

Annual Governance Report

September 2006



Annual governance report

Rossendale BC

Audit 2005/06

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Committee.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports to the Council

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 members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

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Purpose of this report

- 1 This is our annual governance report covering the audit of the Council for the year ended 31 March 2006 and is presented by the District Auditor, Michael Thomas.
- 2 We are required by the Audit Commission's statutory Code of Audit Practice for local government bodies (the Code) to issue a report to those charged with governance summarising the conclusions from our audit work. For the purposes of this report, the Council's Accounts Committee (the Committee) is considered to fulfil the role of those charged with governance and references to the Committee should be read as such.
- 3 We are also required by professional auditing standards to report to the Committee certain matters before we give our opinion on the financial statements. The section of this report covering the financial statements fulfils this requirement.
- 4 The principle purposes of the report are:
 - to reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and the Committee;
 - to share information to assist both the auditor and the Committee to fulfil their respective responsibilities; and
 - to provide the Committee with recommendations for improvement arising from the audit process.
- 5 The Audit Commission has circulated to all audited bodies a statement of responsibilities of auditors and audited bodies that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement.

Scope of the report

- 6 In undertaking our audit we comply with the statutory requirements of the Audit Commission Act 1998 and the Code. Auditors' responsibilities are to review and report on, to the extent required by the relevant legislation and the requirements of the Code:
 - the Council's financial statements; and
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (Value for money conclusion).

- 7 Our risk assessment and planned response to the key audit risks was summarised in our audit and inspection plan. A summary of our responsibilities and audit approach is included in Appendix 1. The annual governance report summarises the significant findings, conclusions and recommendations arising from our audit work. The results of our inspection work, and our separate grant claims' certification programme, will be reported in the Annual Audit and Inspection Letter early next year.
- 8 We have issued separate reports during the year having completed specific aspects of our programme and these are listed in Appendix 2. Appendix 3 provides information about the fee charged for our audit and Appendix 4 sets out the requirements in respect of our independence and objectivity.

Key messages

Financial statements

- 9 Our work on the financial statements is now substantially complete. We anticipate being able to issue an unqualified opinion by the 28th September 2006 (a draft report is attached at Appendix 5).

Use of resources

- 10 Our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. Consequently we will be able to issue an except for conclusion on the use of resources (the VFM conclusion) by 28th September 2006 (a draft report is attached at Appendix 5).

Financial statements

- 11 We are required to give an opinion on whether the Council's financial statements present fairly the financial position of the Council as at 31 March 2006 and its income and expenditure and group accounts for the year then ended.

Status of the audit

- 12 Our work on the financial statements is now substantially complete.
- 13 Subject to the satisfactory conclusion of the work outstanding, we anticipate being able to issue an unqualified opinion by 28th September 2006 (a draft report is attached at Appendix 5).

Matters to be reported to the Committee

- 14 We have the following matters to draw to the Committee's attention.

Expected modifications to the auditors' report

- 15 On the basis of our audit work, subject to the satisfactory conclusion of any work outstanding reported above, we currently propose to issue an unqualified audit report. A draft audit report is attached at Appendix 5.

Uncorrected Misstatements

- 16 Our audit identified only one uncorrected misstatements in the financial statements that management has decided not to adjust. The one misstatement not amended relates to an overcharge on depreciation of £233,000 as a result overstated fixed assets. On the basis of the discontinuation of the HRA, the Council's finance officers have taken a view that this adjustment would not add any value to the understanding of the accounts.

Adjusted Misstatements

- 17 All significant misstatements in the financial statements, with one exception, identified during the audit have been amended and only those that are 'clearly trivial' as defined in professional auditing standards remain uncorrected. A complete listing of all amendments has been provided to officers.
- 18 Six of the amendments to the accounts were of sufficient significance for us to bring them to your attention to assist you in fulfilling your governance responsibilities. These are set out in Table 1 as follows.

