

Annual governance report

Blackburn with Darwen 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 audit opinion work is substantially complete and I expect to issue an unqualified opinion by 30 September 2011.
- The main issue I identified during my review is the change in the Comprehensive Income and Expenditure Statement (CIES) needed to show the negative past service cost arising on the pension fund as an exceptional item. This arises from the change in the use of the consumer price index (CPI) to retail price index (RPI) on the pension fund for past service costs. This change has not had any impact on the Council's reported outturn position.

Value for money

- The Council has proper arrangements to secure value for money, with a robust financial planning process in place for budget setting and maintaining a longer term financial plan.
- Officers are aware of the key financial challenges facing the Council.

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:

- consider the matters raised in the report before approving the financial statements,
 - 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); and
 - approve the letter of representation, provided alongside this report, on behalf of the Council before I issue my opinion and conclusion.
-

Financial statements

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

During my audit I identified misstatements regarding:

- disclosure of negative past service costs;
- senior officers' remuneration;
- termination benefits;
- property, plant and equipment;
- outstanding capital commitments; and,
- component accounting depreciation.

Appendix 2 details those misstatements where management have adjusted the financial statements.

Appendix 3 details those misstatements where management have not adjusted the financial statements

None of these errors either individually, or in aggregate represent a material impact on the financial statements or prevent me from issuing an unqualified opinion.

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.

Key audit risk and our findings

Key audit risk	Finding
Implementing International Financial Reporting Standards (IFRS) to local government accounts in 2010/11 will require good planning to ensure an efficient transition to the new financial reporting requirements.	I have liaised with finance staff on the key changes required and the plans in place to address them. I have reviewed the Council's restated 2009/10 accounts and discussed my findings with officers. I am satisfied the restated accounts meet IFRS requirements
The Council has entered an agreement with Blackburn with Darwen Care Trust Plus under the National Health Service Act 2006 for integrating spending on local health and social care. The Council has transferred responsibility and a number of staff together with funding of some £54million in 2010/11 to the Care Trust Plus, although this money is still being accounted for in the Council's accounts. This is the first year of the agreement and it is important that sound financial arrangements are in place for managing these funds with the Care Trust Plus. The funds need to be properly accounted for and appropriate controls put in place.	I am satisfied through the enquiries I have made the position is being appropriately managed and the funds are being properly accounted for.

Key audit risk	Finding
<p>The Council continues to face increased financial pressures linked to the comprehensive spending review. It is important the Council continues to closely monitor and manage its financial position in 2010/11.</p>	<p>The Council's financial position has been effectively managed during the year.</p>
<p>The new clarified International Standards on Auditing (ISAs) will apply to the audit of your 2010/11 financial statements. I will work with officers to ensure your financial statements reflect the clarified ISA requirements covering year-end journal adjustments, related party transactions, accounting estimates, group accounts and internal control.</p>	<p>I am satisfied that these have been appropriately addressed by officers.</p>

Financial statements

Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. There are no matters I wish to bring to your attention.

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation.

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.

Value for money criteria and our findings

Criterion	Findings
1. Financial resilience The organisation has proper arrangements in place to secure financial resilience. Focus for 2010/11: 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>The Council has robust financial arrangements in place to support the delivery of its strategic objectives. Strategic, service and financial plans are integrated, with officers and members contributing to the planning process.</p> <p>The Council is financially well managed and is particularly aware of its current financial position and has a good track record in financial management.</p> <p>There is an effective and experienced Audit Committee in place that makes appropriate challenge across the Council.</p> <p>The Council's medium-term financial planning and annual budgeting reflects its strategic objectives and priorities for the year, and over the longer term.</p> <p>Financial modelling is used to help the organisation to assess likely impacts on financial plans and required savings for different scenarios.</p>

