

Annual governance report

Barrow 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 draft unqualified audit report covering the opinion and value for money conclusion is at Appendix 1. The financial statements were prepared and submitted for audit on time.

I acknowledge that the Council has had to deal with a large volume of changes to ensure compliance with the International Financial Reporting Standards (IFRS) code. I am able to report there are no material errors found within the primary statements with the exception of errors on the Cashflow Statement.

A significant number of non material amendments have been made to other disclosures to ensure the Council's Statements of Account give a true and fair view and to comply with first year adoption of IFRS.

Value for money

I found that the Council's arrangements for managing its resources are adequate. I acknowledge improvements have been made to both the tendering and contracting arrangements since January 2011, although further improvements can still be made.

In the context of the comprehensive spending review it is vital that reserve levels are closely monitored to ensure that usable general reserve balances reflect the level of financial risks the Council face.

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.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

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);
 - approve the letter of representation, provided alongside this report, on behalf of the Council before I issue my opinion and conclusion;
 - agree to adjust the error in the financial statements I have identified that management has declined to amend, as shown on Appendix 3. Or set out the reasons for not amending this error. If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected error, individually and collectively, is immaterial, please reflect this in the representation letter;
 - agree your response to the proposed action plan (Appendix 4); and
 - agree the additional audit fee of £4,000 to cover the additional work arising from the large number of changes required to ensure the accounts give a true and fair view in compliance with IFRS Code.
-

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.

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

Table 1: Key audit risk and our findings

Key audit risk	Findings
<p>1. First time adoption of IFRS</p> <p>Risk of error arising from the preparation of accounts under new International Financial Reporting Standards (IFRS), specifically:</p> <ul style="list-style-type: none">■ The Council has outsourced a significant number of services and has service contracts in place for a wide range of services. These arrangements may contain leases or lease arrangements that should be accounted for under IFRIC4. There is a risk that the accounts will be materially misstated due to non-disclosure or incorrect accounting for lease arrangements that fall within the scope of IFRIC4;■ The Council has influence and may have control in a number of partner organisations. Under the broader scope of IFRS the Council may need to prepare Group Accounts for one or more these arrangements. There is a risk that this requirement will not be identified resulting in material misstatement of the accounts due to the incorrect exclusion of group accounts.	<p>I have reviewed the re-stated 1 April 2009 position and the restated 2009/10 accounts and liaised with your officers and reported, in my Interim Report, on a number of challenging areas, such as the treatment of leases, in May 2011.</p> <p>I have reviewed the 2010/11 financial statements for compliance with the IFRS based Code and I found amendments were required as outlined elsewhere in this report.</p> <p>Following further detailed audit work, I am satisfied that the Council's approach to accounting for the main lease arrangements on its waste, recycling and street cleansing contracts complies with the Code.</p> <p>Following my audit work, amendments have been made to Note 33 and are detailed in Appendix 2.</p> <p>I accept the Council's interpretation that for 2010/11 it does not need to prepare group accounts for any of its partnership arrangements.</p>

Key audit risk

2. Related party transactions

The Council has involvement with a significant number of outside bodies including partnership organisations in the Barrow area. In 2009/10 I identified that the related party disclosures in the accounts were incomplete. There is a risk that related party disclosures in the 2010/11 accounts are incomplete.

3. Earmarked reserves

The Accounts have not historically included disclosure of the purpose of the earmarked reserves as required by the Statement of Recommended Practice. There is a risk that the disclosures in the 2010/11 accounts do not comply with the guidance notes for the new Local Authority Accounting Code of Practice

Findings

I reviewed the Council's arrangements for ensuring that all related party transactions are identified and included in the financial statements. The arrangements could be improved by comparing the items disclosed by Members on their annual review form with the disclosures made during Council and other meetings

I found the Council's accounts comply with the disclosure requirements of the new IFRS Code. Explanatory foreword and Note 8 on Earmarked reserves now provides a description of the purpose which Members have approved.

Financial statements

I plan to issue an unqualified audit report covering the opinion and value for money conclusion.

The financial statements were prepared and submitted for audit on time.

A number of amendments have been made to the accounts and related disclosure notes. These changes are largely but not limited to ensuring compliance with first year adoption of International Financial Reporting Standards (IFRS).

Opinion on the financial statements

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 report.