Table 1 Adjusted misstatements in the financial statements

Details of significant adjustments made to the financial statements

Issue	Value of misstatement £	Impact on surplus/(deficit)
<p>Group accounts</p> <p>The group accounts submitted for audit, including the consolidated revenue account for Rossendale BC, were not UK GAAP compliant. The figures in the original group account consolidation were also not taken from the latest draft of accounts.</p> <p>The Authority requested amendments to the Rossendale Transport Limited 2004/2005 accounts to deal with FRS17 disclosures.</p>	<p>Decrease in net equity change on the group account consolidated balance sheet of £65,000 in 2004/2005 and increase of £187,000 in 2005/2006.</p> <p>The group statement of total movements in reserves' total recognised gains is overstated by £564,000 in 2004/2005 and understated by £177,000 in 2005/2006.</p>	<p>Amendment of £508,000 in 2004/05 has resulted in an original group consolidated revenue account surplus of £186,000 turning into a deficit of £322,000. In 2005/2006 the amendments resulted in a surplus increase of £83,000.</p> <p>Note that none of these changes affect the underlying cash position of the Council.</p>
<p>Group Accounts</p> <p>The group accounts did not consolidate Coachways Limited which is a wholly owned subsidiary of Rossendale Transport Limited. This was on the grounds of Coachways Limited not being</p>	<p>See above.</p>	<p>See above.</p>

Issue	Value of misstatement £	Impact on surplus/(deficit)
<p>consolidated into Rossendale Transport Limited accounts under the small companies' exemption. However, the Statement of Recommended Practice (SORP) and Group Accounts in Local Authorities practitioner's workbook require all companies belonging to the parent, in this case Rossendale Borough Council, to be consolidated.</p>		
<p>Consolidated Balance Sheet</p> <p>A number of fixed assets required reclassification as they were shown as operational instead of non-operational assets, as they are either no longer in use or are in the process of being rebuilt.</p>	<p>Operational Land and buildings is overstated by £1.6m</p> <p>Non operational land and buildings is understated by £1.6m</p>	None
<p>Consolidated Balance Sheet</p> <p>The value of the Council's housing stock had not been revalued as at 1st April 2005. Due to a reduction in the vacant possession discount factor.</p> <p>Since Housing Revenue Account capital charges are based on value of assets at the start of the year, depreciation and capital finance charges are also understated by £233,000 and £126,000 respectively.</p>	<p>Council dwellings were overstated by £3.607m, which means disposals are equally overstated.</p> <p>£233,000 understated depreciation not amended</p> <p>Capital finance charge of £126,000</p>	<p>None</p> <p>None as it has not been amended.</p>

Issue	Value of misstatement £	Impact on surplus/(deficit)
	amended	None as contra entry under Asset Management Revenue Account
<p>Consolidated Revenue Account</p> <p>A further amendment has been made to correctly reverse the commutation adjustment reserve from appropriations on the Consolidated revenue account.</p>	<p>Transfers from earmarked reserves is understated by £0.77m and transfers from capital reserves is overstated by £0.77m.</p> <p>Statement of Total Movement in Reserves amended accordingly.</p>	<p>None as contra entry within appropriations</p> <p>No impact</p>
<p>Consolidated Revenue Account</p> <p>£4,699K of grants relating to tangible fixed assets has not been written down.</p>	<p>Consequently, the closing balance on the government grants deferred account is estimated to be overstated by £208K.</p>	<p>No impact on surplus/ deficit as this amount should also have been credited to AMRA and then written out of the CRA as an appropriation to the capital reserve.</p>

- 19 Some of these misstatements were identified through an objective year on year comparison of the financial statements and cumulative knowledge of recent changes in the Statement of Recommended Practice and/ or operational issues. We recommend that in future further improvements are made to the new improved quality assurance process to consider the above prior to the financial statements being approved by the Council. The Council did identify the issues around Coachways Limited independent of the audit and were seeking to resolve the issues with Rossendale Transport Limited outside of the audit.

Qualitative aspects of accounting practices and financial reporting

- 20 Our audit includes consideration of the qualitative aspects of the financial reporting process including matters that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. Following our work in this area we wish to bring the following matters to the Committee's attention:
- The group accounts did not contain any differences in accounting policies between Rossendale BC and Rossendale Transport Limited. This is significant as Rossendale Transport Limited accounts do not appear to be UK GAAP compliant as their fixed assets are not revalued on a rolling five year programme including the main Rossendale asset of £525,000 which has not been revalued since 1992.
 - The usable capital receipt reserve does not take account of the £28m notional capital receipts for housing debt repaid by DCLG (ODPM), but this does not affect the overall balance on this account. However, the repayment was incorrectly included in the cash flow statement as it was paid direct by DCLG (ODPM) to PWLB.
 - The consolidated revenue account did not show the housing revenue account as a discontinued activity as a result of being post LSVT as at 31/03/2006, and has been entered below net cost of continuing services.
 - £2.351m of revenue expenditure which the Council can fund from capital resources was incorrectly treated as a deferred charge.
 - There was no contingent asset disclosure in relation to the VAT sharing agreement the Council has entered into with Green Vale Housing Association as part of the transfer of housing stock on 27th March 2006.
 - There was no contingent liability disclosure in relation to potential liability arising from single status.