Criterion	Findings
	<p>The Council produces monitoring and forecasting information that is reliable, relevant and understandable on a regular and timely basis for budget holders throughout the year.</p> <p>The financial monitoring and forecast information reported in year is consistent with the financial information reported to stakeholders and the local community at the year end.</p> <p>The Council has a good track record of financial management over recent years. In 2010/11 the Council has increased its unallocated reserves to £6.9m through careful financial management.</p>
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>The Council has linked with local Care Trust Plus to improve delivery of adult care services and significant savings have been achieved through management restructuring.</p> <p>Effective partnership and neighbourhood working is helping the Council to deliver local community priorities.</p> <p>The Council has a detailed understanding of its spending and good comparative information on costs and performance.</p> <p>The Council has access to good quality and timely comparative information on costs and performance, which is used to evaluate options and plans for efficiency savings.</p> <p>Sound processes for internally reviewing value for money are in place and have led to improvements in service delivery.</p> <p>The Council has a good track record of outsourcing its services to Capita and through partnership working across East Lancashire.</p> <p>The Council has produced a robust 2011/12 budget following a cut of £33 million in government funding.</p>

Appendix 1 – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BLACKBURN WITH DARWEN BOROUGH COUNCIL (DRAFT)

Opinion on the Authority accounting statements

I have audited the accounting statements of Blackburn with Darwen 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 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 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 Director of Finance and auditor

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Director of Finance 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 Blackburn with Darwen 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, Blackburn with Darwen 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 Blackburn with Darwen Council 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
Officer of the Audit Commission
2nd Floor Aspinall House
Aspinall Close
Middlebrook
Bolton
BL66QQ

XXXX September 2011

Appendix 2 – Amendments to the draft financial statements

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

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
CIES - negative past service costs	The negative past service costs of £28,499,000 arising on the pension fund because of the change from consumer price index (CPI) to retail price index (RPI) had been shown under non-distributed costs. However International Auditing Standard 8 requires material items to be presented separately on the face of the CIES, where such presentation is relevant to an understanding of the entity's financial performance. This should be shown as an exceptional item. A new line has been added to the CIES to reflect this amendment.	Nil	Nil	Nil	Nil

		Comprehensive income and expenditure statement		Balance sheet	
Officers' remuneration (Note 30).	Adjustments have been made to Note 30 to reflect errors identified in the number of individuals shown in the remuneration bands.	Nil	Nil	Nil	Nil
Termination benefits (Note 38).	Additional narrative has been included in Note 38 to explain the differences between the figures reported there and the disclosures in Note 30 (Officers' remuneration) to reflect holiday pay and payment in lieu of notice which are excluded from note 38.	Nil	Nil	Nil	Nil
Property, plant and equipment (Note 12).	The Code requires the disclosure of each individual asset where there is a revaluation loss in the year. There are three individually material revaluation losses with a total value of some £30 million which have not been disclosed. These have now been added to Note 12.	Nil	Nil	Nil	Nil
Capital commitments (Note 12)	The Council's outstanding capital commitments for Primary Capital projects (Wensley Fold, St Silas) have been amended by £100,000 to reflect the current estimated position.	Nil	Nil	Nil	Nil

Appendix 3 – Unadjusted misstatements to the financial statements

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 and ask you to correct these misstatements.

If you decide not to amend, please tell me why in the representation letter. If you believe the effect 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.

		Comprehensive income and expenditure statement		Balance sheet	
Unadjusted misstatement	Nature of required adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Component accounting depreciation	The depreciation charge for applicable assets under componentisation had been incorrectly calculated. This resulted in depreciation being overcharged by £249,850 which officers intend to adjust in 2011/12.				

Property, Plant & Equipment

Our testing identified an asset in the fixed asset register valued at £337,500 which no longer belongs to the Council. Officers plan to adjust for this in 2011/12.

Appendix 4 – 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 2011

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 2011.

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 and International Financial Reporting Standards 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; and
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.

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 [xyz] assumption, 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/do not require] adjustment to the fair value measurement.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in Note X to the financial statements we have no other lines of credit arrangements.

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 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 21 September 2011.

Signed

Name

Position

Date

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.

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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0844 798 7070

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

