

# Annual governance report

Bridge Estate

Audit 2009/10

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Ladies and Gentlemen

## **2009/10 Annual Governance Report**

I am pleased to present the final version of my report on the results of my audit work for 2009/10.

A draft of the report was discussed and agreed with the Deputy Chief Executive and Corporate Director for Resources on 6 December 2010 and has been updated since as issues have been resolved.

The report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 3 to 10);
- 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 Trust before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 4).

Yours faithfully

Sue Sunderland  
District Auditor

17 December 2010

# Key messages

**This report summarises the findings from my 2009/10 audit which is substantially complete. It includes the messages arising from my audit of your financial statements.**

Financial statements	Results	Page
Unqualified audit opinion	Yes	5
Financial statements approved by trustees free from error	Yes	5
Adequate internal control environment	Limited **	5

\* Limited involvement of Trustees with the business of the Charity in my view a material weakness in internal control

## Audit opinion

**1** Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report giving an unqualified opinion on the financial statements.

## Financial statements

**2** The Charity submitted financial statements for audit on 30 September 2010. Our audit commenced as planned at the end of October 2010.

**3** Following feedback of findings part way through the audit, the Charity made a number of changes to its financial statements and submitted an updated version for audit on 25 November 2010.

**4** The Council, acting on behalf of the Charity, took action to improve the accounts process. However, further improvement is needed to strengthen the Charity's processes for compiling and checking its financial statements and working papers.

## Internal control environment

**5** As reported in my annual governance report last year, Trustees' involvement with the Charity continued to be limited during 2009/10. I am particularly concerned that I have seen no evidence to date to support the part of the public benefit statement which refers to the Trustees' actions.

**6** In my view the Trustees need to meet regularly during the year to monitor the activities of the Charity. Unless I see immediate evidence of improvement in Trustee acceptance of responsibility I will need to report my concerns to the Charity Commission.

## Independence

**7** I confirm that I have carried out the audit in accordance with the Audit Commission's policies on integrity, objectivity and independence.

## Next steps

**This report identifies the key messages that you should consider before I issue my opinion on the charity's financial statements. 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.**

**8** I ask the Trustees to:

- consider the matters raised in the report before approving the financial statements (pages 3 to 10);
- 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 Trust before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 4).

# Financial statements

**The charity's financial statements are important means by which the Bridge Estate accounts for its stewardship of public funds. As Trustees you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements.**

## Opinion on the financial statements

**9** 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.

## Errors in the financial statements

**10** I identified one material and one immaterial error in the financial statements as reported in Appendix 2. The material error related to incorrect amendment of an error from the previous year. Management adjusted the financial statements to correct for both these errors prior to presenting the financial statements to members in November.

## Important weaknesses in internal control

**11** In my 2008/09 annual governance report I brought to your attention that Trustees' involvement with the business of the Charity was limited. I noted that this material weakness in internal control must be addressed in 2009/10. I recommended that 'formal Trustee consideration should be given to matters relating to the Charity that they oversee'.

**12** For 2009/10, Trustees' involvement with the Charity continues to be limited. No Trustees meetings were held during the course of the year to discuss charity matters other than that held in November 2010 to note the unaudited financial statements.

**13** The Public Benefit Statement within the financial statement states that 'The trustees confirm that they have referred to Charity Commission guidance on public benefit when reviewing aims and objectives and when setting plans for the future.' Although the Charity Commission guidance was submitted to the November meeting I have seen no evidence that the trustees have reviewed the aims and objectives or set plans for the future to date.



14 In my view the Trustees need to take their responsibilities more seriously and they should meet regularly during the year to monitor the activities of the Charity. Typically, this could include reviewing the aims and objectives and future plans as well as the performance of the Charity's property portfolio.

15 Unless I see immediate evidence of improvement in Trustee acceptance of responsibility I will need to report my concerns to the Charity Commission.

16 My audit did not identify any other weaknesses in internal control.

## Recommendations

**R1** Trustees must provide me with evidence that they have actually done what the public benefit statement says they have done.

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**R2** Trustees must hold regular meetings to monitor and discuss the activities of the Charity. Consider including formal review of the aims, objectives and future plans of the Charity along with a review of the performance of the Charity's property portfolio.

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## Letter of representation

17 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.