All of the above have been corrected in the final statement of accounts.

- 21 Minor amendments were necessary to the wording of several notes and statements to improve clarity, including:
- correct disclosure on the officer emoluments note to reflect changes in year
 - incorrect NNDR multiplier disclosed in collection fund note 4

- the removal of Provision for credit liabilities consolidated balance sheet note given the introduction of prudential framework.
- 22 No further action is required for these qualitative aspects of the accounting arrangements but for the future we recommend that the financial statements are subject to review by a senior finance officer to ensure they achieve the desired degree of clarity before the accounts are approved.

Recommendations

R1 Further improve the existing quality assurance process on the financial statements review to ensure that they achieve the desired degree of clarity and compliance with the Statement on Recommended Practice before the accounts are approved.

Internal control arrangements

- 23 We have reported to officers the findings of our work on those financial and information systems that provide material input to the financial statements. We found that the controls within those systems can be relied upon to prevent and detect material errors arising from the processing of normal transactions.
- 24 We have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed. The key matters arising from this aspect of our work that we wish to draw to the attention of the Committee are outlined below.
- 25 A review of IT controls as part of the internal controls work identified a number of significant control weaknesses including:
- network security being vulnerable to hackers as some software is dated
 - change control is not monitored by a central group to ensure alignment to corporate priorities
 - lack of information on how SunGuard manage access controls
 - no formal IT disaster recovery plan
 - the current purchasing policy does not cover software programme acquisitions.
- 26 A fundamental review of the IT contract including the nature of the service and infrastructure has been under way since the summer 2005. The conclusions of this work will be reported shortly to members.

- 27 Internal Audit identified concerns on the segregation of duties around key material financial systems such as creditors and debtors with reconciliations not completed on a regular basis. Additional post statement testing by us did not identify any issues with year end creditors or debtors disclosed in the accounts. However, segregation of duties and the regularity of reconciliations do need to be addressed.
- 28 Cheque reconciliation for unpresented cheques had to be manually produced for the year end accounts although detailed post statement testing did not identify any material issues. However, no cheque reconciliations have been completed for the current financial year as a result of the problems with the new CIVICA main accounting system integration with ICON.

Recommendations
<i>R2 Review IT controls to secure improvements to the overall internal control arrangements.</i>
<i>R3 Ensure that segregation of duties issues as identified by Internal Audit are addressed and that reconciliation of key financial systems are carried out on a regular basis.</i>

Matters specifically required by other auditing standards

- 29 Other auditing standards require us to consider and report to the Committee issues where:
- we suspect or detect fraud;
 - there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
 - there is non-compliance with legislative or regulatory requirements and related authorities.

We have no such matters to report.

Any other matters of governance interest

- 30 There are a number of other issues that are significant in the context of the Committee discharging its governance responsibilities. These are detailed in Table 2.

Table 2 Other matters of governance interest

Items for the Committee to note

Area	Auditor responsibility	Impact
Statement of internal control (SIC)	The auditor reviews the SIC for compliance with the requirements	The SIC complies with the requirements specified by CIPFA and

Area	Auditor responsibility	Impact
	of proper practice as specified by CIPFA and consistency with other information from the audit of the financial statements.	it is consistent with the other information we are aware of from our audit of the financial statements. Main issue is on embedding the assurance gathering process to inform the statement of internal control, which should make explicit use of risk management principles.
Whole of Government Accounts' (WGA) consolidation pack	The auditor is responsible for issuing a report on the consistency of the Council's WGA consolidation pack with the statutory financial statements.	This work will start shortly and we expect to issue our report by 6th October 2006.

Letter of representation

- 31 We obtain written representations from management as an acknowledgement of its responsibility for the fair presentation of the financial statements and as audit evidence on matters material to the financial statements. The text of the required letter of representation is included at Appendix 6. This letter must be signed by the Head of Finance and the Leader before we can issue the audit opinion on the accounts.

Next steps

- 32 We are drawing these matters to the Committee's attention so that:
- you can consider them before the financial statements are approved and certified; and
 - the letter of representation can be signed on behalf of the Council and the Committee before we issue our opinion on the financial statements.

