

Annual Governance Report

Blackburn with Darwen Council

Audit 2008/09

September 2009

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Status of our reports

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

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

Ladies and Gentlemen

2008/09 Annual Governance Report

I am pleased to present my report on the results of my audit work for 2008/09 which has been agreed with the Director of Finance.

The report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 9);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- take note of the VFM Conclusion and Use of Resources score; and
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and

Yours faithfully

Clive Portman
District Auditor
September 2009

Key messages

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

| Financial Statements | Results | Page |
|--|----------------|-------------|
| Unqualified audit opinion | Yes | 7 |
| Adequate internal control environment | No | 8 |
| Use of resources | Results | Page |
| Use of resources judgements | Yes | 9 |
| Arrangements to secure value for money | Yes | 9 |

Audit opinion

- 2 My audit opinion is substantially complete and I expect to issue an unqualified opinion by 30 September 2009.

Financial statements

- 3 My audit team has worked closely with officers in carrying out the audit. Whilst we have been provided with working papers the timeliness and quality of these working papers have not been as good as last year which has meant the audit has taken longer than originally anticipated.
- 4 The main issues I have identified in carrying out my review relate to adjustments to capital where some errors occurred which had been caused by software problems and the Council changing its asset register to a spreadsheet based system. Other issues related to the need to write back cheques totalling £1.4m in relation to individual housing market renewal acquisitions where no legal obligations existed at the time. None of these changes have had any impact on the Council's reported outturn position.

Use of resources

- 5 The Audit Commission has recently undertaken its Use of Resources assessment at Blackburn with Darwen. The assessment judges how well the Council is managing and using its resources to deliver value for money and better sustainable outcomes for local people.

Key messages

- 6 This is the first year of the Audit Commission's new methodology for Use of Resources and the Council has been assessed at a level 3 against two of the three criteria and level 2 against the managing resources criteria of the three key lines of enquiry, indicating that, overall, the Council is performing well.

Audit Fees

- 7 The planned fee for the audit of the financial statements that I set out in the 2008/09 plan was £101,079 out of a total audit fee of £220,579. My expectation is that this fee will need to be increased by around £10,000 to reflect additional work undertaken on group accounts for the first time this year and additional work needed to obtain assurance on your financial statements because of delays in providing working papers. I will keep this matter under review as I finalise the audit and discuss with the Director of Finance the actual additional fee required once the audit is complete. Any increase may be compensated by an expected reduction in the fee for grant claims.

Value for Money

- 8 I have assessed your corporate arrangements for securing economy, efficiency and effectiveness in the use of resources against the 7 criteria specified by the Audit Commission. I have concluded that your arrangements are adequate and propose issuing an unqualified conclusion on the Council's value for money arrangements.

Next steps

- 9** 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.
- 10** I ask the Audit Committee to:
- consider the matters raised in the report before approving the financial statements (pages 7 to 9);
 - take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
 - take note of the VFM Conclusion and Use of Resources score; and
 - approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3).

Financial statements

11 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 the financial statements are authorised for issue.

Opinion on the financial statements

12 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.

Key areas of judgement and audit risk

13 I plan and perform my audit so as to obtain all the information I feel is necessary to give sufficient evidence and assurance that the Council's financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. Based on guidance provided by the Audit Commission the calculated materiality level for Blackburn with Darwen is £4.2m.

14 My audit of the financial statements is risk based. Most risks are inherent within any set of financial statements in terms of whether they are accurately presented and whether they report appropriately the relevant period the accounts relate to. I also consider whether there are any specific risks which I need to take account of in performing my audit. In planning my audit I have identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table 1.

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

| Issue or risk | Finding |
|--|--|
| Fixed asset valuations – the downturn in the economic climate has resulted nationally in a downward fall in fixed asset valuations. As external auditors we need to satisfy ourselves that the Council has correctly accounted for and undertaken the relevant revaluations to reflect the current economic climate. | The Council did consider the impact of the economic downturn in determining its asset values |

Errors in the financial statements

- 15** I am required to report to you all misstatements that I have identified during the course of my audit, other than those that are clearly of a trivial nature. In recent years trivial items have been defined as those that are below 10 per cent of materiality i.e. £420,000
- 16** The Audit Commission has updated its guidance for 2008/09 such that trivial items are now defined as below 1 per cent of the materiality level. This means that any errors or adjustments to the financial statements above £42,000 are now considered to be non trivial and should be reported to those charged with governance. Further details are provided in Appendix 3.

