesses are to be addressed.

### Earmarked Reserves

- 21** The SORP defines earmarked reserves as being reserves set aside for specific policy purposes and balances which represent resources set aside for purposes such as general contingencies and cash flow management. For each reserve established, the purpose, usage and the basis of transactions should be clearly identified.
- 22** The Council's accounts include one balance called 'Earmarked Reserves' with a balance of £4.882m at 31 March 2010, an increase of over £1.8m on the previous year. The accounts disclose the purpose of this reserve as being 'Revenue set aside for specific purposes'.
- 23** The current disclosure does not identify what specific purposes the earmarked reserves have been established to fund. Given the significance of the £4.882m

## Financial statements

balance of this reserve, the Council should clearly identify what the monies have been earmarked to fund.

### Recommendation

**R3** The accounts should disclose what specific purposes the earmarked reserves have been established to fund.

## Key areas of judgement and audit risk

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

### Table 1 Key areas of judgement and audit risk

My Opinion Audit Plan presented to you in March 2010 identified the following risk areas

Risk	Finding
Although International Financial Reporting Standards (IFRS) do not apply to Local Government until 2010/11, the requirements of IFRIC12 on Service Concession Arrangements do apply to Local Government in 2009/10. The Council needs to ensure that it has taken appropriate steps to assess whether it has any arrangements that fall within the scope of IFRIC12 and account for these correctly.	<p>The Council does not have any PFI schemes and officers have informed me that it does not have any arrangements that fall within the scope of IFRIC12. However, the Council was initially unable to provide any evidence that it has reviewed its contractual arrangements to identify whether these may fall within the scope of IFRIC12.</p> <p>This assessment has now been undertaken by officers and I agree that none of the Council's service concession arrangements fall within the requirements of IFRIC 12.</p>
I review IT arrangements and controls in place at Barrow. This review includes assessing the arrangements the Council has place to obtain assurance over IT controls for the systems operated by Liberata. Internal Audit's work includes a review of IT controls at Liberata. The findings of the Internal Audit review will inform our testing strategy for the opinion audit.	<p>Internal Audit have not yet been able to undertake a review of IT controls for systems operated by Liberata. This is because this year Liberata would not give Internal Audit access to the information required. I understand that this issue has now been resolved and Internal Audit work is expected to commence soon.</p> <p>Because of delays to this work, I have not been able to place reliance on any IT controls which may provide assurance for systems operated by Liberata. Where I am unable to place reliance on controls,</p>

Risk	Finding
	additional substantive audit procedures are required so that I have sufficient assurance that the accounts give a true and fair view.
Internal Audit have undertaken a review of asset management and this concluded that it was difficult to obtain supporting documentation to evidence the decisions made in respect of asset transactions and leasing. There is a risk that the Council may not be able to provide sufficient appropriate evidence to support asset transactions in the financial statements.	My audit included substantive testing of capital additions and disposals. I have obtained sufficient appropriate evidence for the transactions that have been tested.
The Council is required to include additional disclosures in the 2009/10 accounts in respect of senior managers remuneration. This is a politically sensitive area and the new disclosure may be subject to increased scrutiny.	My audit has concluded that this new disclosure is correctly stated and supported by the underlying records.

**Recommendation**

**R4** The Council must take prompt action to ensure that Internal Audit can access all the information that is required to provide the Council with assurance over the IT controls in operation at Liberata.

**Accounting Practice and Financial Reporting**

**25** I consider the quality of your accounting practice and financial reporting. Table 2 contains the issues I want to raise with you.

**Table 2**

Issue	Finding
In 2008/09 I identified a failure in controls for the accounts payable system due to the authorised signatory list not being up to date. We understand that action was taken immediately to rectify this issue, however there remains a risk that this control did not operate effectively during the whole of 2009/10.	My audit testing included substantive sample testing of expenditure incurred through the accounts payable system. This testing did not identify any issues of concern.

