

Annual Governance Report

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# **Annual Governance Report - 2006-07**

**Middlesbrough Council**

**Audit 2006-2007**

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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.

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## Purpose of this document

- 1 In accordance with the Audit Commission's Code of Audit Practice (the Code), this report provides a summary of the work we have carried out during our 2006/07 audit of accounts, the conclusions we have reached and the recommendations we have made to discharge our statutory audit responsibilities to those charged with governance (in this case the Corporate Affairs Committee) at the time they are considering the financial statements.
- 2 In preparing our report, the Code requires us to comply with the requirements of International Standards on Auditing (United Kingdom & Ireland) – ISA (UK&I) - 260 'Communication of Audit Matters to Those Charged With Governance', by reporting to you matters relating to the audit of the financial statements. Other auditing standards require us to communicate with you in other specific circumstances including:
  - where we suspect or detect fraud;
  - where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
  - non-compliance with legislative or regulatory requirements and related authorities.
- 3 We are also required to communicate to you the Audit Commission's requirements in respect of independence and objectivity, and these are set out at Appendix 2.
- 4 This report has been prepared for presentation to the Corporate Affairs Committee on 26 September 2007. Members are invited to:
  - consider the matters raised in the report before the financial statements are approved;
  - approve the representation letter on behalf of the Council and those charged with governance before we issue our opinion; and
  - consider amending the financial statements for unadjusted misstatements, significant qualitative aspects of financial reporting (none in this case) and any recommendations for improvement in the action plan.
- 5 Our work during the year was performed in line with the plan that we presented to you in May 2006. We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 3.

## Key messages

- 6 Our work on the financial statements is substantially complete. We propose issuing an unqualified audit opinion on 26 September 2007, (a draft report is attached at Appendix 4).
- 7 In our view, the financial statements of the pension fund do present fairly the financial transactions of the pension fund.
- 8 In our view, the Statement on Internal Control (SIC) has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit.
- 9 Our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources is substantially complete. We propose issuing an unqualified conclusion on the use of resources on 26 September 2007, (a draft report is attached at Appendix 4).

## Audit status

- 10 At the date of issue of this report our detailed audit is substantially complete.
- 11 The Council has taken a positive and constructive approach to our audit and we would like to take this opportunity to express our appreciation for the Council's assistance and co-operation.

## Accounts and Statement on Internal Control

- 12 Our work on the financial statements is substantially complete.
- 13 Auditors are required to obtain written confirmation of certain representations from management and those charged with governance before an audit report is issued, such as acknowledgement of responsibility for the fair presentation of the financial statements in accordance with the applicable financial reporting framework and responsibility for the design and implementation of internal control to prevent and detect error.
- 14 The auditor should also obtain written representations from management on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist.
- 15 The final draft of the letter of representation has been attached as Appendix 5.

### Unadjusted misstatements

- 16 We are required to report to you all unadjusted misstatements that we have identified during the course of our audit, other than those that are clearly trivial. There are no unadjusted misstatements for us to bring to the attention of members.

### Adjustments to the financial statements

- 17 We are also required to bring to your attention misstatements that have already been corrected by management where we consider them relevant to your wider governance responsibilities or where they are material. These are shown below.

**Table 1 - Adjusted misstatements in the financial statements**

Details of material and/or significant adjustments made to the financial statements

Issue	Value of misstatement £	Impact on surplus/(deficit)
<b>Amortisation of Government Grants</b> There was a change in the treatment of government grants required for 2006-07. This requires the amortisation of government grants to match depreciation being charged to the income and expenditure account. However £14.9 million was credited to expenditure rather than income with the effect that expenditure and income was understated. The £14.9 m is also reversed out through the Statement of Movement on General Fund Balance.	£14.9 million	No impact



- 18 We have discussed a number of other issues with officers. A complete listing of all amendments has been provided to officers

## Accounting practices

- 19 We are also required to report to you our view on the qualitative aspects of the Council's accounting practices and financial reporting. The draft accounts were presented for audit in accordance with the agreed timetable. Last year we mentioned that the supporting working papers were much improved from the previous years. We are able to report that there have been further improvements this year especially to the provision of working papers being available electronically via the web portal.
- 20 We have set out below our observations on key areas we feel the Council could consider to achieve further improvements:
- The 2006 SORP requires the Council to report on Net Assets Employed between the General Fund, Trading Activities and Housing Revenue Account. Note 28 in the Statement of Accounts acknowledges that the Council is unable to provide such an analysis but that it will explore the provision for future years. Members need to ensure that this non-compliance with SORP is rectified in future years.
  - The financial ledger includes a number of holding accounts for example items such as direct debits received at bank which have not yet been posted to the correct debtor account. The holding accounts are then included in the bank reconciliation but are not cleared to nil at the year end. The Council should ensure that cash holding accounts are cleared to nil as part of the closure process and the year end bank reconciliation.