Errors in the financial statements

I am able to report there were no material errors within the primary statements apart from the Cashflow statement. Appendix 2 summarises the errors affecting the primary statements which have been amended in the revised set of accounts. I also identified a large number of errors and omissions in the explanatory foreword, accounting policies and disclosure notes. These were also amended and are summarised in the section on the Quality of your Accounts below.

Cash flow Statement

I found the 'Adjustments to net surplus or deficit on the provision of services for non cash movements' on the cashflow could not be reconciled to the Council's supporting working papers or to the rest of the related statement disclosures. The Council has now amended the non cash movements by £11.225m from (£8.482m) to (£19.737m) as originally it was used as the balancing figure to reconcile all the other cashflow movements.

I also note the original 'Adjustments for items included in the "Net surplus or deficit on the provision of services that are investing and financing activities' was wrongly identified as (£3.266m) instead of £3.266m to give a corrected 'Net cash flows from operating activities' of (£5.136m) as opposed to (£0.413m).

The 2009/10 comparators contained a number of material errors in the non cash movements as well which the Council has amended.

I also found the Council had omitted a note to the cash flow statement detailing the financing activities. The Council has amended the cash flow statement supporting Note 25 to comply with the IFRS Code.

Comprehensive Income and Expenditure Statement (CIES)

The exceptional item in the CIES on 'Revaluation of council dwellings' originally included the net revaluation loss movement of £884,000 as income instead of netting it off against gross expenditure. The Council has amended CIES and it now reconciles to the Housing Revenue Account disclosures on the council dwelling revaluation net position of £19.025m.

Omission of restated 1 April 2009 figures

The Council's accounts submitted for audit did not include the 1 April 2009 comparative information on the relevant balance sheet disclosure notes and therefore did not comply with the first time adoption rules on IFRS 1 and LAAP Bulletin 88 'Closure of 2010/11 accounts and related matters'. IFRS1 defines the date of transition to IFRS as the start of the comparative period in the first IFRS financial statements. For Local Authorities the transition date is therefore 1 April 2009. The balance sheet disclosure notes have been amended to include the 1 April 2009 opening position.

Unadjusted errors

I identified one error during the course of my audit which management has not amended as outlined in Appendix 3. Capital grants amounting to £45,000 should have been included in the balance sheet as capital receipts in advance instead of capital receipts unapplied. This has not been corrected because of the immaterial amounts involved and as it has no impact on the Net Worth of the Council.

Recommendation

R1 Ensure that appropriate technical resources are dedicated to the compilation of the cash flow statement and to check compliance with the IFRS based Code and Practitioner's Guidance.

Financial statements

Quality of your financial statements

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

These are the issues I want to raise with you. I acknowledge that the Council has had to deal with a large number of changes in producing the accounts on an IFRS basis for the first time in 2010/11. A significant number of other minor amendments were required over and above those highlighted below such as cross referencing and use of brackets in the narrative to aid the reader of the accounts.

Table 2: **Accounting practices, policies, estimates and financial disclosures**

Issue	Findings and outcome
1. Explanatory foreword As part of the Explanatory Foreword to the accounts: <ul style="list-style-type: none">■ The tables detailing the comparison to budget for General Fund and Housing Revenue Account could not be agreed to underlying evidence or for consistency with the statements;■ The table showing the key adjusted movement in reserves figures shows a split between “Adjustments between accounting basis & funding basis under regulations” and “Transfers to/from Earmarked Reserves” which is incorrect.	<p>The Council has updated the relevant tables to ensure the disclosure was correct and consistent with the main statements</p> <p>In the key adjusted Movement in Reserves the “Accounting basis & funding basis under regulations” was amended from (£368,000) to (£2.244m) and Transfers to/from Earmarked Reserves was amended from £nil to £1.876m</p>
2. Accounting policies	