## Financial statements

Issue	Finding
<p>The Council should undertake regular checks to ensure that Valuation Office Schedules have been reconciled to the Council Tax and NNDR systems by Liberata during the year. Our review of financial systems during 2009/10 identified that whilst Liberata were undertaking the reconciliations, the Council had not undertaken any checks to ensure the reconciliations were being carried out. This increases the risk that errors may not be identified by the Council.</p>	<p>No checks have been undertaken by the Council during 2009/10 to confirm that Valuation Schedules have been reconciled to the Council Tax and NNDR systems by Liberata during the year. My testing has not identified any areas of concern, however this control check should be completed by the Council.</p>
<p>Our review of financial systems in 2009/10 identified that control account reconciliations were not always being completed on a timely basis and were not always up to date. There is a risk that where control account reconciliations are not completed on a timely basis, errors may go undetected.</p>	<p>My audit testing has included substantive procedures to ensure that year end control account reconciliations have been undertaken for all key financial systems.</p>
<p>Our review of financial systems in 2009/10 has identified that the debt recovery process has not been operating since July 2009 due to a system upgrade. As a result the level of debt outstanding had increased and there was an increased risk that this debt is irrecoverable.</p>	<p>The total debtors balance has increased by £114,000 between 31 March 2009 and 31 March 2010. The provision for bad debt has also been increased by £90,000. It is not clear that the provision for bad and doubtful debts is based on the collectability of the debt. The provision is calculated by finance officers but this is not clearly based on the historical collection rates or assessment of specific types of debt.</p>
<p>Review of the financial statements identified that the Council had not included disclosures in respect of Operating Leases. The Council has a significant commercial estate which includes lease arrangements and these should be disclosed in the financial statements.</p>	<p>Officers have agreed to amend the financial statements to include the required disclosures for Operating Leases.</p>
<p>In January of each year, the authority should estimate what surplus or deficit is expected on the Collection Fund for the financial year ending in March. The amount required to recover any deficit or the distribution of any estimated surplus should then be included in the precepting</p>	<p>Whilst the approach taken by Barrow is unlikely to have any material impact on the collection fund balance or precepting authorities, the approach is not good financial management as the recovery of surplus/deficit is not being undertaken on the basis of the most up to date</p>

Issue	Finding
<p>bodies' demand on the Collection Fund for the following financial year.</p> <p>In practice the Council always estimates that surplus or deficit in March will be nil and hence no adjustment is made to the following year's precepts.</p> <p>Only the actual surplus or deficit on the collection fund is adjusted in the precept demands. For example when setting the 2009/10 Council tax in January 2009, this will include recovery of the deficit as at 31 March 2008 only. There is no attempt to reflect the estimated balance at 31 March 2009.</p>	<p>information.</p> <p>This is particularly important if there are significant variations in the amount of surplus / deficit incurred each year, as the Council may be distributing or recovering surpluses / deficits without considering the current financial position of the Collection Fund.</p> <p>Given the historically small levels of surplus or deficit on the collection fund this is not currently considered to be a significant departure from the regulations, however if collection fund balances increase, this issue will become more important.</p>
<p>Testing of the debtors balances identified that housing benefit overpayment debtors that are being deducted from ongoing benefit are excluded.</p>	<p>The debtors balance is understated by approximately £270,000 because housing benefit overpayment debtors are not included.</p>

Recommendation
<p><b>R5</b> The Council should ensure that the regular checks to ensure that Valuation Office Schedules have been reconciled to the Council Tax and NNDR systems by Liberata are undertaken regularly during the year.</p>
<p><b>R6</b> Provisions for bad and doubtful debts should be based on historical collection performance and assessment of specific debts.</p>
<p><b>R7</b> Housing Benefit overpayment debtors that are being recovered from ongoing benefit should be included in the accounts</p>

### Letter of representation

**26** 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.

# Value for money

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

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## Value for money conclusion

- 27** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 5.
- 28** I have identified weaknesses in your arrangements for tendering and contracting. These weaknesses are set out in paragraphs 44 to 49 in the following section. I am still considering the implications of these weaknesses on my Value for Money Conclusion. I will provide a verbal update to the Audit Committee on 29 September 2010.
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## Value for money findings

- 29** In the early part of 2010, the Audit Commission carried out work at the Council to update its annual Use of Resources assessment. Following the announcement in May 2010 of the intended abolition of CAA, the Commission decided that scored Use of Resources assessments would no longer be issued. We nevertheless place reliance on the work undertaken to support our opinion on whether the Council has adequate arrangements in place to deliver value for money in its use of resources – known as the VFM Conclusion. The following paragraphs provide feedback on our assessment of the arrangements in place which we have considered in reaching our VFM Conclusion at the 2009/10 audit.
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## Managing Finances

