

Annual governance report

Gedling Borough Council

Audit 2010/11

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The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

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Ladies and Gentlemen

2010/11 Annual Governance Report

I am pleased to present the results of my audit work for 2010/11.

I discussed and agreed a draft of my report with the Head of Corporate Services on 19 September 2011 and updated it as issues have been resolved.

My 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 8);
- note the adjustments to the financial statements set out in this report (appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (appendix 3).

Yours faithfully

John Cornett
District Auditor

19 September 2011

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.

Table 1: **Key messages - financial statements**

Financial statements	Results	Page
Unqualified audit opinion	Yes	6
Important weaknesses in internal control	No	7

Table 2: **Key messages - value for money**

Value for money		
Proper 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.

Financial statements

2 In what has been a challenging year with the implementation of International Financial Reporting Standards, the financial statements submitted for audit were timely and included all of the disclosures required by the Code of Practice on Local Authority Accounting 2010/11.

3 I have found the closedown procedures and arrangements for the production of the financial statements to be sound. The financial statements themselves have been supported by good quality working papers and officers responded promptly to any queries I raised throughout the audit.

Value for money

4 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.

Independence

5 I can confirm that I have complied with the Audit Practice 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.

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

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.

7 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 8);
- take note of the adjustments to the financial statements which are set out in this report (appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (appendix 3).

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

8 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

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

Table 3: **Key areas of judgement and audit risk**

Issue or risk	Finding
International Financial Reporting Standards (IFRS) 2010/11 is the first year that the Code of Practice for local government accounting is based solely on IFRS. Incorrect interpretation/adoption of IFRS could potentially lead to material misstatement within the financial statements.	A full set of restated 2009/10 financial statements were produced at an early stage in the year which I reviewed and found to be inline with the new requirements of IFRS. I have also reviewed the 2010/11 financial statements for consistency, format and content including accounting policies and material notes and found them to be consistent with the latest available technical guidance.

Issue or risk	Finding
<p>Financial challenges</p> <p>Medium term financial challenges due to the economic downturn and reduction in grants from Central Government.</p>	<p>I have reviewed the Council outturn reports and consider that there was no additional risk which required extra testing to support my opinion.</p>

Errors in the financial statements

10 There has been one material amendment made on the face of the Comprehensive Income and Expenditure Account. The pension past service gain of £5,816,000 (resulting from the change in method used to calculate pension liabilities) has been moved from Non Distributed costs to a separate line marked exceptional item. This is to improve the disclosure of this one off material item and does not affect the charge made to the Comprehensive Income and Expenditure Statement.

11 I have also found one minor disclosure error within the Movement In Reserves Statement which officers have agreed to amend.

12 All amendments (other than those of a trivial nature) made to the financial statements are listed in appendix 2.

Important weaknesses in internal control

13 I have not identified any important weaknesses in internal control. I am not expressing an opinion on the overall effectiveness of internal control.

Quality of your financial statements

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

15 Table 4 contains the issues I want to raise with you.

Table 4: **Accounting practices, policies and estimates and financial statement disclosures**

Issue	Finding
Financial Instruments Disclosure	Part of the disclosed financial assets balance within the Financial Instruments disclosure note, includes Debtors of £2.031m, which relate to non contractual items i.e. NNDR, Council Tax, VAT, that should not be classified as financial assets.
Each year the Actuary makes an assessment of the fair value of the Council's share of assets held in the County Pension Fund at 31 March. This assessment is an estimate made at the previous 31 December. The actual value of assets held at 31 March may vary depending upon the performance of the Pension Fund investments over the 3 month period since the estimate was made. This may lead to a material under or over statement of the Council's liabilities.	We found that the actual value of Pension Fund assets at 31 March 2011 was higher than the estimated value used by the Actuary in their calculations. As a result your pension fund liability is overstated by £581k at the year end. This is not material and the use of the accounting estimate in these circumstances is entirely appropriate. The accounts have not been amended for this and a specific representation has been included in the letter of representation at appendix 3.

Letter of representation

16 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation.

Value for money

I am required to 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.

17 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission, namely:

- Securing financial resilience - focusing on whether the Authority is managing its financial risks to secure a stable financial position for the foreseeable future. This covers:
 - Financial governance
 - Financial planning
 - Financial control.
- Challenging how the Authority secures economy, efficiency and effectiveness - focusing on whether the Authority is prioritising its resources within tighter budgets and improving productivity and efficiency. This covers:
 - Prioritising resources
 - Improving efficiency and productivity.

18 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.