Material weaknesses in internal control

- 17** I have recently undertaken a review of the Council's Internal Audit function to evaluate their performance against professional standards. Internal audit is a key part of the Council's overall system of internal financial control. My review has concluded that Internal Audit has failed to meet five of the eleven professional standards of the CIPFA Code of Practice for Internal Audit in Local Government. I have taken this into account in my overall assessment of internal control as part of my use of resources assessment. I have made a number of recommendations in my report on Internal Audit and have agreed an action plan with the Director of Finance. I am satisfied that the action we have agreed, when implemented, will both strengthen Internal Audit and the Council's overall internal financial control.

Accounting practice and financial reporting

- 18** My review also considers the qualitative aspects of your financial reporting. As a result of my audit two amendments have been made to the accounting policies and notes improving the presentation and completeness of the accounts. The note has been updated to reflect the treatment of intangible fixed assets such as software licenses.
- 19** The Council does not accrue for vehicle leases where charges straggle financial years. Financial statements should be prepared on an accruals basis. Departures are only expected from the accruals concept where a transaction is not yet capable of reliable measurement. Payments for vehicle leases are to be accrued from 2009/10.

Letter of representation

- 20** Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation I seek to obtain from you.

Use of resources

- 21** I am required to consider how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and give a scored use of resources judgement.
- 22** I am also required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 23** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 24** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 25** The Council's use of resources theme scores are shown in Table 2. The key findings and conclusions for the three themes, and the underlying KLOEs will be subject to a more detailed report which will be presented at the next Audit Committee meeting.

Table 2 Use of resources theme scores

| Use of resources theme | Scored judgement |
|------------------------|------------------|
| Managing finances | 3 |
| Governing the business | 3 |
| Managing resources | 2 |

Value for money conclusion

- 26** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out in Appendix 4.
- 27** I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my draft report.

Appendix 1 – Independent auditor’s report to Members of Blackburn with Darwen Council (Draft)

Opinion on the financial statements

I have audited the Authority and Group accounting statements and related notes of Blackburn with Darwen Borough Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Blackburn with Darwen 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 prepared by the Audit Commission.

Respective responsibilities of the Director of Finance and auditor

The Director of Finance responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Authority and Group accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial position of the Group and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures

Appendix 1 – Independent auditor’s report to Members of Blackburn with Darwen Council (Draft)

I read other information published with the Authority and Group accounting statements, and consider whether it is consistent with the audited Authority and Group 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 Authority and Group 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 Authority and Group 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 Authority and Group 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 Authority and Group 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 Authority and Group accounting statements and related notes.

Opinion

In my opinion:

- the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended; and
- the Group financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority’s Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditor’s Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, I am satisfied that, in all significant respects, Blackburn with Darwen Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Certificate

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

Clive Portman
District Auditor

Audit Commission, 2nd Floor, Aspinall House, Aspinall Close, Middlebrook, Bolton, BL6 6QQ

September 2009

Appendix 2 – Adjusted amendments to the accounts

The following misstatements were identified during the course of my audit and the financial statements have been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities.

Table 3

| Issue | Impact on the accounts |
|--|--|
| Long-term liabilities Grants Unapplied | Revised guidance was issued in 2008/09 about when government grants are applied to finance assets. For 2007/08 grants were applied only when assets were completed, In 2008/09, grants can be applied on commencement of the construction of the asset, subject to stage completion. A prior year adjustment of £52,676,000 has been made to the 2007/08 accounts to show the figures on a like for like basis. The accounting policy notes have been updated to reflect the change in the treatment of government grants. |
| Cash overdrawn | The list of unpresented cheques at 31 March 2009 to support the year end bank reconciliation contained cheques totalling £1.440m in relation to individual Housing Market Renewal Acquisitions, for sums of £40,000 each. We identified that no contractual obligation existed for 36 of these cheques. The Council had issued draft agreements to property owners and their solicitors, was awaiting a response and wished to complete these land acquisitions as soon as possible. These cheques have been written back into the Council's accounts and the procedure of drawing cheques in advance of legal agreements being formally completed has now ceased. |
| Note 38 Retirement Benefits | Actuarial (gains)/losses on pension fund assets and liabilities in the STRGL are £18,766,000. Note 38 has been amended to agree with this figure. |
| Fixed assets | In note 19 to the accounts, the opening gross book values (GBV) at 1 April 2008 (totalling £466,366,000) do not agree with the corresponding prior year closing balances of £477,658,000. No adjustments are required to the Balance Sheet, as this reports the net book value of tangible fixed assets, which are unchanged from 2007/08. A footnote has been added below note 19 to highlight and explain the difference between 2007/08 closing GBV and 2008/09 opening GBV. A further adjustment is to be made to the note to reflect an overall net change in the totals between additions and adjustments-reclassification |