- 30** The Authority has financial arrangements in place to support delivery of strategic objectives. Objectives are based on national priorities and local issues identified through detailed community engagement with the public and partners. Budgetary control is strong and contributes to a good financial control environment at the Council. Strategic and service planning are integrated, with officers and members contributing to the planning process.
- 31** The Council has a healthy level of reserves at approximately 14% of the General Fund budget. The current financial strategy considers the impact of the economic downturn and the increased risks to the delivery of financial plans. However sensitivity analysis or scenario planning are not included in the Medium Term Financial Plans to illustrate the potential impact of future cuts in public spending on Council budgets and spending plans. The full extent of necessary spending reductions will become clearer after the
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Autumn Spending Review and settlement of revenue grant funding for 2011/12 and beyond.

- 32 The Council is developing a detailed understanding of its comparative costs and spending. It makes use of benchmarking and other comparative data to challenge costs and performance in key priority areas. An exception to this is procurement where the development and use of unit and transaction costs is less well developed. Whole of life costing approaches are used to support decisions about service expansion, restructuring and redesign - waste collection and recycling, bulky waste collection, heating/ventilation and fire protection/security are recent examples of this approach.
- 33 Business cases include inbuilt cost analyses and option appraisal linked to local priorities. For major decisions, the Council has taken account of wider social, environmental and economic factors but more needs to be done to build sustainability into commissioning and procurement decision making processes. It consults with residents using satisfaction surveys and follows up with a programme of focus groups to better understand customer perceptions.
- 34 The Council has over achieved its efficiency target in each of the last three years. Sustainable efficiencies in grounds maintenance, waste collection and street cleansing have realised in excess of £1.2m this year. It is delivering significant savings through energy efficiency measures in its buildings. Effective targeting is helping to ensure that efficiencies can be achieved and priorities delivered.
- 35 Service managers are responsible for budgets and these are allocated to budget holders at an appropriate level. A comprehensive Council Finance report is submitted to the Management Board and the Executive Committee, including forecast information quarterly. An Annual Report is produced and includes financial and other performance information in an easy to understand format.
- 36 The Council has been proactive in identifying the implications of IFRS and has developed plans to address these issues. This year's accounts have been prepared ahead of national deadlines and our audit work this year has not identified any deterioration in the quality of working papers that have been provided.

#### Managing Finances - Areas for further improvement

- Use mechanisms such as sensitivity analysis and scenario planning to illustrate the potential impacts of future cuts in public spending on key corporate and service level strategies and plans.
- Extend the development and use of unit and transaction costs to challenge comparative costs and performance throughout all services.
- Build sustainability into routine commissioning and procurement decision making processes.

#### Governing the Business

- 37 The Council's corporate aims and priorities are based on a detailed understanding of the needs of residents collected through statutory surveys, additional tracker surveys

## Value for money

and focus groups. It is willing and able to respond to the needs of local people, and acts on resident feedback to deliver improvements –fixed play provision, facilities for wheeled sports and improved provision of flood lit multi-use games areas are recent examples. It makes use of service redesign and restructuring to deliver improved value for money and works effectively with partners such as Liberata to deliver services. Historically, it has contracted out key services including waste collection, street cleansing and revenue and benefits administration.