Issue	Findings and outcome
<p>I found that the accounting policies did not fully comply with the new or adopted accounting policies to align with the IFRS Code and the following expected disclosures within the accounting policies had been omitted or required updating:</p> <ul style="list-style-type: none"> ■ section h) termination benefits - the final paragraph refers to when termination involves the enhancement of pensions , however this has not been applied throughout the year as a different policy is in place at the end of the year; ■ section j) financial instruments - Loans and receivables are not defined; ■ Section n) - other than in the depreciation section there is no description of the Council's policy on componentisation. 	<p>The Council has updated its accounting policies to reflect all of the omissions listed and to address some other minor policies disclosures to aid clarity.</p>
<p>3. Heritage assets disclosure</p> <p>The Council has not disclosed the effect following the introduction of FRS 30 Heritage assets which is effective in 2011/12.</p>	<p>The Council has updated Note 2 on accounting standards still to be adopted to demonstrate the likely impact of recognising heritage assets valued for insurance purposes on the balance sheet will amount to £2.4m.</p> <p>The Council should identify its heritage assets as soon as possible and value them as at 31 March 2012.</p>
<p>3. Assumptions made about the future and other major sources of estimation uncertainty</p> <p>The Council disclosed the assumptions made about the future and other major sources of estimation uncertainty in the notes to the accounts. However, this disclosure did not give the reader of the accounts any feel for the degree of uncertainty and the impact of any changes in assumptions.</p>	<p>The Council has updated Note 4 against each of the significant estimation areas to quantify the degree of uncertainty and the impact of any changes in assumptions.</p>

Issue	Findings and outcome
<p>4. Balance Sheet related notes</p> <p>The revaluation information given in the PPE note does not reconcile to the full value of all Council assets in the accounts.</p> <p>The Council has not disclosed the debtors and creditors analysis notes in line with the IFRS code</p> <p>There are no notes supporting the long term liabilities and long term debtors shown in the balance sheet.</p>	<p>The note has been updated showing the particular dates the assets were valued at that date with the total reconciling to the asset value in the accounts.</p> <p>The debtors and creditors Notes 15 and 17 respectively have been updated.</p> <p>The Council has now added these notes showing the long term liabilities and debtors analyses.</p>
<p>5. Cashflow Statement related notes</p> <p>I also found the Council had omitted a note to the cash flow statement detailing the financing activities.</p>	<p>The Council has included an additional cash flow statement Note 25 on financing activities to comply with the IFRS Code.</p>
<p>6 Leases</p> <p>The original working papers did not fully support the Council's determination that the vehicles used in the waste, recycling and street cleansing contract constituted an operating lease.</p>	<p>The Council has revised its original working papers and has carried out additional work to demonstrate the arrangements constitute an operating lease. In doing this additional audit work I found the minimum lease payments included in the accounts presented for audit were not accurate.</p> <p>The overall effect has been to reduce the annual minimum lease payments by £323,000 from £661,000 to £338,000. Note 33 has been amended.</p>
<p>7. Related Parties Transactions (RPT) disclosure note</p> <p>The Council obtains annual disclosures from members and senior officers regarding any possible related party relationships. However, the subsequent review of these disclosures:</p> <ul style="list-style-type: none"> ■ is not fully documented including reasons for non inclusion as a related party ■ is not compared to actual disclosures made by members at council meetings. 	<p>There are some further improvements that can be made to the arrangements for gathering supporting information for RPTs. I acknowledge retrospective checks did not identify any new RPT disclosures for 2010/11.</p>

Issue	Findings and outcome
<p>8. Contingent liabilities</p> <p>A contingent liability in respect of the scheme of arrangements with Municipal Mutual Insurance did not disclose a prudent estimate of the value of potential liability exposure.</p>	<p>The Council has updated Note 37 to disclose the liability would be £1.369m which represents the value of claims paid since the inception of the Scheme. In addition, there are existing outstanding claims as at 31 March 2011 totalling £45,000.</p>
<p>9. Financial instruments</p> <p>In Note 39 the Council has incorrectly disclosed a £6m loan due in 1/10/2035 as less than 25 years from the date of the accounts.</p> <p>The benefits payable through employment of £46,000 for 2010/11 have been correctly included as a financial instrument in note 13 but the equivalent amount of £57,000 for 2009/10 has been omitted.</p>	<p>The loan has been reclassified into the 20-25 years banding instead of the 25-30 banding.</p> <p>The Financial Instruments Note 39 has been amended to show that the creditors for 2009/10 are £4.414m rather than £4.357m to take account of the £57,000 benefits payable during employment which are deemed to be financial instruments.</p>
<p>10. Pensions disclosures</p> <p>In Note 33 Defined Benefit Pension Schemes Transactions relating to Post -employment Benefits - 2009/10 comparator on actuarial gain/loss is shown as £18.837m but should be £9.216m</p>	<p>The Council has corrected the actuarial gain and loss figure in Note 33. The £9.216m loss had been correctly disclosed within the CIES.</p>

Recommendation

- R2** Ensure that adequate time is built into the accounts closedown plan to undertake a quality assurance check and to check compliance with the IFRS based Code and Practitioner's Guidance.
- R3** Ensure future related party transaction disclosures are supported by a review of members' declaration of interests at council meetings.