Use of resources

Value for money conclusion

- 33** It is important to highlight up front for those charged with governance that the value for money conclusion covers the period up to 31st March 2006. We acknowledge that the Council has made progress on a number of the criteria outlined below since March 2006, which will be formally assessed as part of the use of resources work due to, be reported in early 2007.
- 34** The Code requires us to reach a conclusion on whether we are satisfied that the Council has proper arrangements in place for securing economy, efficiency and effectiveness in its use of your resources (the value for money conclusion). In meeting this responsibility, we have reviewed evidence relevant to the Council's corporate performance management and financial management arrangements. Our work in reaching the value for money conclusion is integrated with our work on the use of resources assessment, which was reported to the Council in March 2006.
- 35** The VFM conclusion has been reached by assessing whether the Council meets 12 specified VFM criteria. The use of resources assessment is a qualitative assessment of the effectiveness of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. The five areas we make assessments on are; financial statements, financial management, financial standing, internal control and value for money.
- 36** The Council has met the minimum standard for eight out of the twelve criteria. Appendix 8 summarises the VFM criteria and our assessment of the Council arrangements for each. As at 31st March 2006 it had below adequate performance for managing and improving VFM, internal control, asset management and probity arrangements.
- 37** We have completed our work in relation to the use of resources and there are a number of matters which we wish to draw to the attention of the Committee. On the basis of our audit work, we currently propose to issue an except for value for money conclusion, on the grounds of the issues outlined below.

Strategic objectives

- 38** The Council's performance management is improving. It is clear about its role in delivering ambitions for the community and has reviewed priorities to ensure better links with the Community Strategy themes and to take account of its own recent successes and achievements.
- 39** The new performance management system COVALENT is greatly assisting in developing a standardised performance management framework but is not yet fully embedded into wider management arrangements. The Council's approach to target setting is not yet consistent.

- 40 The programme of fundamental service reviews is helping to focus resources and attention on improving poor performing services but more work is needed to embed effective and consistent performance management throughout all services.
- 41 There is evidence that some robust performance improvement plans have been developed which have greatly improved performance in priority areas, albeit from a low base. An Audit Commission review of the Council's housing service in January 2006 made a number of recommendations for which the Council has developed a comprehensive improvement plan. The plan has been prioritised and included in the service business plan for 2006/07.
- 42 Improvement Plans are ambitious but need careful management and sustained investment if they are to deliver planned improvements to services and value for money.

Consultation

- 43 Communication has improved and community leadership is developing. Community engagement is not yet fully effective despite the Area Forum structure. However, partnership working is an area of strength.
- 44 Substantial improvements in customer care have been secured through a new one stop shop and the introduction of customer care standards as part of a sustained drive to improve community engagement.
- 45 Extensive consultation and community engagement has been undertaken as part of the housing stock transfer ballot and in developing the Corporate Improvement Plan for 2005 to 2008.
- 46 The Audit Commission Housing Services review in January 2006 identified weaknesses in relation to access to services and diversity monitoring. The Council has developed a robust action plan to address the recommendations made. This is currently being implemented.
- 47 There are appropriate mechanisms for using comments and complaints from service users and residents to challenge performance.

Performance management

- 48 Performance management arrangements are in place but these are used effectively by senior officers and Councillors with portfolio responsibilities. However, the involvement of the scrutiny function in managing performance is less well developed although this is improving. There remains scope for some Councillors to become more involved in performance management and in challenging overall performance and value for money.
- 49 Monitoring systems and progress reporting are rigorous with regular updates to Councillors and managers about performance against national and local indicators, targets, standards and improvement plans. A firm approach to identifying and tackling underperformance is improving outcomes as a result of Improvement Committee involvement and intervention.

- 50 The Council ensures that recommendations from external bodies are acted upon. Wherever possible, recommendations are integrated into business unit and service plans to allow on-going monitoring more robust action for improvement, for example in housing services.

Data quality

- 51 The Council's data quality arrangements around the production of performance indicators are adequate and are developing quickly.
- 52 The Council's data quality arrangements have been assessed against the following criteria:
- Governance and leadership
 - Policy
 - Systems and processes
 - People and skills
 - Data use.

A report setting out the detailed on how the Council has performed against each of these criteria will be reported within the BVPP/ PI report.

