

## **TAUNTON DEANE BOROUGH COUNCIL**

### **CORPORATE GOVERNANCE COMMITTEE – 1 MARCH 2011**

#### **Report of the Strategic Director (Shirlene Adam).**

This matter is the responsibility of the Leader of the Council, Cllr John Williams

#### **Audit Commission Annual Audit Letter 2009/2010**

##### **Executive Summary**

This report introduces the Annual Audit Letter 2009/10 – prepared by our external auditors, the Audit Commission (and set out in and Appendix to this report).

The report, which will be presented by the Audit Commission, summarises their findings from their 2009/10 audit work.

#### **1. Background**

1.1 Each year the Audit Commission is required to make arrangements for the production of an audit letter for each local authority. This letter has changed in format for 2009/10. The letter outlines the following:

- A conclusion on the Statement of Accounts and annual governance statement;
- A conclusion on Value for Money;
- The fees charged by the Audit Commission compared to those budgeted.
- Current and Future Challenges
- Action Plan

1.2 The letter no longer carries a Use of Resources judgement or score as at the end of May 2010 the government announced that all work on the CAA (Comprehensive Area Assessment) would cease with immediate effect.

1.3 Members will note that they have already seen at previous meetings, or will see at this meeting, the detailed reports referred to in this report.

#### **2. Financial Issues / Comments**

2.1 As reported previously, the additional external audit fee of £15,000 will have to be met from existing budgets as part of the budget monitoring process.

#### **3. Legal Comments**

3.1 There are no legal implications from this report.

#### **4. Links to Corporate Aims**

4.1 No direct implications.

**5. Environmental and Community Safety Implications**

5.1 No direct implications.

**6. Equalities Impact**

6.1 No implications.

**7. Risk Management**

7.1 Any risks identified will feed in to the corporate risk management process.

**8. Partnership Implications**

8.1 The Strategic Director and the Internal Audit Team (SWAP – South West Audit Partnership) will take the findings of this report into account when identifying the areas of risk to be audited next year.

**9. Recommendation**

9.1 Members are requested to note the Annual Audit Letter

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# Annual Audit Letter

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Taunton Deane Borough Council

Audit 2009/10

**The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.**

**Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.**

**As a force for improvement, we work in partnership to assess local public services and make practicable recommendations for promoting a better quality of life for local people.**

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# Key messages

**This report summarises my findings from the 2009/10 audit. My audit comprises:**

- **the audit of your financial statements (page 4); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 5 to 7).**

**I have included only significant recommendations in this report. The Council has accepted these recommendations.**

## **Audit opinion and financial statements**

**1** I have issued an unqualified audit opinion on your financial statements for the year ended 31 March 2010. The Council has amended the statements for some non-material errors but has not adjusted some minor errors. The financial performance for the year and the financial position as at 31 March 2010 remain largely as approved by Committee on 28 June 2010.

## **Value for money**

**2** I have issued an unqualified conclusion on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

## **Audit fees**

**3** During my audit I notified the Corporate Governance Committee of the likelihood that we might need to increase our fee, because of widespread failure to operate key controls in significant financial systems run on the new SAP platform introduced during 2009/10.

**4** The original fee was £105,600 with £74,200 relating to the audit of the statement of accounts. Because of significant additional audit tests due to identified systems weaknesses, it has been necessary to increase the fee by £15,000 to £120,600 in total.

## Current and future challenges

5 The major current challenge is to identify and take action to preserve priority services while achieving the budget savings needed to balance spending with the reduced resources likely to be available in the medium term. Currently there is gap between expected resources and current rates of expenditure of £1.2 million in 2011/12 rising to £3.9 million in 2014/15.

6 More work is also necessary to implement the key controls in the SAP based financial systems to ensure the accuracy and integrity of data, prevent unauthorised access and stop duplicate payments.

## Independence

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

# Financial statements and annual governance statement

**The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.**

**I gave an unqualified opinion on the Council's 2009/10 financial statements on 28 September 2010.**

**8** The Council produced the statements on time and approved them by the statutory deadline. Following my audit the Council amended the statements for some non-material errors. Most of these affected disclosure notes rather than the accounts themselves and were largely the result of errors in classification of debtors and creditors.

**9** The Council did not adjust one trivial error. This was an overstatement of £20,000 of General Fund expenditure with a consequential understatement of the General Fund balance at 31 March 2010 of the same amount. Subject to this, the financial performance for the year and the financial position as at 31 March 2010 remain as approved by Committee on 28 June 2010.

**10** I was able to issue an unqualified opinion that the accounts presented a true and fair view of the Council's financial position.

## **Significant weaknesses in internal control**

**11** I did not identify any significant weaknesses in your internal control arrangements.

## **International Financial Reporting Standards (IFRS)**

**12** Local Government bodies are required to comply with the IFRS for their accounts ended 31 March 2011. However, the impact is more immediate because of the need to restate the 2009/10 figures. The requirements are complex and necessitate considerable preparation, not just by finance staff but also other professionals such as valuers and managers throughout the organisation in providing information to help categorise assets and liabilities.