- 38** A corporate Procurement Policy has been in place since 2004 and a 'How to do Business with the Council' guide is available on the internet. A revised procurement Policy was prepared in April 2009 but this has not been presented to members for consideration and adoption. The Council does not routinely report to members on procurement activity throughout the year so that they can understand what has and has not been delivered in order to challenge value for money obtained from contracts
- 39** The Council has arrangements in place to oversee data quality and is extending these to major partnerships. Arrangements for collecting, recording and reporting data are integrated into business planning and risk management processes. Corporate data quality and data security procedures are in place and there have been no reported data losses or security breaches during the year. A business continuity plan is in place, although there is no evidence that it has been tested.
- 40** The Council has procedures in place to collect and analyse data from services and activities, but these comprise a series of locally held systems rather than a centrally held performance management system. Action plans are integral to performance management and under-performance results in officers being invited to attend scrutiny committees to provide explanations. This focus on under performance is helping to drive up service performance in priority areas.
- 41** An ethical framework is in place to promote good governance. The role of the Executive Committee is clearly defined and published in the Council's Constitution. Standing orders, financial regulations and a scheme of delegation are in place, although these are not explicitly reviewed and updated regularly and contract standing orders are not up to date. Codes of Conduct for members and officers are in place and there is a programme for member development and learning. The induction programme for new members includes training in respect of the ethical framework and guidance on what should be reported to the Standards Committee.
- 42** A counter fraud strategy and whistle blowing policy are accessible on the Council's website. Arrangements are in place to investigate fraud including a 'fraud hotline' manned by internal audit. The Council has an audit committee although this needs to provide more challenge. Internal audit is in place - reports are of a good standard however it is not clear that the recommendations which management agree are properly implemented, because the Audit Committee does not monitor management action in response to agreed recommendations.
- 43** The Council monitors risks and a corporate risk register is in place. The Executive Management Board receives reports on the high level risks faced by the council. Training on risk management is provided to relevant members and officers however the risk register does not consistently include relevant risks from all sources such as internal audit findings.

## Tendering and contracting

- 44** A number of significant weaknesses exist in your procurement, tendering and contracting arrangements. These weaknesses are indicative of poor governance arrangements for tendering and contracting, and expose the Council to potentially significant risks.
- 45** The Council's Standing Financial Instructions (SFIs) and Contract Standing Orders (SOs) are out of date and do not reflect all current procurement practices in the Council, such as e-procurement. As a result the Council is not always following SFIs and SOs. There is a risk that the Council cannot demonstrate that contracts have been tendered and awarded in accordance with Council policy and procedure. Departures from agreed policy and procedure may also, result in non-compliance with laws and regulations.
- 46** The Council does not have an up to date procurement policy. As a result the Council's policy may not reflect good practice and new requirements, such as changes to EU procurement regulations. This increases the risk that the Council's procurement and tendering may not be compliant with laws and regulations.
- 47** Our audit work identified that tender exercises have taken place and work is underway, but no contract is recorded in the contracts register. Sometimes this is because legal services have not been provided with a copy of the contract and in other cases, work has been completed before the contract has been agreed and signed. In some cases work has been completed without a contract. The absence of a formal contract before work commences increases the risk that work is not completed as required by the Council.
- 48** The Council only requires formal tendering for contracts with a value in excess of £100,000. This threshold is high in comparison to districts of a similar size and many larger Councils have tendering thresholds that are much lower than this. There is risk that the Council cannot demonstrate that it is obtaining value for money where contracts are awarded below £100k without being tendered.
- 49** Internal Audit have undertaken work on both the Council's procurement and contracting processes, and reviews of specific contracts. The Internal Audit reports related to this work identify a number of common and recurrent issues, including:
- Tenders are not always being opened in accordance with Standing Orders. There are examples of incomplete signatures on documentation at tender opening and missing tender documentation. As a result the Council may be unable to demonstrate that contracts have been tendered and awarded in accordance with Council policy and procedure.
  - Examples of work being awarded under standard 'terms and conditions' of business with the Council, but without a formal contract in place. The absence of a formal contract may increase the risk of dispute between the Council and Contractor, and may make it difficult for the Council to prove liability of the contractor in the event of defects or services not being delivered.
  - Tenders being invited from contractors that are not on the approved list. As a result, contractors invited to tender may not meet the requirements established by the approved list.

## Value for money

- Contract variation orders are not always complete or properly authorised and there are examples of inappropriate authorisation of contract invoices for payment. This increases the risk that expenditure may not be properly due to the contractor and creates a potential risk of fraud.
- Lack of supporting documentation to support the appointment of a consultant. The Council may not be able to demonstrate value for money if work has been awarded without a competitive tendering process.

### Recommendation

**R8** The Council must take urgent action to address the weaknesses identified in tendering and contracting arrangements. Action must be taken to ensure that:

- Standing Financial Instructions and Contract Standing Orders are kept up to date and all procurement practices in the Council are compliant with these regulations.
- The procurement policy is kept up to date and is consistently applied across the Council.
- Contracts are put in place for all tender exercises before work or services commence. The contracts register should be complete and accurate.
- Tendering thresholds should be reviewed to ensure that the Council is satisfied that the thresholds are appropriate.
- All tender exercises must be completed in accordance with standing orders.