Internal control

- 53 The Council has put in place some basic controls. However, key areas for development include the need to -
- publish terms of reference for the Audit and Performance Overview and Scrutiny Committee,
 - identify business critical systems and ensure there are procedure notes and manuals in place for the operation of these systems.
- 54 We note that the Council's Cabinet considered a report on a new Corporate Governance Framework in July 2006 with a view to addressing these and other internal control issues.

Risk management

- 55 Some processes are in place to manage risks but the Council's approach to managing its partnership risks are still developing. Further work is required to explicitly link risk management to policy review and business management processes through the COVALENT system and to clearly specify executive and other committee risk and governance remits. Councillors require further training and development on risk and governance issues. We note that these issues are being addressed as part of the Council's intention to implement a new corporate governance framework as previously raised.

Improving value for money

- 56 The Council has embarked upon an ambitious improvement programme and developed a corporate improvement plan for the period 2005 to 2008. It has put in place many of the building blocks to enable it to achieve its vision of "8x8x2008" although much of this work is still in development.
- 57 The Council's programme of fundamental service reviews is a positive approach to performance improvement. Significant improvement has been achieved in some priority services, albeit from a low level. However, value for money considerations are not yet integrated into day to day operational management arrangements across all services and clear targets are needed by senior managers and Councillors to better assess whether or not value is being delivered.
- 58 Significantly more work is required in relation to procurement and the management of assets. The Council did not have at the end of March 2006 an up to date Asset Management Plan or a capital strategy fully aligned to its corporate priorities. A revised capital strategy has now been assessed as good by Government Office North West.
- 59 Councillors have agreed a programme of savings and efficiencies linked to key priorities. An efficiency statement is in place that sets out detailed work streams and efficiency targets. The Council has identified a need to further develop its existing structures for monitoring and reviewing efficiency savings and is in the process of implementing initiatives to address areas of identified weakness.

Financial strategy

- 60 The Council has taken effective action to ensure that its medium term financial strategy (MTFS), budgets and capital programme are soundly based and are adequately designed to deliver its strategic priorities.

Budget setting and monitoring

- 61 Strong processes for budget setting and monitoring are in place and under/overspends are effectively managed. A need for accurate profiled financial monitoring reports was identified and these are now available promptly for all budget holders from June 2006. Further training is under way on financial management for other staff operating outside financial services.

Asset management

- 62 The Council still needs to develop its use of performance measures and benchmarking to describe and evaluate how the asset base contributes to the achievement of corporate and service objectives, including improvement priorities.
- 63 Significantly more work is required in relation to the management of assets. The Council does not have an up to date Asset Management Plan or a capital strategy fully aligned to its corporate priorities.

64 We note however that the property management function is being re-structured and the Council intends to appoint a Property Services Manager.

Probity

65 Further development is needed to strengthen existing arrangements and to promote and ensure probity and propriety in the conduct of the Council's business. The Council needs to adopt a counter fraud strategy including arrangements to receive and investigate allegations of breaches of proper standards of financial conduct, fraud and corruption and to distribute its whistle blowing policy to partners and other third parties. Some of these issues are to be addressed through the Council new corporate governance framework.

<i>Recommendations</i>
<i>R4 Ensure all use of resources previously reported issues are addressed to avoid a future adverse or except for VFM conclusion.</i>

Use of auditors' statutory powers

- 66 Auditors are required to consider the exercise of certain statutory powers during the course of the audit, as summarised in Table 5 below.

Table 3 Use of statutory powers

Issue	Auditor responsibility	Impact
Section 8 reports	Section 8 of the Act requires that auditors should consider whether, in the public interest, they should report on any matter that comes to their attention in the course of the audit so that it may be considered by the body concerned or brought to the attention of the public.	There have been no section 8 reports in respect of the financial year 2005/2006.
Section 11 recommendations	To consider whether a written recommendation should be made to the audited body requiring it to be considered and responded to publicly.	There have been no s11 recommendations.
Best value	To consider whether to recommend that the Audit Commission should carry out a best value inspection of the Council under section 10 of the Local Government Act 1999 and/or that the Secretary of State should give a direction under section 15 of that Act.	Our work in respect of the Council's 2005/2006 Best Value Performance Plan (BVPP) was reported in December 2005 and in the annual audit and inspection letter. No recommendations were made to the Audit Commission or the Secretary of State.