Financial statements

Weaknesses in internal control

Table 3 outlines weaknesses I identified during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

Table 3: **Internal control issues and our findings**

Description of weakness	Potential effect and Management action
On review of the waste, recycling and street cleansing contract it is apparent that there are certain clauses which were never extant for the Council.	I understand the clauses were included originally when another local authority was involved in a potential share service on the contract. It is vitally important current and new contracts are accurate to the specific requirements and position of the Council. This is important as it could open the Council up to unnecessary legal and financial risks. I acknowledge with current contracts it may be difficult to change clauses but it is important to know what possible risks there are.
I note that a significant number of Internal audit recommendations are not acted upon by the Council on a timely basis.	It is important as part of the Council's governance arrangements that all internal audit control related recommendations are implemented in a timely manner.

Recommendation

R4 Review all current and new contracts to ensure the wording is appropriate to the services procured by Barrow Borough Council.

R5 Ensure all agreed Internal Audit recommendations are implemented in a timely manner.

Annual Governance Statement (AGS)

I found the Council still does not have robust assurance gathering arrangements in place to support the AGS disclosure. I acknowledge senior management did an exercise against the six dimensions of the Good Governance Standard. Following my initial review of the AGS, management amended the AGS by:

- Only including the key Governance issues which I reported in my Annual Governance Report for 2009/10;
- Explaining the action taken on the contracts and procurement arrangements highlighting weaknesses with a focus on the improvements made during the year; and
- Incorporating any outstanding recommendations from the Good Governance Standard external review completed in December 2009 which were still relevant.

The draft AGS submitted for audit did not include a section on its financial management arrangements to comply with the Guidance notes for Practitioners. In March 2010, CIPFA published an Application Note dealing with the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The Application Note extended the contents of the AGS to include a specific statement on whether the Council's financial management arrangements conform to the governance requirements of the CIPFA Statement and, where they do not, to explain why and how they deliver the same impact. The Council has amended the AGS to include a statement on its financial management arrangements.

Recommendations

- R6** Implement robust assurance gathering arrangements across all departments to support the Annual Governance Statement disclosure.
 - R7** Ensure all significant weaknesses are identified in the Annual Governance Statement and include a robust action plan setting out how the weaknesses are to be addressed.
-

Financial statements

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.

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. My conclusion on each of the two areas is set out below.

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.

Table 4: Value for money criteria and our findings

Criterion	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The organisation has adequate systems and processes to manage financial risks effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p> <p>I note the new priorities will soon be reflected in the Council's updated Medium Term Financial Plan. It is important that service level plans are developed to assist robust financial management of challenging restrictive budgets and to help deliver on proposed income and charging policies. I suggest the Council also considers taking a longer term view with a financial plan and modelling which could cover up to a ten-year period.</p> <p>The Council's planned 2011/12 net expenditure is 12 per cent lower than that planned in 2010/11 which is a bigger reduction than other district councils who are planning on average a 7.9 per cent reduction year-on-year in revenue expenditure. £2m of the planned £3.8m reduction is because the Council will receive no area based grant (ABG) in 2011/12. It received £2m ABG in 2010/11.</p>

In the context of the comprehensive spending review it is vital that reserve levels are closely monitored to ensure that usable general reserve balances reflect the level of financial risks the Council faces. Likewise, it is important that revenue backed earmarked reserves, especially the capital reserves which have been derived from revenue resources, are required for the purposes they were originally set aside and that there are robust plans to either spend them or release them into the general fund if no longer required.

2. Securing economy efficiency and effectiveness
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The Council is continuing to prioritise its resources within tighter overall funding. It is currently looking to reduce costs further through service reviews, a focus on back office savings, accommodation review and other shared service options.