## Key areas of judgement and audit risk

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

Table 1: **Key areas of judgement and audit risk**

Issue or risk	Finding
<p><b>Internal control</b> Risk that Trustees do not fulfil their responsibilities through insufficient involvement with the Charity.</p>	<p>See paragraphs 11 -15 (Important weaknesses in internal control).</p>
<p><b>Public benefit reporting</b> Risk that Charity does not meet Charity Commission requirements in relation to the Public Benefit Statement.</p>	<p>See paragraphs 11 – 15 (Important weaknesses in internal control).</p>

Issue or risk	Finding
<p><b>Production of accounts and working papers</b></p> <p>I reported in my 2008/09 annual governance report a number of weaknesses related to the accounts process (incomplete; contained errors; incomplete working papers; lack of senior level review).</p> <p>Risk of insufficient action being taken by the Charity to address these matters in 2009/10 leading to material errors.</p>	<p>The Council, acting on behalf of the Charity, took action to improve the accounts process. Integral to this was transferring production of the financial statements to the Council's corporate finance team.</p> <p>I am pleased to report that the financial statements presented for audit were complete.</p> <p>However, there is further room for improvement as some working papers supporting the financial statements contained errors.</p> <p>I conclude that the Charity needs to strengthen its processes for compiling and checking its financial statements and working papers.</p>
<p><b>Accounting policies</b></p> <p>Risk that Charity may amend its accounting policies without carrying out a formal, fully documented review of all existing policies.</p>	<p>My audit work found that the Charity reviewed its accounting policies in September 2010.</p> <p>The review was not formally reported to Trustees.</p>

## Accounting practice and financial reporting

**19** I consider the non-numeric content of your financial reporting. Table 2 contains the issues I want to raise with you.

Table 2: **Accounting practice and financial reporting**

Issue or risk	Finding
<p><b>Estimation techniques</b></p> <p>The Charity Statement of Recommended Practice (SoRP) requires that estimation techniques are disclosed in the financial statements.</p>	<p>My review of the Charity's financial statements found no disclosure of the estimation techniques used to calculate its bad debt provision.</p> <p>This matter was also reported in my 2008/09 annual governance report.</p>

Issue or risk	Finding
<p><b>Bad debt provision</b></p> <p>As an estimated amount, the bad debt provision in the financial statements should be accurately compiled on a sound basis.</p>	<p>The Charity has provided a total of £67,178 in its financial statements for bad debts. This includes specific provision against individual debts.</p> <p>I reviewed both the method used to estimate the provision and the actual calculation as part of my audit.</p> <p>Based on my estimate (£72,476) the Charity has potentially understated the provision by £5,298 due to calculation error and the % rates applied for general debts.</p> <p>In my 2008/09 annual governance report, I stated that in future the basis of the provision should be informed by actual bad debt write-offs. I found no evidence of this in 2009/10.</p>

Recommendations
<p><b>R3</b> Strengthen processes for compiling and checking the Charity's financial statements and working papers.</p>
<p><b>R4</b> Formally report future reviews of accounting policies to Trustees.</p>
<p><b>R5</b> Disclose estimation techniques used when compiling the financial statements.</p>
<p><b>R6</b> Seek to improve the Charity's bad debt provision by:</p> <ul style="list-style-type: none"> <li>■ reviewing the existing % rates used to calculate the general element of the provision. Use factors such as actual bad debt write-offs, age of debt and collectability to inform this review; and</li> <li>■ explaining the Charity's bad debt policy within the accounting policies section of the financial statements.</li> </ul>

# Glossary

## **Annual governance statement**

**20** A statement of internal control prepared by an audited body and published with the financial statements.

## **Audit closure certificate**

**21** 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 certificate.

## **Audit opinion**

**22** On completion of the audit of the accounts, auditors must give their 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;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

## **Qualified**

**23** The auditor has some reservations or concerns.

## **Unqualified**

**24** The auditor does not have any reservations.

# Appendix 1 Independent auditor's report to the Trustees of Bridge Estate

I have audited the financial statements of Bridge Estate for the year ended 31 March 2010 which comprise the Statement of Financial Activities, the Balance Sheet, the Cash Flow Statement and the related notes. The financial statements have been prepared in accordance with the accounting policies set out therein.

This report is made solely to the charity's trustees, as a body, in accordance with section 43A (2) of the Charities Act 1993 and regulations made under section 44 of that Act. My audit work has been undertaken so that I might state to the charity's trustees those matters I am required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, I do not accept or assume responsibility to anyone other than the charity and its trustees as a body, for my audit work, for this report, or for the opinions I have formed.

## **Respective responsibilities of trustee(s) and auditor**

The trustees' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Trustees' Responsibilities.

I have been appointed as auditor under section 29 of the Audit Commission Act and section 43A of the Charities Act 1993 and report in accordance with regulations made under section 44 of the Charities Act 1993. My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and are prepared in accordance with the Charities Act 1993. I also report to you if, in my opinion, the information given in the Trustees' Annual Report is not consistent with those financial statements, if the charity has not kept sufficient accounting records, if the charity's financial statements are not in agreement with these accounting records or if I have not received all the information and explanations I require for my audit.

I read the Trustees' Annual Report and consider the implications for my report if I become aware of any apparent misstatements within it.

## **Basis of audit opinion**

I conducted my audit in accordance with 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 judgements made by the trustee(s) in the preparation of the financial statements and of whether the accounting policies are appropriate to the charity's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the 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**

In my opinion:

- the financial statements comply with the requirements of regulation 8 of the Charities (Accounts and Reports) Regulations 2008;
- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the charity as at 31 March 2010 and of its incoming resources and application of resources, for the year then ended;
- the financial statements have been properly prepared in accordance with the Charities Act 1993; and
- information which comprises the commentary on the financial performance of the charity, included in the Annual Report, is consistent with the financial statements.

