

Taunton Deane Borough Council

Corporate Governance Committee - 9 December 2013

Annual Audit Letter 2012/2013

Report of the Strategic Director (Shirlene Adam)

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

Executive Summary

This report introduces the Annual Audit Letter 2012/13 – prepared by our external auditors, Grant Thornton (and set out in and Appendix to this report).

The report summarises their findings from their 2012/13 audit work.

1. Background

1.1 Each year our external auditor is required to make arrangements for the production of an audit letter for each local authority. The letter outlines the following:

- A conclusion on the Statement of Accounts and annual governance statement;
- A conclusion on Value for Money (focus on financial resilience)

1.2 Members will note that they have already seen at the September meeting, the more detailed reports on the audit of the Councils accounts and financial resilience.

2. Financial Issues / Comments

2.1 As previously reported the Council is pleased to note the unqualified opinion on both the Statement of Accounts, and our arrangements for Value for Money.

2.2 Members should note the recommendations (appendix B) emerging from external audits work regarding the objection to the accounts re taxi license fees. The Council fully accept the recommendations and our Community Protection Manager has been driving these forward over the last few months.

2.3 The first recommendation related to “time recording”. We have a detailed costing system in place and have commissioned our internal audit function to test the robustness of this.

2.4 The second recommendation related to potential overcharges. We have reviewed and made appropriate refunds to those affected by this matter.

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 based on this letter.

7. Risk Management

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

8. Partnership Implications

8.1 No implications based on this letter.

9. Recommendation

9.1 Members are requested to note the Annual Audit Letter 2012/2013, and the recommendations made by our auditors relating to the objection to our accounts for taxi license fees.

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The Annual Audit Letter for Taunton Deane Borough Council

Year ended 31 March 2013

October 2013

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Director

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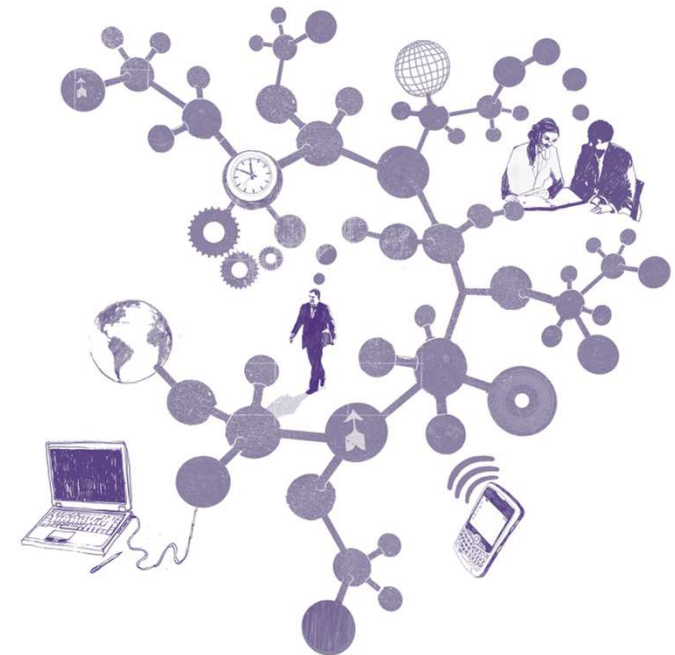
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Section 1: Executive summary

01. Executive summary

02. Audit of the accounts

03. Value for Money

Executive summary

Purpose of this Letter

Our Annual Audit Letter ('Letter') summarises the key findings arising from the following work that we have carried out at Taunton Deane Borough Council ('the Council') for the year ended 31 March 2013:

- auditing the 2012/13 accounts and Whole of Government Accounts submission (Section two)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three)

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. We reported the detailed findings from our audit work to those charged with governance in the Audit Findings Report on 23 September 2013.

Responsibilities of the external auditors and the Council

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

The Council is responsible for preparing and publishing its accounts, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we presented to the Corporate Governance Committee on 24 June 2013 and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Audit conclusions

The audit conclusions which we have provided in relation to 2012/13 are as follows:

- an unqualified opinion on the accounts which give a true and fair view of the Council's financial position as at 31 March 2013 and its income and expenditure for the year
- an unqualified conclusion in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources
- we will report on the certification of the Council's grant claims and returns in our annual certification report later this year.

Executive summary

Key areas for Council attention

During the course of our audit we have made a number of recommendations relating to internal control, these have been reported as part of our Audit findings report. Recommendations have been discussed and agreed with the Strategic Director and the finance team.

Our overall value for money conclusion for this year is unqualified. Looking beyond this year and next, the Council has a medium term financial plan, which recognises the need for substantial future savings. We have reviewed the Council's financial resilience and concluded that current arrangements are adequate albeit there are substantial financial challenges ahead. We issued a separate report on the Council's financial resilience and this is referred to later in this document.

Taxi licence fees – objection to the accounts

The closure of the 2011/12 audit (previous year) was delayed because of an objection to the accounts from a local resident. The objection concerned the fees charged by the Council for taxi licences. The objector alleged that taxi licence fees were set at a level more than the costs of providing them and that the 'costs' were excessive.

On 8 July 2013 we issued our 'decision and statement of reasons' on the objection. We dismissed the objection on the grounds that taxi licence fees were not 'wholly unreasonable' and also because the Council had more recently – since receiving the objection - rectified many of the previous deficiencies in the fee setting regime. The costs of further audit action would serve little purpose to the local taxpayer.

However, we made two recommendations for the Council, as follows:

- consider the cost and benefits of introducing a system of time recording, or employ a time and motion study, to provide a more robust evidence base for cost apportionment for the purposes of licence fee setting; and
- consider whether the Council has charged certain types of taxi licence fee payers more than it should have and whether any refunds are appropriate.