Closing remarks

- 67 This report has been discussed and agreed with officers and presented to the Accounts Committee on 28th September 2006.
- 68 The report makes 4 recommendations and an action plan is included at Appendix 7, which includes responses from management and indicative target dates for the implementation of recommendations.
- 69 The Council has taken a positive and constructive approach to our audit and I would like to take this opportunity to express my appreciation for the Council's assistance and co-operation.

Michael Thomas

District Auditor

September 2006

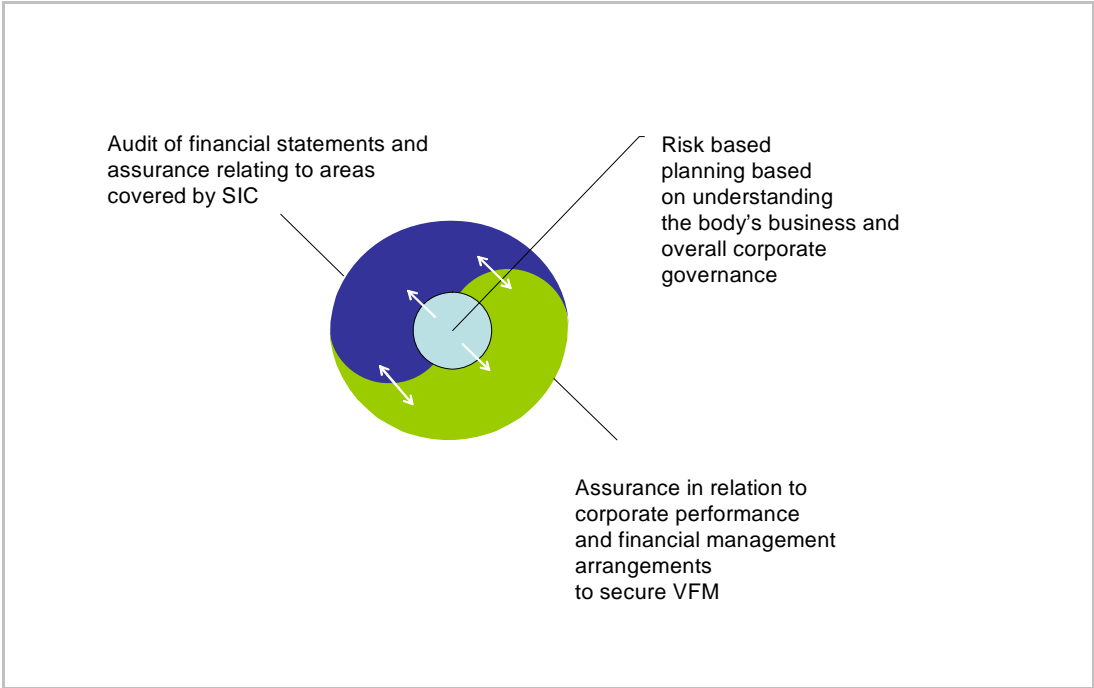
Appendix 1 – Audit responsibilities and approach

Audit objectives

- 1 Our objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on the significant risks that are relevant to our audit responsibilities.

Figure 1 Code of Audit Practice

Code of practice responsibilities



Approach to the audit of the financial statements

- 2** In our approach to auditing the financial statements, we adopt a concept of materiality. Material errors are those which might be misleading to a reader of the financial statements. We seek, in planning and conducting our audit of the accounts, to provide reasonable assurance that your financial statements are free of material misstatement. In planning our work we considered the arrangements of the Council which had most impact on our opinion. These included:
 - the standard of the overall control environment and internal controls;
 - reliance on internal audit;
 - the likelihood of material misstatement occurring from material information systems; or a material error failing to be detected by internal controls;
 - any changes in financial reporting requirements; and
 - the effectiveness of procedures for producing the financial statements and supporting material.
- 3** The results of the above feed into our risk assessment which determines the level and type of testing undertaken on each element of the financial statements. The keys risks that we identified include:
 - the accounting arrangements including debt restructure following the transfer of the council houses to Rossendale Housing Trust; and
 - budgetary pressures that may make it favourable to defer expenditure to the next accounting period.
- 4** In addition, as the Council prepares group financial statements in respect of Rossendale Borough Transport Limited, we have also considered whether it is necessary to communicate to you such matters brought to the attention of those charged with governance of each body within the group by its auditors. Only those matters which we judge to be of significance in the context of the group are brought to your attention.