Sue Sunderland  
Officer of the Audit Commission  
Littlemoor House  
Littlemoor  
Eckington  
Sheffield  
S21 4EF

17 December 2010

## Appendix 2 Amendments to the draft accounts

**I identified the following misstatements during the course of my audit and managers have adjusted the financial statements. I bring them to your attention to assist you in fulfilling your governance responsibilities.**

Table 3: Amendments to the draft accounts

		Income and Expenditure Account		Balance sheet	
Adjusted misstatements	Nature of adjustment	Dr £	Cr £	Dr £	Cr £
Statement of financial activities	Correction of amendments related to 2008/09: <ul style="list-style-type: none"> <li>■ Investment income – other recharges</li> <li>■ Charitable activities – surplus transferred to NCC</li> <li>■ Investment management costs – premises costs</li> </ul>	61,225	36,028 25,197		
Statement of financial activities	Reclassify expenses relating to property sale	1,495	1,495		

## Appendix 3 Draft letter of representation

To: Mrs Sue Sunderland  
District Auditor  
Audit Commission  
Littlemoor House  
Eckington  
Sheffield  
S21 4EF

### **Bridge Estate – Audit for the year ended 31 March 2010**

We confirm to the best of our knowledge and belief, having made appropriate enquiries of management and staff with relevant knowledge and experience, the following representations given to you in connection with your audit of the Charity's financial statements for the year ended 31 March 2010.

#### **Compliance with the statutory authorities**

We acknowledge as Trustees our responsibility under the Charities Act 1993 for preparing financial statements which give a true and fair view of the financial position and financial performance of the Charity and for making accurate representations to you.

All the accounting records of the Charity have been made available to you for the purpose of your audit and all the transactions undertaken by the Charity have been properly recorded and reflected in the accounting records.

All other records and related information, including minutes of all trustees, members and management meetings have been made available to you.

All income, the receipt of which is subject to specific terms or conditions, have been notified to you. There have been no breaches of terms or conditions during the period in the application of such income.

All changes in the rules of the Charity have been communicated to you.

#### **Uncorrected misstatements**

We confirm that we believe that the effects of the uncorrected misstatements within the financial statements are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Charity and the reason for not correcting these items is that those charged with governance consider these misstatements to be immaterial.



## **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 Charity have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Charity meetings, have been made available to you.

## **Irregularities**

We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

We also confirm that we have disclosed:

- our knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- our knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

## **Law, regulations, contractual arrangements and codes of practice**

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Charity.

The Charity has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

## **Fair Values**

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

For the measurement and valuation of financial assets and liabilities disclosed under financial Instruments, we confirm:

- the appropriateness of the measurement method; and
- that subsequent events do not require adjustment to the fair value measurement.

## **Assets**

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

- losses arising from sale and purchase commitments;
- agreements and options to buy back assets previously sold; and
- assets pledged as collateral.

## **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. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

## **Related party transactions**

We confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

The Charity has not entered into any transactions involving Trustees, Officers or other related parties which require disclosure under the Charities Act 1993 or accounting standards. Appropriate disclosure has been made of the control of the Charity.

## **Post balance sheet events**

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

The Charity has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Signed on behalf of the Trustees

I confirm that this letter has been discussed and agreed by Trustees at the Nottingham City Council Audit Committee meeting on 17 December 2010.

Signed

Name

Position

Date

## Appendix 4 Action Plan

### Recommendations

#### Recommendation 1

Trustees must provide me with evidence that they have actually done what the public benefit statement says they have done.

**Responsibility**

**Priority**

**Date**

**Comments**

#### Recommendation 2

Trustees must hold regular meetings to monitor and discuss the activities of the Charity. Consider including formal review of the aims, objectives and future plans of the Charity along with a review of the performance of the Charity's property portfolio.

**Responsibility**

**Priority**

**Date**

**Comments**

#### Recommendation 3

Strengthen processes for compiling and checking the Charity's financial statements and working papers.

**Responsibility**

**Priority**

**Date**

**Comments**

#### Recommendation 4

Formally report future reviews of accounting policies to Trustees.

**Responsibility**

**Priority**

**Date**

**Comments**

### Recommendation 5

Disclose estimation techniques used when compiling the financial statements.

**Responsibility**

**Priority**

**Date**

**Comments**

### Recommendation 6

Seek to improve the Charity's bad debt provision by:

- Reviewing the existing % rates used to calculate the general element of the provision. Use factors such as actual bad debt write-offs, age of debt and collectability to inform this review; and
- Explaining the Charity's bad debt policy within the accounting policies section of the financial statements.

**Responsibility**

**Priority**

**Date**

**Comments**

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