The Council's officers have drawn up an action plan to address these two recommendations. The action plan was simply reported as an update to the Corporate Governance Committee at its meeting of 23 September and the Committee also heard from the objector.

The Council should consider formally our two recommendations and the proposed action plan prepared by officers.

A new objection was made to this year's accounts (2012/13) and also concerned taxi licence fees. We dismissed this objection on 18th September 2013 because we decided it was substantially the same as the objection in the previous year (2011/12).

Acknowledgements

This Letter has been agreed with the Strategic Director and circulated to Members in October and will be presented to the Corporate Governance Committee on 9 December 2013.

We would like record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2013

Section 2: Audit of the accounts

01. Executive summary

02. Audit of the accounts

03. Value for Money

Audit of the accounts

Audit of the accounts

The key findings of our audit of the accounts are summarised below:

Preparation of the accounts

The Council presented us with draft accounts by 30 June 2013 in accordance with the national deadline. Appropriate working papers were made available from the start of the audit fieldwork, which commenced on 5 August 2013.

Issues arising from the audit of the accounts

The key messages arising from our audit of the Council's financial statements are:

- the accounts were produced to a good standard – there were no misstatements but there have been enhancements to the disclosures in the accounts.
- the audit has been facilitated by good supporting working papers and excellent assistance by the finance team
- all requests for additional information were dealt with promptly by the finance team.

Annual governance statement

The Council's Annual Governance Statement (AGS) complied with requirements of the Code of Practice on Local Authority Accounting in the United Kingdom (CIPFA/LASAAC) and contained the elements as prescribed in *Delivering Good Governance in Local Government: Framework*.

Conclusion

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Corporate Governance Committee at the Council). We presented our report to the Corporate Governance Committee on 23 September and we summarise only the key messages in this Letter.

We issued an unqualified opinion on the Council's 2012/13 accounts on 26 September 2013, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the accounts give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

Section 3: Value for Money

01. Executive summary

02. Audit of the accounts

03. Value for Money

Value for Money

Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

- **The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

Overall our work highlighted that in a period of austerity, the Council has to date managed its finances effectively. The Council has increased significantly its usable reserves in 2012/13 through:

- underspending on planned General Fund expenditure,
- delayed expenditure (slippage) in the capital programme; and
- increased receipts through the sales of assets including council dwellings.

Therefore, we assessed the current arrangements for achieving financial resilience as adequate. In the medium term, the financial position is much less certain and the Council is reporting a potential budget gap of £1.5 million in 2014/15.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within.

Whilst overall arrangements are generally sound, the Council needs to implement the recommendation from last year including the use benchmarking to inform the allocation of resources. This is particularly relevant in light of plans to work together with West Somerset when deciding on service standards and budgets of joint services.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Appendices

Appendix A: Reports issued and fees

We confirm below the fee charged for the audit and confirm there were no fees for the provision of non audit services. However, there were additional costs associated with dealing with an objection to the 2011/12 statement of accounts. Although we received an objection to the 2012/13 accounts regarding the same issue, we were able to deal with the issue quickly – and it did not result in any additional fee for the Council and it did not result in any delay in issuing the Certificate (closure of the audit) for 2012/13.

Fees

	Per Audit plan £	Proposed fees £
Audit Fee	66,605	66,605
Grant certification fee *	13,650	*17,054
Total fees	80,255	83,659

* the fee for 2012/13 certification was based on completion of Part A testing for two of the three returns. Additional testing was required to undertake Parts A and B. A fee variation request has been sent to the Audit Commission and the fee for the audit is not final until the Audit Commission has determined the fee.

Reports issued

Report	Date issued
Audit Plan	June 2013
Audit Findings Report	September 2013
Certification report (to be issued)	December 2013
VfM – Financial Resilience Report	September 2013
Annual Audit Letter	October 2013

Fees for other services

Service	Fees £
None	Nil

Fees for resolving objection from 2011/12

In addition to the fees in the table above are the costs (including legal fees) of £22,426 of dealing with an objection received from an elector related to taxi licence fees received in relation to the 2011/12 accounts.

We issued the final letter of statement of reasons on 8 July, including two recommendations. The action plan is in Appendix B.

Appendix B: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

This action plan arises from our work on responding to the objection to the 2011/12 accounts regarding taxi licence fees.

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<p>Taxi Licence Fees</p> <p>Consider the cost and benefits of introducing a system of time recording, or employ a time and motion study, to provide a more robust evidence base for cost apportionment for the purposes of licence fee setting.</p>	High	<p>The Council developed an activity-based costing model for 2013/14, which provides a very detailed evidence base for its fee calculations. Whilst there is a significant resource impact in creating and maintaining the costing model (ultimately borne by the license fee payer) this provides greater assurance regarding the robustness of the Council's fee calculations, and provides transparency of its finances to stakeholders. It also strengthens the council's evidence of costs in the face of external challenge. The Council has arranged for the internal auditor to review the time recording process and undertake a sample verification of activity times identified by the service.</p>	18 October 2013, Community Protection Lead
2	<p>Taxi Licence Fees</p> <p>Consider whether the Council has charged certain types of taxi licence fee payers more than it should have and whether any refunds are appropriate.</p>	High	<p>The Council has sought Counsel's opinion, and will use this to help its consideration of this matter. The Council is satisfied that its fees for 2011/12 and 2012/13 are not wholly unreasonable, and that the total costs and income for taxi licensing overall are aligned. However, the Council has undertaken to re-examine the level of fees set and consider any appropriate return to licensee groups. The Council plans to increase transparency regarding the treatment of any under- or over-recovery against budget estimates, with any gain or loss being taken into account on a rolling basis when setting fees for subsequent years.</p>	18 October 2013, Community Protection Lead



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