

Annual Governance Report

Gedling Borough Council

Audit 2008/09

Date 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 the final version of my report on the results of my audit work for 2008/09.

A draft of the report was discussed and agreed with the Head of Corporate Services on 24 September 2009 and has been updated since as issues have been resolved.

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 6 to 7);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2); and
- examine and discuss the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3).

Yours faithfully

John R Cornett
District Auditor
September 2009

Key messages

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	6
Financial statements free from error	No	6
Adequate internal control environment	Yes	6
Use of resources	Results	Page
Use of resources judgements	Yes	8
Arrangements to secure value for money	Yes	9

Audit opinion

- 1 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements on 29 September 2009.

Financial statements

- 2 Our audit identified adjustments that were required to the draft financial statements which have been approved by members. The accounts have been amended and we shall issue our audit opinion on these statements.

Use of resources

- 3 The Council's use of resources theme scores are shown in Table 2 below. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 4.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

4 I ask the Audit Sub Committee to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 7);
- 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;
- examine and discuss the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

- 5 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.

Adjustments to the financial statements

- 6 The audit identified a number of adjustments that were required to the draft accounts. These have been discussed with officer and amendments agreed. These are set out in Appendix 2 and can be summarised as follows:
- correction of the accounting treatment of the overhanging debt grant relating to the the Large Scale Voluntary Transfer (LSVT) of your housing stock;
 - correction for the late processing of a 'creditor' journal; and
 - correction of the accounting treatment of a gain on the disposal of an HRA asset.
- 7 In addition we have agreed, with officers a number of changes to narrative within the accounts.

These adjustments have not altered the balance on your General Fund at year end or the Council's net worth as shown on the balance sheet.

Material weaknesses in internal control

- 8 We have not identified any weaknesses in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.

Letter of representation

- 9 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.

Financial statements

Key areas of judgement and audit risk

10 In planning my audit I 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
The amendments to the 2009 Statement of Recommended Practice 2009 introduced a number of changes to accounting practices. Failure to correctly implement these changes could result in material errors to the accounts.	A number of amendments have been made to the draft accounts none of these specifically relate to changes in the SoRP.
The Council included £25m operational assets in its 2007/08 balance sheet. The value will have reduced as a result of the economic downturn. Failure to report an appropriately revised valuation of these assets could result in a material error in the accounts.	The Council's assets have been revalued and an appropriate impairment has been shown in the 2008/09 statements.
The large scale voluntary transfer of your housing stock in November 2008 required significant and complex changes to your accounts	As a result of work undertaken by our technical expert there has been an amendment to the accounts in respect of the accounting treatment of the 'overhanging debt grant'.

Accounting practice and financial reporting

11 I consider the qualitative aspects of your financial reporting and have not identified any significant issues to raise with you.

Use of resources

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.

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

- 12** 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.
- 13** 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.
- 14** The Council's use of resources theme scores are shown in Table 2 below. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 5.

Table 2 Use of resources theme scores

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

- 15** Although the overall theme scores under the revised use of resources framework are lower than the scores achieved in previous years, this does not reflect any deterioration in overall performance as the basis of the assessment has been revised. An overall theme judgement of 2 means that the arrangements we would expect to see are in place. In a number areas the Council performs well particularly in managing finances where you have achieved a theme score of 3. In common with many councils, the challenge in order to achieve higher scores is to demonstrate how your arrangements result in improved outcomes consistent with the Council's aims and those of its key partners.

Value for money conclusion

- 16** 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 5.
- 17** 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.
- 18** Appendix 1 contains the wording of my draft report.

Appendix 1 – Independent auditor’s report to Members of Gedling Borough Council

Opinion on the financial statements

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

This report is made solely to the members of Gedling 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 Head of Corporate Services and auditor

The Head of Corporate Services 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 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.

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 Gedling Borough Council

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

Basis of audit opinion

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

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

Opinion

In my opinion the Authority 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, Gedling 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.

John R Cornett
District Auditor

Audit Commission, Rivermead House, 7 Lewis Court, Grove Park, Enderby, Leics. LE19 1SU

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

Adjusted misstatements	Nature of Adjustment	Income and Expenditure Account		Balance Sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
To correct the accounting treatment of the 'Overhanging Debt Grant'	Statement of Movement on the General Fund Balance Discontinued operations – Housing Revenue Account (HRA)	3,954	3,954		
To correct the accounting treatment of the 'Overhanging Debt Grant'	Statement of Movement on the Housing Revenue Account Balance Housing Revenue Account – Income and Expenditure	3,986	3,986		
To correct the accounts for the late processing of a 'creditor' journal.	Creditors Capital Contributions Unapplied.			176	176
To account, in the HRA, for a gain on the a disposal of an	Housing Revenue Account – Income and Expenditure	53			

Appendix 2 – Adjusted amendments to the accounts

		Income and Expenditure Account		Balance Sheet	
asset	Statement of Movement on the Housing Revenue Account Balance		53		

Appendix 3 – Draft letter of representation

Corporate Services

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Arnold, Nottingham NG5 6LU

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Our Ref: MSK\SMH

Please ask for: Mark Kimberley

Date: September 2009

Dear Mr Cornett,

Gedling Borough 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 members of the Senior Management Team of Gedling Borough Council (comprising of the Chief Executive, Deputy Chief Executive and seven Heads of Service), the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2009. All representations cover the Council's accounts included within the financial statements.