Approach to audit of arrangements to secure value for money

- 5** The scope of these arrangements is defined in paragraph 20 of the Code as comprising:
 - corporate performance management; and
 - financial management arrangements.
- 6** Our conclusion is informed and limited by reference to relevant criteria covering specific aspects of audited bodies' arrangements, specified by the Code.

- 7 In planning audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources we have considered and assessed relevant significant business risk. Significance is defined by the Code as 'a matter of professional judgment and includes both quantitative and qualitative aspects of the risk'.
- 8 The potential sources of assurance when reaching the value for money conclusion include:
 - the Council's whole system of internal control as reported in its statement on internal control;
 - results from statutory inspections or the work of other regulators, for example, corporate assessments, service assessments (whether by the Commission or other regulators);
 - work specified by the Audit Commission, for example, the use of resources assessments, and data quality work;
 - links to the financial statements' audit, including review of internal audit, the SIC and budgetary control arrangements; and
 - other work necessary to discharge our responsibilities.

Appendix 2 – Audit reports issued

Table 4

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit and inspection plan	Draft by 31 March 2005	Draft issued April with final in May 2006	Management
Environment Inspection	June 2006	June 2006	Cabinet
Annual governance report	September 2006	September 2006	Committee
Opinion on financial statements	September 2006	29 September 2006	Management
Value for money conclusion	By 30 September 2006	Planned to issue by 29 September 2006	The Council
Final accounts memorandum	By 30 October 2006	Planned to issue by 30 October 2006	Management
Use of resources assessments	March 2006	March 2006	Audit and Performance Overview and Scrutiny Committee
BVPP and performance Information report	October 2005	28 November 2005	Audit and Performance Overview and Scrutiny Committee

Appendix 3 – Fee information

Table 5

Fee estimate	Plan 2005/06 £	Actual 2005/06 £
Audit/ Accounts*	56,868	62,497
Inspection	41,837	41,837
Use of resources	10,263	10,263
Total audit fees**	108,968	114,597

* Increase due to impact of the International Standards on Auditing (UK and Ireland) (ISAs) on the audit

** The outturn on inspection and grant certification fees will be reported in the Annual Audit and Inspection Letter

Appendix 4 – The Audit Commission’s requirements in respect of independence and objectivity

- 1** We are required by the standard to communicate following matters to the Audit Committee:
 - the principal threats, if any to objectivity and independence identified by the auditor, including consideration of all relationships between the Council, directors and the auditor;
 - any safeguards adopted and the reasons why they are considered to be effective;
 - any independent partner review;
 - the overall assessment of threats and safeguards; and
 - information about the general policies and processes for maintaining objectivity and independence.
- 2** We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing and ethical standards.

Appendix 5 – Independent auditor’s report to Rossendale Borough Council

Independent auditor’s report to the Members of Rossendale Borough Council

Opinion on the financial statements

- 3 I have audited the financial statements of Rossendale Borough Council and its Group for the year ended 31st March 2006 under the Audit Commission Act 1998, which comprises of the Consolidated Revenue Account, the Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement, the Group Accounts and the related notes. These financial statements have been prepared under the accounting policies set out within them.
- 4 This report is made solely to Rossendale Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Finance Officer and auditors

- 5 The Chief Finance Officer’s responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Council Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.
- 6 My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).
- 7 I report to you my opinion as to whether the financial statements presents fairly the financial position of the Council in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005.
- 8 I review whether the statement on internal control reflects compliance with CIPFA’s Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003 published in 2004. I report if it does not comply with proper practices specified by CIPFA 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 statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Council’s corporate governance procedures or its risk and control procedures.

- 9 I read the explanatory foreword information published with the financial statements and the summary of the Council's accounts and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies. My responsibilities do not extend to any other information.

Basis of audit opinion

- 10 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 Committee. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.
- 11 I planned and performed our 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 financial statements 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 financial statements.

Opinion

- 12 In my opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the Council and its Group as at 31 March 2006 and its income and expenditure for the year then ended.

Mike Thomas

Audit Commission, Aspinall Close, Middlebrook, Bolton, BL6 6QQ

29th September 2006

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

Authorities responsibilities

- 13 The Council 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.
- 14 Under the Local Government Act 1999, the Council is required to prepare and publish a best value performance plan summarising the Council's assessment of its performance and position in relation to statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor’s responsibilities

- 15 I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Council 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 Council has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.
- 16 I am required by section 7 of the Local Government Act 1999 to carry out an audit of the Council's best value performance plan and issue a report.
 - certifying that I have done so;
 - stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
 - where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

- 17 I have undertaken my audit in accordance with the Code of Audit Practice and I am satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, in all significant respects, Rossendale Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006, except for the failure to put in place arrangements:

- to manage and improve value for money
- for the management of its asset base
- to maintain a sound system of internal control
- that are designed to promote and ensure probity and propriety in the conduct of its business.