## Systems of internal control

- 21 Our audit identified no weaknesses in systems of accounting and financial control which we should report to you.
- 22 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.
- 23 We have also reviewed whether the SIC has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit. There are no matters arising.

## Use of resources

### Work performed

- 24 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 resources – the value for money conclusion. In meeting this responsibility, we review evidence that is relevant to the Council’s corporate performance management and financial management arrangements across a range of criteria specified by the Audit Commission. Our work to support our conclusion comprised the following elements:
- use of resources assessment;
  - data quality work; and
  - the best value performance plan.
- 25 Details of our conclusion for each of the criteria specified by the Audit Commission are set out in Appendix 6.

### Use of resources assessment

- 26 We are currently finalising our report arising from our use of resources assessment. When finalised, we will discuss this with the relevant officers.

### Data quality work

- 27 We are currently finalising our data quality review and will report our findings to the relevant officers

### Best value performance plan

- 28 Our work in respect of the Authority’s 2006/07 Best Value Performance Plan (BVPP) was reported in the 2006 annual audit and inspection letter. No recommendations were made to the Audit Commission or the Secretary of State.

## Audit fee update

- 29 We reported our fee proposals as part of the Audit Plan for 2006/07. The table below reports the outturn fee against that plan:

	<b>Plan 2006/07</b>	<b>Actual 2006/07</b>
Financial statements and Statement on Internal Control	£164,000	£164,000
Use of Resources	£ 66,000	£ 66,000
<b>Total Audit Fees</b>	<b>£230,000</b>	<b>£230,000</b>
Grants certification work	£55,000	£55,000

- 30 The analysis above shows that our audit fee has been contained within the totals you have already agreed. Grant certification work is not complete but we do not expect the fee to increase.
- 31 You have also requested an additional work on a review of the residual property managed by the Council following the demise of Cleveland County Council. The final cost and outcome of the review will be reported separately.
- 32 The outturn on inspection fees will be reported in the annual audit and inspection letter.

## Appendix 1 – Action plan

Page	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation Date
9	The 2006 SORP requires the Council to report on Net Assets Employed between the General Fund, Trading Activities and Housing Revenue Account but the Council was unable to provide such an analysis. Members need to ensure that this non-compliance with SORP is rectified in future years.	3	Director of Resources			
9	The financial ledger includes a number of holding accounts, for example items such as direct debits received at bank which have not yet been posted to the correct debtor account. The holding accounts are then included in the bank reconciliation but are not cleared to nil at the year end. The Council should ensure that cash holding accounts are cleared to nil as part of the closure process and the year end bank reconciliation.	3	Director of Resources			

## **Appendix 2 – The Audit Commission’s requirements in respect of independence and objectivity**

- 1 We are required to communicate the following matters to those charged with governance:
  - the principal threats, if any, to objectivity and independence identified by the auditor, including consideration of all relationships between the Authority, 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 audit team and which are required to be disclosed under auditing and ethical standards.

## Appendix 3 – Audit reports issued

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit plan	March 2006	April 2006	Corporate Affairs Committee
Annual governance report	September 2007	September 2007	Corporate Affairs Committee
Opinion on financial statements	September 2007	September 2007	Corporate Affairs Committee
Use of resources conclusion	September 2007	September 2007	Corporate Affairs Committee
Final accounts memorandum	October 2007	TBA	Corporate Affairs Committee
BVPP report	October 2007	TBA	Council
Data quality report	October 2007	TBA	Corporate Affairs Committee
Annual audit letter	January 2008	TBA	Executive

## **Appendix 4 – Proposed auditor’s report**

### **Independent auditor’s report to the Members of Middlesbrough Borough Council**

#### **Opinion on the financial statements**

We have audited the financial statements and pension fund accounts of Middlesbrough Borough Council and its Group for the year ended 31 March 2007 under the Audit Commission Act 1998. The financial statements comprise the Explanatory Foreword, Income and Expenditure Account, Statement of the 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 Collection Fund, the Group Accounts and the related notes. The pension fund accounts comprise the Fund Account, the Net Assets Statement, and the related notes. The financial statements and pension fund accounts have been prepared under the accounting policies set out within them.