Appendix 2 – Adjusted amendments to the accounts

| Issue | Impact on the accounts |
|--------------|---|
| Fixed assets | <p>In our 2007/08 Governance Report, we referred to problems caused by the Asset Register software. The Council decided to replicate the accounting transactions for 2007/08 in a spreadsheet based asset register, which was then rolled forward to provide an opening position for the 2008/09 accounts. As part of this process, differences have arisen between the 2007/08 closing position and the 2008/09 opening balances. These have been included in note 19 within:</p> <ol style="list-style-type: none"> 1. Revaluations -£6,763m 2. Impairments £1,418m 3. Depreciation -£0.823m <p>In the accounts, they have been treated as an in year adjustment. A further explanation has been added to note 19.</p> |
| Fixed assets | <p>The Council has disposed of two assets in previous years in relation to the Bank Top/Infirmary development, Further expenditure in relation to these sites resulted in an asset value of £5.2m being included in the balance sheet, This has now been written out of the Council's accounts with the corresponding Government Grants deferred value being adjusted by £14.4m, resulting in a profit on disposal of £9.2m in 2007/08. A prior period adjustment has been made to the accounts and an additional explanatory note has been added. An additional £120,000 has been written out of the Council's balance sheet in 2008/09.</p> |
| Fixed assets | <p>Expenditure on the Darwen Academy site of £15,119m has been written out of the accounts as the Council plans to sell the asset at nil value. An adjustment to write down the corresponding. Government Grants Deferred balance of £7,724,000 has been made to show a net overall position of £7.4m.</p> |

Appendix 3 – Draft letter of representation

Mr C Portman
District Auditor
Audit Commission
2nd Floor
Aspinall House
Aspinall Close
Middlebrook
Bolton
BL6 6QQ

Blackburn with Darwen Council - Audit for the year ended 31 March 2009

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Blackburn with Darwen Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2009.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which present fairly the financial position and financial performance of the Council and for making accurate representations to you.

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, Executive Board, Committee meetings and individual Executive Member decisions have been made available to you.

Irregularities

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

I am not aware of:

- 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 any identified 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

I am not aware of any 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. 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
- if subsequent events 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

Appendix 3 – Draft letter of representation

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;
- 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 Audit Committee, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

Specific representations:

There are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements.

Signed on behalf of Blackburn with Darwen Council

I confirm that this letter has been discussed and agreed by the Audit Committee on 22 September 2009.

Signed

Name

Position

Date

Appendix 4 – Use of resources key findings and VFM conclusion

The following tables summarise the key finding and conclusions for each of the three use of resources themes and highlights my conclusions against the 7 criteria used in assessing the Council's VFM conclusion.

Table 4 Managing finances

| | |
|---|----------|
| Theme score | 3 |
| KLOE 1.1 (financial planning) Score VFM criterion met | 3 Yes |
| KLOE 1.2 (understanding costs and achieving efficiencies) Score VFM criterion met | 3 Yes |
| KLOE 1.3 (financial reporting) Score VFM criterion met | 3 Yes |

Table 5 Governing the business

| | |
|--|----------|
| Theme score | 3 |
| KLOE 2.1 (commissioning and procurement) Score VFM criterion met | 3 Yes |
| KLOE 2.2 (data quality and use of information) Score VFM criterion met | 3 Yes |

Appendix 4 – Use of resources key findings and VFM conclusion

| | |
|---|----------|
| KLOE 2.3 (good governance) Score VFM criterion met | 3 Yes |
| KLOE 2.4 (risk management and internal control) Score VFM criterion met | 2 Yes |

Table 6 Managing resources

| | |
|---------------------------------------|----------|
| Theme score | 2 |
| KLOE 3.1 (Natural Resources) Score | 2 |
| KLOE 3.2 (Asset Management) Score | 3 |
| VFM criterion met | Yes |

A more detailed Use of Resources report will be presented at the next Audit Committee.

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

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