### Governing the Business - Areas for further improvement

- Review (and if necessary update) the draft procurement Policy (April 2009) to ensure it reflects current procurement practice and national guidance. Once completed, present the draft Policy to members for consideration and adoption.
- Strengthen corporate performance management arrangements through routine reporting on procurement (activity, costs and value for money) as part of the quarterly performance reports to members.
- Regularly test the business continuity plan to ensure that it is fit for purpose.
- Regularly review and if necessary update standing (including contract) orders, financial regulations and the scheme of delegation. Formally evidence reviews on the version history file.
- Strengthen the role and function of the Audit committee and ensure that it appropriately discharges its statutory responsibilities.
- Ensure all internal and external recommendations are fully implemented and regularly report progress to members and Senior Management Team as part of routine performance management arrangements.
- Regularly remind officers of the need to record risks from all sources (including from internal and external audit reports) in corporate and service level risk registers.

### Managing Resources

- 50** The Council has a well established approach for reducing the environmental impact of its activities. An Energy (Efficiency) Policy was developed in 2006. The main focus of this has been on improving energy efficiency (electricity and gas consumption). However, it is recognised that this needs updating to broaden its focus to include sustainability, biodiversity and minimising the impacts of climate change. A Sustainability Strategy was developed in March 2008 but as yet has not been signed off by Management Team or presented to members.
- 51** The Council can cite demonstrable improvements from energy efficiency measures. For example, secondary glazing, mechanical ventilation and temperature controls at Barrow Town Hall have delivered a 30% reduction in gas consumption and 3% reduction in electricity use. Similar reductions have also been achieved at Forum 28 and Park Leisure Centre. However, it has not yet undertaken an analysis of or collected baseline data on water consumption. Work is underway to address this.
- 52** The Council is working with the carbon trust to improve energy efficiency. Carbon trust surveys were completed for the three main council owned buildings four years ago. These form the basis of the Council's energy efficiency projects and are built into the capital programme. An action plan has been developed and is being implemented. Key developments include; variable speed drives, new boilers, solar thermal heating, etc.

## Value for money

**53** A renewable energy survey was undertaken 18 months ago. The Council is working to improve energy efficiency eg installing power saving technology into buildings it leases out. It has also been successful in obtaining grants from the Low Carbon Buildings Fund for installing solar thermal panels on Park Leisure Centre. It is working with other councils to develop a framework for construction contracts to ensure environmental impacts are considered. Display Energy Certificates are up to date and cover all main buildings eg Forum 28, crematorium, museum, markets, Park LC, Salthouse depot and town hall.

### Managing Resources - Areas for further improvement

- Finalise the draft Sustainability Strategy (March 2008) and ensure it addresses issues such as sustainability, biodiversity and minimising the impacts of climate change.
- Once the draft Sustainability Strategy has been finalised, develop detailed implementation plans to support its delivery. These should include SMART targets and identify the resource requirements needed to deliver sought outcomes.
- Collect and analyse baseline information on water consumption and set targets to reduce overall consumption across the Council.

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# Glossary

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## Annual governance statement

- 54** Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.
- 55** It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.
- 56** The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

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## Audit closure certificate

- 57** 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 certificate.

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## Audit opinion

- 58** On completion of the audit of the accounts, auditors must give their 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;
  - whether they have been prepared properly, following the relevant accounting rules; and
  - for local probation boards and trusts, on the regularity of their spending and income.

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## Qualified

- 59** The auditor has some reservations or concerns.

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## Unqualified

- 60** The auditor does not have any reservations.

### Value for money conclusion

- 61** 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.

# Appendix 1 – Independent Auditor’s report to Members of Barrow-in-Furness Borough Council

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## Opinion on the accounting statements

I have audited the Authority accounting statements and related notes of Barrow-in-Furness Borough Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Barrow-in-Furness Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

## Respective responsibilities of the Borough Treasurer and Auditor

The Borough Treasurer’s responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting 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 give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of 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 accounting 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

## **Appendix 1 – Independent Auditor’s report to Members of Barrow-in-Furness Borough Council**

form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements. My responsibilities do not extend to any other information.