During these reviews I encourage the Council to:

- make use of public consultation and use of appropriate information on local needs;
- challenge service delivery with robust options appraisals; and
- use comparative information to drive economy, efficiency and effectiveness.

Tendering and contracting

A number of significant weaknesses existed in your procurement, tendering and contracting arrangements up to December 2010. These weaknesses were indicative of poor governance arrangements for tendering and contracting, and exposed the Council to potentially significant risks. I acknowledge improvements have been made to both the tendering and contracting arrangements since January 2011.

It is clear from our additional audit work and that of Internal Audit that arrangements for tendering and contracting remained poor up to December 2010. However, the introduction of CHEST and the new contract and procurement policies and monitoring regime together with the updated financial regulations have improved the overall arrangements. I have identified further improvements areas to the Contract Standing Orders that the Council should consider such as:

- There is no reference to the UK and EU legislative requirements re contracting, in particular the requirement to comply with UK and EU legislation and the need to advertise in the Official Journal of the European Union (OJEU) where the European Threshold is exceeded.
- Guidance should be provided on the methodology to be used to identify competent contractors and the process through which they are then selected to tender.

- There is a risk that "the Chest" process is not used for future tenders as it is not explicitly specified that it is to be used.

Recommendation

R8 Ensure that the tendering and contracting arrangements and practices are further improved.

Appendix 1 – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BARROW BOROUGH COUNCIL

Opinion on the Authority accounting statements

I have audited the accounting statements of Barrow 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, the Housing Revenue Account, the Movement on the Housing Revenue Account 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 Barrow 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 Borough Treasurer and auditor

As explained more fully in the Statement of the Borough Treasurer's Responsibilities, the Borough Treasurer 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 explanatory foreword 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 Barrow 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 explanatory foreword 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, Barrow 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 Barrow Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Gina Martlew
Officer of the Audit Commission
Audit Commission
2nd Floor Aspinall House
Aspinall Close
Middlebrook
Bolton
BL6 6QQ

September 2011

Appendix 2 – Amendments to the draft financial statements

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

Primary statements

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £	Cr £	Dr £	Cr £
Cash Flow Statement					
I found the "Adjustments to net surplus or deficit on the provision of services for non cash movements" on the cashflow did not be reconciled to the Council's supporting working papers or to the rest of the related statement disclosures.	The Council has now amended the non cash movements from (£8.42m) to (£19.737m) to accurately reflect inclusion of non cash movements.	-	-	-	-

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £	Cr £	Dr £	Cr £
"Financing Activities" was originally shown as nil and has now been corrected to show £0.729m of council tax and NDR transactions.	The Council has amended the cash flow statement and supporting Note 25 to comply with the IFRS Code.	-	-	-	-
I also note the original "Adjustments for items included in the "Net surplus or deficit on the provision of services that are investing and financing activities" was wrong.	Adjustments for items included in the "Net surplus or deficit on the provision of services that are investing and financing activities" was wrongly identified as (£3.266m) instead of £3.266m and the "Net cash flows from operating activities" was corrected to (£5.136m) as opposed to (£0.413m).	-	-	-	-
The 2009-10 comparators contained a number of material errors in the non cash movements analysis as well which the Council has amended.	None of these adjustments to the cash flow statement and related notes has had an effect on the CIES or Balance Sheet.				
Non trivial errors					
The exceptional item in the CIES on "Revaluation of council dwellings" originally included the net revaluation loss movement of £884,000 as income instead of netting it off against gross expenditure.	Debit Revaluation of council dwellings gross income	884,000			
	Credit Revaluation of council dwellings gross expenditure		884,000		

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £	Cr £	Dr £	Cr £
The Council has amended CIES and it now reconciles to the Housing Revenue Account disclosures on the council dwelling revaluation net position of £19.025m.					
The Local Authority (HRA) line in the CIES had revaluation loss reversals for non-dwelling assets incorrectly included in gross income.	The Local Authority (HRA) line in the CIES Debit gross income Credit gross expenditure	71,000	71,000		
Comprehensive income and expenditure statement (CIES) items incorrectly classified as exceptional:	These items should not be disclosed as exceptional items in the CIES as they are not material in terms of the overall income and expenditure of the Council.				
<ul style="list-style-type: none"> ■ The Fleming Sports Coaching VAT claim of £10,000 expenditure and £51,000 income ■ Write back of the insurance provision £626,000 net down expenditure. 	<p>The amounts are now reported as cultural services</p> <p>Debit and credit to remove exceptional item</p> <p>Debit and credit gross expenditure and income</p> <p>The amount is now reported as Central services.</p> <p>Debit and remove exceptional item</p> <p>Credit gross expenditure on central services</p>	<p>10,000</p> <p>51,000</p> <p>626,000</p>	<p>10,000</p> <p>51,000</p> <p>626,000</p>		