# Value for money

**I considered whether the Council is managing and using its money, time and people to deliver value for money.**

**I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.**

## **2009/10 use of resources assessments**

**13** At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would finish with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

**14** However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

**15** I report the significant findings from the work I have carried out to support the vfm conclusion.

## **VFM conclusion**

**16** I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each audited body.

**17** This is a summary of my findings.

Criteria	Adequate arrangements?
<b>Managing finances</b>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
<b>Governing the business</b>	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
<b>Managing resources</b>	
Natural resources	Yes
Strategic asset management	Yes
Workforce	Yes

**18** I issued an unqualified conclusion that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

**19** The Corporate Governance Committee will receive my detailed report at its meeting in December 2010 and an agreed an action plan to address my recommendations for improvement.

**20** In 2008/09 I concluded that proper arrangements were in place and the Council was embarking on an ambitious programme of joint working to provide financial and other services. The Council has met teething problems in operating some joint services, most notably with the financial systems based on the SAP package being run jointly with Somerset County Council and Avon and Somerset Police. I am pleased to report that despite these problems the Council has, overall, maintained proper arrangements to achieve economy, efficiency and effectiveness.

**21** To help improve its performance I have recommended the Council:

- updates the IT and Workforce Strategies and improve the links to financial planning;
- engages with the local community during budget preparation to identify priorities;
- makes better use of benchmarking to assess value for money and identify indicators for assessing the performance of all key services;

- completes personal development plans for all elected Members;
- arranges for the investigation of NFI matches and ensures that staff carry out these;
- completes business continuity and IT disaster recovery planning;
- uses sustainability appraisals to inform decisions; and
- exerts more effective management action to reduce the sustained high level of staff sickness it is experiencing.

## **Approach to local value for money work from 2010/11**

**22** Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

**23** My work will involve fewer reporting criteria, specified by the Commission, and will concentrate on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

**24** I will decide on a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

# Current and future challenges

## Challenge

**25** The economic downturn and banking crisis of 2009 have provided several challenges. Most immediate of these were the need to ensure that investment policies provide security of Council funds and to identify efficiencies and savings to preserve the core, priority services provided.

### Treasury management

**26** The Council approved its Treasury Management Strategy in April 2009 setting security of funds as the overriding priority. In response to the banking crisis it has since reviewed its approach to treasury management and now restricts investments to AAA rated money market funds or AA rated banks. At 31 March 2010 £8.6 million was invested externally. We commend the Council's prudential approach to Treasury Management.

### Economic downturn

**27** The medium term financial plan prepared in 2009 identified potential funding gaps over the next five years rising from £1.2 million in 2011/12 to £3.9 million in 2014/15. The Council has identified savings and additional income to bridge the gap in the current year 2010/11. It expects that savings projected from decisions already taken will exceed £0.75 million, with additional income of £0.47 million from higher car parking fees. The Council expects these savings to recur in future years but still faces a financial challenge in the medium term to bridge the expected funding gap. Difficult financial decisions will be needed as well as financial management of the highest order.

**28** The Council has established a strong basis on which to build. Sound arrangements for financial management are in place and members receive detailed monthly financial monitoring reports. The Council experienced some problems in producing the monitoring reports during 2009/10 following the introduction of the new general ledger, SAP. It has overcome these problems and members are now receiving accurate monitoring reports once more.

**29** The Council has a good record for keeping spending within budget. In 2009/10 General Fund net spend was within £10,000 of the budgeted outturn.

## Closing remarks

**30** I have discussed and agreed this letter with the Strategic Director. I will present this letter at the Corporate Governance Committee on 20 December 2010 and will provide copies to all Council members.

**31** I have included full detailed findings, conclusions and recommendations in the areas covered by our audit in reports issued to the Council during the year.

Report	Date issued
Audit Fee Letter	22 April 2009
Audit Opinion Plan	22 February 2010
Value for Money Conclusion Report	24 August 2010
Annual Governance Report	17 September 2010

**32** The Council has taken a positive and helpful approach to our audit. I wish to thank the Council staff for their support and cooperation during the audit.

Brian Bethell  
District Auditor  
November 2010

# Appendix 1 – Audit fees

		Proposed	Variance
Financial statements and annual governance statement	89,200	74,200	15,000
Value for money	31,400	31,400	
<b>Total audit fees</b>	<b>120,600</b>	<b>105,600</b>	<b>15,000</b>
Non-audit work	0	0	0
<b>Total</b>	<b>120,600</b>	<b>105,600</b>	<b>15,000</b>

The variance in fee related to additional audit testing necessitated by weaknesses in SAP controls.

## Appendix 2 – Glossary

### **Annual governance statement**

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

### **Audit opinion**

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.

### **Financial statements**

The annual accounts and accompanying notes.

### **Qualified**

The auditor has some reservations or concerns.

### **Unqualified**

The auditor does not have any reservations.

### **Value for money conclusion**

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

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