19 If auditors become aware of any significant risks in these areas they will need to consider if they impact on the VFM conclusion.

20 From the work carried out, I have concluded that the Authority has proper arrangements in place. My conclusion on each of the two specified criteria is set out below.

Table 5: **Value for money conclusion criteria**

Criterion	Finding
Securing economy, efficiency and effectiveness	<p>Senior management and members provide leadership on prioritising resources and spending reductions. The Council is a low cost authority, and has been so for a number of years. The percentage of residents who think the council provides good value for money is above the median. Decision making is supported by appropriate information.</p> <p>The Authority benchmarks itself against other similar organisations. Information on performance and trends are reported on a quarterly basis to the personnel and resources committee. Scrutiny committees have a strong programme of reviews in place.</p> <p>During the 2010/11 the Authority restructured its senior management team resulting in a reduction in costs.</p>
Securing financial resilience	<p>The Authority has a good track record of managing its spending within its budget. During 2008/09 and 2009/10 there have been low levels of underspend. The 2010/11 outturn position was again within its budget. The Authority maintained its General Fund above its approved minimum levels.</p> <p>Financial reports taken to members (via the Personnel Committee and the Cabinet) are comprehensive and understandable. The reports and minutes of meetings provide evidence that performance is monitored and challenged.</p> <p>The Council has revisited its medium term financial plan in the light of the Comprehensive Spending review.</p>

21 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.

Report by exception

22 The Audit Commission requires me to report by exception where significant matters come to my attention, which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in our use of resources.

23 There are no such matters of such significance which I need to refer to in the wording of my formal value for money conclusion.

Appendix 1 Draft independent auditor's report to the Members of Gedling Borough Council

Opinion on the Authority accounting statements

I have audited the accounting statements of Gedling 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 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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Head of Corporate Services and auditor

As explained more fully in the Statement of Responsibilities, the Head of Corporate Services 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 Practices 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 Gedling 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, Gedling 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 Gedling Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

John Cornett
Officer of the Audit Commission

Rivermead House
7 Lewis Court
Grove Park
Enderby
Leicestershire
LE19 1SU
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 help you in fulfilling your governance responsibilities.

Table 6:

Adjusted mis-statement	Comprehensive income and expenditure statement		Balance sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
Disclosure of pensions past service gain in CIES	Non-Distributed Costs - £5,816	Exceptional Item - Pension past service gain - £5,816	N/A	N/A
MiRS and Note 7 - Amendment to improve disclosure	MiRS - General Fund Balance - Other Comp Income and Expenditure - £14,313	MiRS - Total Unusable Reserves - Other Comp Income and Expenditure - £14,313		

Source:

Appendix 3 Draft letter of representation

John Cornett
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Our Ref: MSK\SMH

Please ask for: Mark Kimberley

Date: 27 September 2011

Dear Mr Cornett,

Gedling Borough 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 members of the Senior Management Team of Gedling Borough Council (comprising of the Chief Executive, Head of Corporate Services and Deputy Chief Executive, Council Solicitor & Monitoring Officer, plus 5 other 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 2011. All representations cover the Council's accounts included within the financial statements.

Compliance with the statutory authorities

I have fulfilled 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, which give a true and fair view of the financial position of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected mis-statements

I confirm that there are no uncorrected mis-statements in the financial statements other than the pension asset valuation change of £518,000. We do not consider an amendment necessary as:

- The change is not material to the accounts
- The change would have a net nil affect on the balances held by the Council (as the pension reserve would also change by the same amount)

- The balance included in the accounts is consistent with information available at the time of preparation.

Supporting records

All relevant information, and access to persons within the Council, has 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 financial statements.

Irregularities

I acknowledge my responsibility for the design and implementation and maintenance of internal control to prevent and detect fraud or error. 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 Council's financial statements communicated by employees, former employees, analysts, regulators or others.

The results of our assessment of the risk that the financial statements may be materially mis-stated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance, with laws, regulations and codes of practice, whose effects should be considered when preparing the financial statements.

Transactions and events have been carried out in accordance with the law, regulation or other authority. 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.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related Party Transactions

I confirm that I have disclosed the identity of the Council's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the framework.

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; and
- 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.

Group Entities

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

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of Gedling Borough Council:

I confirm that this letter has been discussed and agreed by the Audit Committee at its meeting on 27 September 2011.

Signed

—

Mark Kimberley
Head of Corporate Services

Signed

—

John Robinson
Chief Executive

Date: 28 September 2011

Date: 28 September 2011

Appendix 4 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 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.



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