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 of the Council, and for making accurate representations to you.

Uncorrected mis-statements

I confirm that there are no uncorrected mis-statements in the financial statements.

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 Cabinet 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.
- 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.
- 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 and Codes of Practice

There are no instances of non-compliance with laws, regulations and code 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.

Appendix 3 – Draft letter of representation

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements.

Group Entities

I confirm that there are no group entities that require disclosure.

Assets

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

- Losses arising from sale and purchase commitments.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. 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 are no significant pending or threatened litigations, 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.
- No financial guarantees have been given to third-parties.

Related Party Transactions

I confirm the completeness of the information provided 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 Members of the Council's Personnel and Resources Committee on 29 June 2009, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no further plans or intentions that may materially alter the carrying value of assets and liabilities reflected 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 Gedling Borough Council:

I confirm that this letter has been discussed and agreed by the Audit Sub Committee at its meeting on 29 September 2009.

Signed

Mark Kimberley
Head of Corporate Services

Date:

Signed

Peter Murdock
Chief Executive

Date:

Appendix 4 – Use of resources key findings and conclusions

The following tables summarise the key finding and conclusions for each of the three use of resources themes.

Table 4 **Managing finances**

Theme score	3
Key findings and conclusions	
The Council has good arrangements for managing its finances to deliver value for money.	
KLOE 1.1 (financial planning)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
The Council has adequate arrangements for planning its finances to deliver its strategic priorities and secure sound financial health.	
The Council integrates its corporate and financial planning processes. The Medium Term Financial Plan is linked to strategic objectives and service plans. The Council has a good record of meeting its financial plans. It has adequate arrangements for consulting with stakeholders.	
KLOE 1.2 (understanding costs and achieving efficiencies)	
Score	3
VFM criterion met	Yes

Appendix 4 – Use of resources key findings and conclusions

Key findings and conclusions	
<p>The Council has good arrangements for understanding its costs and performance and achieving efficiencies in its activities. It has clear information on costs including transaction and unit costs. Benchmarking is carried out and cost and performance information is being used to support decision making. The financial and service planning process is used to identify good levels of efficiency savings.</p> <p>Cost pressures were identified and prompt action taken during 2008/09 to support preparation of a balanced budget for 2009/10 and beyond. The Council operates within budget, performs well within priorities and has a high level of user satisfaction.</p>	
KLOE 1.3 (financial reporting)	
Score	3
VFM criterion met	Yes
Key findings and conclusions	
<p>Financial monitoring procedures are good and well they are linked to performance information and support decision making. The Council has a good record of producing quality accounts on time with good working papers. The audited accounts and Annual Audit Letter are made available promptly through the Council's website. External reporting of other key information including environmental impact and diversity is in place. The Audit Sub Committee is well established.</p>	

Table 5 Governing the business

Theme score	2
Key findings and conclusions	
<p>Overall the Council has adequate arrangements for governing itself and commissioning services that provide value for money and deliver better outcomes for local people.</p>	

Appendix 4 – Use of resources key findings and conclusions

<p>KLOE 2.1 (commissioning and procurement)</p> <p>Score</p> <p>VFM criterion met</p>	<p>3</p> <p>Yes</p>
Key findings and conclusions	
<p>The Council has performs well in the commissioning and procuring quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money. It has redesigned services improving efficiency, accessibility for customers.</p> <p>The Council understands the inequalities and diversity of its local communities which is reflected in the sustainable community strategy and corporate plan. A procurement strategy is in place which sets out the intention to procure in order to meet the Council's overall objectives and how to best deliver desired community benefits. Commissioning and procurement is based on an understanding of the market. The Council has a systematic approach to reviewing services.</p>	
<p>KLOE 2.2 (data quality and use of information)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
Key findings and conclusions	
<p>The Council produces relevant and reliable data and information to support decision making and manage performance. The Council's arrangements for producing performance data are adequate. Performance data is provided in a variety of formats to support senior managers. Key data systems are well controlled and secure. There are corporate targets for managing performance which are aligned with strategic objectives and priorities.</p>	
<p>KLOE 2.3 (good governance)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
Key findings and conclusions	
<p>The Council has good arrangements for promoting and demonstrating the principles and values of good governance. The Council clearly sets out individual roles and responsibilities in relation to governance. It has adopted codes of conduct</p>	

Appendix 4 – Use of resources key findings and conclusions

for members and staff and is active in promoting high standards of ethical behaviour. The Local Area Agreement partnership arrangements are subject to documented governance arrangements as are other partnerships around shared activities, procurement and consultancy.	
KLOE 2.4 (risk management and internal control)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
The Council has adequate arrangements to manage its risks and maintain a sound system of internal control. It has good arrangements for risk management. It has a counter fraud and corruption strategy and a whistle-blowing policy. The system of internal control is underpinned by an internal audit function that meets CIPFA standards and is supported by an effective audit committee.	

Table 6 Managing resources

Theme score	
Key findings and conclusions	
The Council has adequate arrangements for planning, organising and developing its workforce to support the achievement of its strategic priorities.	
KLOE 3.3 (workforce planning)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
The Council has a generally productive and skilled workforce. There are effective policies and procedures in place to manage underperformance and sickness levels. The Council is currently at Equality Standard level 1. The Human	

Appendix 4 – Use of resources key findings and conclusions

Resources function is cost efficient when compared to other Councils and achieves a good level of service for managers and demonstrable positive outcomes.

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

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

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