Best Value Performance Plan

- 18** I issued my statutory report on the audit of the Council’s best value performance plan for the financial year 2005-06 on 12 December 2005. I did not identify any matters to be reported to the Council and made no recommendations on procedures in relation to the plan.

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.

Signature..... Date.....

Mike Thomas District Auditor

Appendix 6 – Letter of representation

Rossendale Borough Council - Audit for the year ended 31 March 2006

We confirm to the best of our knowledge and belief, having made appropriate enquiries of other directors and officers of Rossendale Borough Council that the following representations given to you in connection with your audit of the Rossendale Borough Council's financial statements for the year ended 31 March 2006.

We acknowledge our responsibility under the relevant statutory authorities for preparing the financial statements which give a true and fair view and for making accurate representations to you.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected 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 Rossendale Borough Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council/ Committee meetings, have been made available to you.

Related party transactions

We 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

Contingent liabilities

There are no contingent liabilities in addition to the disclosures made in the accounts. 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;
- no financial guarantees have been given to third parties.

Law, regulations 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 Rossendale Borough Council that have not been fully disclosed to you.

In all material respects, the expenditure and income disclosed in the financial statements has been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Fraud and error

We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect fraud and error. Such a system of internal controls has been implemented.

We are not aware of any:

- frauds involving management or employees who have significant roles in the system of internal accounting control;
- frauds 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.

Post balance sheet events

Since 31 March 2006 no significant post balance sheet events have occurred which require adjustment or disclosure in the financial statements.

Signed on behalf of Rossendale Borough Council

Signed

Name Phil Seddon

Position Head Of Finance

Date

Signed

Name Duncan Ruddick

Position Council Leader

Date

Appendix 7 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R1 Further improve the existing quality assurance process on the financial statements review to ensure that they achieve the desired degree of clarity and compliance with the Statement on Recommended Practice before the accounts are approved.	2	Finance	Yes	Officers will work to strengthen the process for future years by attempting to build additional time for review into the timetable. The exceptional circumstances caused by the stock transfer will not be repeated and the issues relating to the Bus Company now they have been identified can be addressed.	For 2006-07 accounts
	R2. Review IT controls to secure improvements to the overall internal control arrangements	3	Executive Director of Resources and ICT Manager	Yes	This is being addressed through the ICT Strategy and Investment Plan being submitted to Councillors in October 2006 and will be fully in place before the end of the financial year. In addition a fundamental rewrite of all IT policies is in hand.	First stage work to be completed by end of 2006/07

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	R3. Ensure that segregation of duties issues as identified by Internal Audit are addressed and that reconciliation of key financial systems are carried out on a regular basis.	3	Head of Finance and Executive Director of Resources	Partly	This is accepted in relation to reconciliations the speeding up of which is a priority currently being worked on by the finance team. However, in relation to division of duties it will not be economic or effective for the Council to take on additional staff to meet audit requirements and management will put in place controls elsewhere in systems to mitigate the risks identified	Ongoing
	R4. Ensure all use of resources previously reported issues are addressed to avoid a future adverse or except for VFM conclusion	3	Chief Executive and Executive Director of Resources	Yes	Work is already in hand to improve performance in all parts of the Council's "corporate engine".	Ongoing

Appendix 8 VFM Criteria & Conclusions

Criteria	Assessment Yes/No
Strategic and operational objectives	
The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	Yes
Communication	
The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	Yes
Performance management	
The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	Yes
Data quality	
The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	Yes
Internal control	
The body has put in place arrangements to maintain a sound system of internal control.	No
Risk management	
The body has put in place arrangements to manage its significant business risks.	Yes
Improving value for money	
The body has put in place arrangements to manage and improve value for money.	No
Financial strategy	
The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	Yes
Financial standing	
The body has put in place arrangements to ensure that its spending matches its available resources.	Yes
Financial management	
The body has put in place arrangements for managing performance against budgets	Yes
Asset management	
The body has put in place arrangements for the management of its asset base.	No
Probity	
The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	No