This report is made solely to Middlesbrough 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**

The Chief Finance Officer’s responsibilities for preparing the financial statements, including the pension fund accounts, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.

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

We report to you our opinion as to whether the financial statements and the pension fund accounts present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial transactions of its pension fund during the year and the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

We review whether the statement on internal control reflects compliance with CIPFA's guidance 'The statement on internal control in local government: meeting the requirements of the Accounts and Audit Regulations 2003' issued in April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have I/we considered, whether the statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

## Basis of audit opinion

We conducted our 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 financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us 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 our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our 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 2006, the financial position of the Authority and its Group as at 31 March 2007 and its income and expenditure for the year then ended; and
- The pension fund accounts present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial transactions of the Pension Fund during the year ended (insert date), and the amount and disposition of the fund's assets and liabilities as at (insert date), other than liabilities to pay pensions and other benefits after the end of the scheme year.



Signed ..... Date .....

Mr S Nicklin, District Auditor, Audit Commission, Nickalls House, Metro Centre,  
Gateshead . NE11 9NH

## **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 to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the Authority is required to prepare and publish a best value performance plan summarising the authority's assessment of its performance and position in relation to its 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**

We are 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 us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to my/our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We are required by section 7 of the Local Government Act 1999 to carry out an audit of the Authority's best value performance plan and issue a report:

- certifying that we have done so;
- stating whether we 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**

We have undertaken our 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 December 2006, we are satisfied that, in all significant respects, Middlesbrough Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2007.

## **Best Value Performance Plan**

We issued our statutory report on the audit of the Authority's best value performance plan for the financial year 2006/07 on 29 September 2006. We did not identify any matters to be reported to the Authority and did not make any recommendations on procedures in relation to the plan.

## **Certificate**

We certify that we 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.

Auditor  
Address  
Date

## Appendix 5 – Management representation letter

Steve Nicklin  
District Auditor  
Audit Commission  
Nckall's House  
Metro Centre  
Gateshead  
NE11 9NH

Dear Mr Nicklin

### **Middlesbrough Borough Council – Audit of Accounts for the year ending 31 March 2007**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of officers of Middlesbrough Borough Council and officers of HBS, the following representations given to you in connection with your audit of the Middlesbrough Borough Council's financial statements for the year ended 31 March 2007.

I acknowledge my 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.

Middlesbrough Borough Council has no plans or intentions that may materially alter the carrying value or classification 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 provisions other than those which have been properly recorded and disclosed in the financial statements.

All Equal Pay / Single Status claims and amounts that we are aware of have been appropriately disclosed in the accounts.

### **Supporting records**

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by Middlesbrough Borough Council have been properly reflected and recorded in the accounting records. All other records and related information, including all council and committee minutes of Middlesbrough Borough Council, have been made available to you.

## 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

## Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and,
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements;
- 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 Middlesbrough Borough Council.

Middlesbrough Borough 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.

## Irregularities

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

## **Post balance sheet events**

No significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

Signed on behalf of Middlesbrough Borough Council -

Signed:

Name:

Position:

Date:



## Appendix 6 – Value for money conclusion

- 3 The Audit Commission has published, in accordance with the Code of Audit Practice, 12 criteria on which auditors are required to reach a conclusion on the adequacy of an audited body's arrangements for economy, efficiency and effectiveness in its use of resources.
- 4 The Code criteria are linked to the use of resources assessment (UoR) key lines of enquiry (KLoEs). A score of Level 2 or higher under the KLoEs will result in an assessment that the Authority has adequate arrangements in place for the purposes of the Code criteria. The Code criteria and the linked KLoEs are show in the table below.

Code Criteria	Description	Associated UoR KLoE	VFM Conclusion
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	N/A	Adequate
2	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.	N/A	Adequate
3	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.	N/A	Adequate
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	LG DQ KLoEs	Adequate
5	The body has put in place arrangements to maintain a sound system of internal control.	4.2	Adequate

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6	The body has put in place arrangements to manage its significant business risks.	4.1	Adequate
7	The body has put in place arrangements to manage and improve value for money.	5.2	Adequate
8	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.	2.1	Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	3.1	Adequate
10	The body has put in place arrangements for managing performance against budgets.	2.2	Adequate
11	The body has put in place arrangements for the management of its asset base.	2.3	Adequate
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	4.3	Adequate