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £	Cr £	Dr £	Cr £
Comparative information Balance Sheet	The Council did not include 1 April 2009 comparators in its Balance Sheet disclosure notes. To comply with the IFRS Guidance to Practitioners the Council has updated the relevant balance sheet notes to include comparators for 1 April 2009.		Disclosure	only	
Balance Sheet related notes The Council had not disclosed for each major category of the pension scheme assets the percentage or amount that each major category constitutes in terms of the fair value of the total scheme assets	The Council has now added this note showing the amount that each major category constitutes in terms of the fair value of the total scheme assets	-	-	-	-

Appendix 3 – Unadjusted misstatement to the financial statements

I identified the following misstatement during my audit, but management has not adjusted the financial statements. I bring it to your attention to help you in fulfilling your governance responsibilities and ask you to correct this misstatement.

If you decide not to amend, please tell me why in the representation letter. If you believe the effect of this uncorrected error is immaterial, please reflect this in the representation letter.

		Comprehensive income and expenditure statement		Balance sheet	
Unadjusted misstatement	Nature of required adjustment	Dr	Cr	Dr	Cr
Balance Sheet Capital Grants					
I identified that a capital grant for the Commission, Architecture and Built Environment CABE - Sea Change) should have been recorded as a capital grant receipt in advance rather than a capital grant unapplied as at 31 March 2011.	Capital grants in advance	-	-		£45,000
	Capital Grants unapplied			£45,000	

Appendix 4 – Action Plan

Recommendations

Recommendation 1

Ensure that appropriate technical resources are dedicated to the compilation of the cash flow statement and to check compliance with the IFRS based Code and Practitioner's Guidance.

Responsibility	Borough Treasurer
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Priority	High
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Date	January - June 2012
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Comments	The time table for the final accounts 2011-2012 will allow for quality assurance checks.
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Recommendation 2

Ensure that adequate time is built into the accounts closedown plan to undertake a quality assurance check and to check compliance with the IFRS based Code and Practitioner's Guidance.

Responsibility	Borough Treasurer
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Priority	High
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Date	January - June 2012
-------------	---------------------

Comments	The time table for the final accounts 2011-2012 will allow for quality assurance checks.
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Recommendation 3

Ensure future related party transaction disclosures are supported by a review of members' declaration of interests at council meetings.

Responsibility	Borough Treasurer
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Priority	Medium
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Date	March 2012
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Comments	This will be included in next year close down programme.
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Recommendation 4

Review all current and new contracts to ensure the wording is appropriate to the services procured by Barrow Borough Council

Responsibility	Monitoring Officer
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Priority	High
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Date	Ongoing
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Comments	The Council will monitor all new contracts and revisit old contracts to ensure it is not exposed to any unnecessary risks.
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Recommendation 5

Ensure all agreed Internal Audit recommendations are implemented in a timely manner.

Responsibility	Audit Committee
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Priority	High
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Date	December 2011
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Comments	Will introduce a more rigorous monitoring of implementations.
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Recommendation 6

Implement robust assurance gathering arrangements across all departments to support the Annual Governance Statement disclosure

Responsibility	Monitoring Officer
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Priority	High
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Date	March 2012
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Comments	The arrangement will be reviewed.
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Recommendation 7

Ensure all significant weaknesses are identified in the Annual Governance Statement and include a robust action plan setting out how the weaknesses are to be addressed.

Responsibility	Monitoring Officer
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Priority	High
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Date	March 2012
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Comments	The arrangement will be reviewed.
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Recommendation 8

Ensure that the tendering and contracting arrangements and practices are further improved

Responsibility	Technical Services Manager
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Priority	High
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Date	March 2012
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Comments	A review will be undertaken.
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Appendix 5 – 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;
- making effective use of natural resources;
- 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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- any director/member or officer in their individual capacity; or
- any third party.