### **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

### **Opinion**

In my opinion the Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 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 for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. 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 on arrangements for securing economy, efficiency and effectiveness in the use of resources and audit certificate**

I have identified weaknesses in the Council’s tendering and contracting arrangements. I am considering the implications of these weaknesses on my conclusion on the Council’s arrangements for securing economy, efficiency and effectiveness in the use of resources;

Until I have considered those implications I am unable to reach a conclusion on the Council’s arrangements for securing economy, efficiency and effectiveness in the use of resources or to certify completion of the audit.

Gina Martlew  
Officer of the Audit Commission

Audit Commission  
Aspinall House  
Aspinall Close  
Middlebrook  
Bolton  
BL6 6QQ

X September 2010

# Appendix 2 – Amendments to the draft accounts

I identified the following misstatements during my audit and managers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities.

**Table 3 Amendments to the draft accounts**

Description of error	Impact on Statements	Value of error £
<p><b>Note 19 Movements in Fixed Assets</b></p> <p>The movements in fixed assets includes a reversal of a past impairment loss of £1,400,000. This movement was included within a net figure for revaluations but should have been separately disclosed.</p>	<p>Note 19 to the financial statements has been amended to separately identify the reversal of a past impairment loss. This amendment does not impact on the Income and Expenditure Account.</p>	<p>Disclosure</p>
<p><b>Operating Leases</b></p> <p>The financial statements should include disclosure of the number and value of operating leases where the Council is either a lessee or lessor. Testing of a sample of commercial properties identified that the Council has a number of operating leases in place for its commercial buildings but no disclosure had been included in the financial statements.</p>	<p>The financial statements have been amended to include the required disclosures. These can be found in note 4 to the financial statements.</p>	<p>Disclosure</p>
<p><b>Note 12 Officer Remuneration</b></p> <p>Pension contributions disclosed in note 12 to the accounts had been calculated using a set percentage rather than being disclosed as the actual pension contributions made and recorded in the payroll system.</p>	<p>Pension contributions in note 12 have been amended to reflect the actual contributions paid and recorded in the payroll system.</p>	<p>N/A</p>
<p><b>Note 15 Related Party Transactions</b></p> <p>Note 15 to the financial statements did not include a full disclosure of all significant related parties. In addition some minor errors were identified in the prior year comparatives.</p>	<p>Amendments have been made to note 15 to include all significant related parties. Minor errors have also been corrected.</p>	<p>Disclosure</p>

## Appendix 2 – Amendments to the draft accounts

<p><b>Note 60 Post Balance Sheet Events</b> Annual pension increases are based on a measure of price inflation. In June 2010 the Government announced a move to using the Consumer Price Index (CPI) as the measure of price inflation for public sector pensions from April 2011. Currently the Retail Price Index is the measure used. This change will affect the valuation of pension fund liabilities.</p>	<p>Note 60 has been amended to include disclosure of this change.</p>	<p>Disclosure</p>
<p><b>Presentation and disclosure</b> A number of minor presentational inconsistencies or errors in disclosure were identified in the financial statements.</p>	<p>A number of minor amendments have been made to correct these presentational errors and inconsistencies.</p>	<p>Disclosure</p>

# Appendix 3 – Unadjusted misstatements in the accounts

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities. If you decide not to amend, please tell us why in the representation letter. If you believe the affect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

**Table 4 Unadjusted errors in the accounts**

Description of error	Impact on Statements	Value of error
<p><b>NNDR Debtor</b></p> <p>The audit of the National Non Domestic Rates (NNDR) return identified a computation error which resulted in an amendment to the NNDR claim. The amendment results in an increase in the amount paid to the national pool and an decrease to the amount owed to the Council.</p>	<p>Debtors owed to the Council in the Balance Sheet at 31 March 2010 are overstated by £56,000.</p>	<p>£56,000</p>
<p><b>Debtors – Housing Benefits</b></p> <p>The Council has not included a debtor in the Balance Sheet to reflect Housing Benefit overpayments that are owed to the Council and which are being recovered through deductions from ongoing benefit.</p>	<p>The balance of debtors owed to the Council is understated by an estimated £270,000. This amount reflects the estimated value of housing benefit overpayments that are owed to the Council and which are being recovered through deductions from ongoing benefit. If this error was to be amended the General Fund Balance would be increased by £270,000.</p>	<p>£270,000</p>

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# Appendix 4 – Draft letter of representation

Gina Martlew  
Appointed Auditor  
Audit Commission  
Aspinall House  
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Middlebrook  
Bolton  
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## **Barrow-in-Furness Borough Council - Audit for the year ended 31 March 2010**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other Directors and Officers of Barrow-in-Furness Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010.

### **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 and Committee meetings, have been made available to you.

## Appendix 4 – Draft letter of representation

### Going Concern

I am satisfied that it is appropriate to adopt the going concern basis in the preparation of the financial statements and that the financial statements include, such disclosures, if any, relating to going concern.

### Irregularities

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

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

### Law, regulations, contractual arrangements and codes of practice

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

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

### Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For the valuation of fixed assets and financial instruments, 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

- that subsequent events do not require adjustment to the fair value measurement.

### Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

### Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

### Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

### Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

### Post balance sheet events

Since the date of approval of the financial statements by the 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.

### IFRIC12 Service Concession Arrangements

I confirm that the Council has assessed all contracts to identify whether any contractual arrangements reflect a service concession arrangement within the scope of IFRIC12.

## Appendix 4 – Draft letter of representation

Signed on behalf of Barrow-in-Furness Borough Council

I confirm that this letter has been discussed and agreed by the Audit Committee on 29 September 2010.

Signed

Name

Position

Date

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# Appendix 5 – Value for money criteria

<b>Key Line of Enquiry</b>	<b>Met</b>
<b>Managing finances</b>	
Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	<b>Yes</b>
Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	<b>Yes</b>
Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	<b>Yes</b>
<b>Governing the business</b>	
Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	<b>Yes</b>
Does the organisation produce relevant and reliable data and information to support decision making and manage performance?	<b>Yes</b>
Does the organisation promote and demonstrate the principles and values of good governance?	<b>o/s</b>
Does the organisation manage its risks and maintain a sound system of internal control?	<b>Yes</b>
<b>Managing resources</b>	
Is the organisation making effective use of natural resources?	<b>Yes</b>

# Appendix 6 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R1 The Council should ensure that the explanatory foreword to the accounts covers the areas recommended by the SORP and that it provides and understandable guide for the reader of the accounts of the most significant aspects of its financial performance and year-end position.	3				
8	R2 The process for the compilation of the Annual Governance Statement (AGS) should be improved. In particular: <ul style="list-style-type: none"> <li>• The preparation of the AGS should be supported by an evidence gathering process to provide Members and Management with assurances over the governance arrangements which are required to be reported.</li> <li>• The draft AGS should be considered and reviewed by Management and Members prior to finalisation and approval.</li> <li>• Significant weaknesses should be identified in the AGS and the AGS should include an action plan setting out how the weaknesses are to be addressed.</li> </ul>	3				
9	R3 The accounts should disclose what specific purposes the earmarked reserves	3				

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	have been established to fund.					
10	R4 The Council must take prompt action to ensure that Internal Audit can access all the information that is required to provide the Council with assurance over the IT controls in operation at Liberata.	3				
12	R5 The Council should ensure that the regular checks to ensure that Valuation Office Schedules have been reconciled to the Council Tax and NNDR systems by Liberata are undertaken regularly during the year.	2				
12	R6 Provisions for bad and doubtful debts should be based on historical collection performance and assessment of specific debts.	2				
12	R7 Housing Benefit overpayment debtors that are being recovered from ongoing benefit should be included in the accounts	2				
17	R8 The Council must take urgent action to address the weaknesses identified in tendering and contracting arrangements. Action must be taken to ensure that: <ul style="list-style-type: none"> <li>• Standing Financial Instructions and Contract Standing Orders are kept up to date and all procurement practices in the Council are compliant with these regulations.</li> <li>• The procurement policy is kept up to date and is consistently applied across the Council.</li> <li>• Contracts are put in place for all tender exercises before work or services</li> </ul>	3				

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<p>commence. The contracts register should be complete and accurate.</p> <ul style="list-style-type: none"> <li>• Tendering thresholds should be reviewed to ensure that the Council is satisfied that the thresholds are appropriate.</li> <li>• All tender exercises must be completed in accordance with standing orders.</li> </ul>					