

# Taunton Deane Borough Council

## Corporate Governance Committee - 24 September 2012

### Audit Commission Annual Governance Report 2011/2012

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

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

#### **Executive Summary**

This short covering report introduces the Annual Governance report prepared by our external auditors the Audit Commission.

The report, which will be presented by our external auditors, summarised the findings from the 2011/12 audit.

The report has been accepted by officers and is a fair reflection of the audit findings.

#### **1. Background**

- 1.1 The Council has received an “unqualified” opinion on the 2011/12 accounts.
- 1.2 The arrangements for securing the economy, efficiency, and effectiveness in the use of resources received an unqualified opinion.

#### **2. Key Issues Emerging From The Audit**

- 2.1 There are several issues that have emerged from the audit process that will help us improve our procedures for future years. These are captured in the action plan set out in Appendix 5 of the Audit Commission report. The Strategic Director, Shirlene Adam will take responsibility for ensuring this is progressed.

#### **3. Financial Issues / Comments**

- 3.1 There are no unadjusted misstatements this year.

#### **4. Legal Comments**

- 4.1 There are no legal implications from this report.

#### **5. Links to Corporate Aims**

- 5.1 No direct implications.

#### **6. Environmental and Community Safety Implications**

- 6.1 No direct implications.

## **7. Equalities Impact**

7.1 No implications.

## **8. Risk Management**

8.1 The issues flagged in the action plan will be reviewed and if appropriate, entered in service risk registers.

## **9. Partnership Implications**

9.1 The financial services team within Southwest One have worked hard to ensure the accounts preparation and audit went as smoothly as possible.

9.2 The Financial Services Manager, Paul Fitzgerald has put in place significant improvements to processes, which has meant the process of delivering the actual accounts and the audit of them has improved further on that implemented last year.

## **10. Recommendation**

10.1 Members are requested to:

- Consider matters raised in the report.
- Note the action plan as set out in Appendix 5 of the Audit Commission report.
- Approve the letter of representation on behalf of the Council as set out in Appendix A to this covering report.

### **Contact Officers:**

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## APPENDIX A



**Shirlene Adam FCCA**

**Strategic Director**

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Our Ref: SA

Stephen Malyn  
District Auditor  
Audit Commission  
Westward House  
Lime Kiln Close  
Stoke Gifford  
Bristol  
BS34 8SR

24 September 2012

Dear Mr Malyn

### **Taunton Deane Borough Council - Audit for the year ended 31 March 2012**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other Managers and Directors of Taunton Deane Borough Council the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

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

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

#### ***Supporting records***

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

#### ***Irregularities***

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my 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;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

### ***Accounting estimates including fair values***

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

### ***Related party transactions***

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

### ***Subsequent events***

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

I confirm that this letter has been discussed and agreed by the Corporate Governance Committee on 24 September 2012.

**Signed on behalf of Taunton Deane Borough Council**

Signed

Name Shirlene Adam

Position Strategic Director

Date 24 September 2012

# Annual governance report

Taunton Deane Borough Council

Audit 2011/12



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# Key messages

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**This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

## **Financial statements**

At the time of writing this report, I expect to issue an unqualified audit opinion.\*

## **Value for money (VFM)**

I conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

### ***\*Certificate that my audit is complete for the financial year 2011/12***

*Members should be aware that there is a possibility that I will receive a formal objection to the Authority's accounts. Should I receive a formal objection to the Authority's accounts before I give my opinion I would have to consider if there was any potential material impact (if any) on its financial statements before giving my opinion. The certificate would not be issued with the opinion but at a later date when the objection had been concluded.*



# Before I give my opinion and conclusion

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**My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.**

## Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am aware of the following relationship that might constitute a threat to independence and that I am required to report to you. I have therefore put in place the following safeguard to reduce the threat.

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Table 1: **Threats and safeguards**

Threat	Safeguard
One of my team has a relationship with an IT contractor who was working on a project refresh for South West One during 2011/12. The IT contractor is not involved in any finance activity.	This member of my audit team will not be involved in any review of the contract with South West One or the IT audit work.

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The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2011/12.

## **I ask the Corporate Governance Committee to:**

- approve the letter of representation (appendix 2), on behalf of the Authority before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (appendix 4).

# Financial statements

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**The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.**

## **Opinion on the financial statements**

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.

I received the draft financial statements on 27 June, ahead of the deadline of 30 June. There were a number of amendments to the related party disclosures and member expenses as well as disclosures for capital grants, capital financing and the cashflow statement.

## **Corrected errors**

The Authority provided me with its draft financial statements on 27 June, ahead of the statutory deadline of 30 June, and has implemented the amendments that I have requested. These amendments did not affect the overall financial position of the Authority and principally concerned movements in the cashflow and disclosure notes.

## **Significant risks and my findings**

In March I reported to you in my Audit Plan the significant risk (HRA self financing) that I identified relevant to my audit of your financial statements. In Table 2 I report to you my findings against this risk and the less significant (specific) risk.

Table 2: **Opinion risk and finding**

Risk identified at the planning stage	Finding
<p><b>Significant risk</b></p> <p>The government plans to reform local authority housing finance by adopting a self-financing model from 1 April 2012. This is through a one-off settlement payment from Taunton Deane to central government on 28 March 2012 of £85.2 million.</p> <p>Due to the complexity, magnitude and timing of the HRA reform there is risk that the financial statements will be materially misstated.</p>	<p>I have reviewed the management oversight of HRA reforms and transactions required by the Authority.</p> <p>The Authority implemented the amendments that I requested - including the capital expenditure and capital financing note (note 35). I am satisfied that the accounting entries are now fairly stated.</p>
<p><b>Specific risk</b></p> <p>In 2009/10 and 2010/11, I found weaknesses in financial system controls which have required me to undertake additional audit testing to gain satisfactory assurance that there was no material misstatement. I recommended improvements to the Authority's controls.</p>	<p>I reviewed the financial system controls and reported my findings to the Corporate Governance Committee in June. The Authority has strengthened the control environment but some weaknesses remain.</p>

## Significant weaknesses in internal control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control.

### Annual Governance Statement

I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

## Internal control

I reported to the Corporate Governance Committee in June my findings from my audit of financial controls. In addition, there are further matters to bring to your attention regarding internal control that are relevant to preparing the financial statements.

Table 3: **Internal control issues and my findings**

Description of weakness	Potential impact	Management action
Nine members did not complete their declarations of interest for the annual accounts and some that were signed did not explain the relationship with other organisations.	The related party transactions note may not be complete and readers of the accounts would not be aware of any important relationships with the Authority.	Reminders had to be issued to some members.
The figures provided for the note for Members' expenses, derived from an incomplete payroll report, did not agree to the Authority's financial ledger.	The Authority reconciled the two sources of information, and identified the reasons for the differences. This provided me with assurance the accounts are correctly stated.	Ensure that information between payroll and the ledger is reconciled. Ensure that the advertisement of individual members' expenses is correct.
The Authority has used different figures for housing stock in the financial statements, HRA business plan and return to the Department for Communities and Local Government.	The Authority is disclosing inconsistent housing stock figures - at 31 March 2011 - 6029 in Note A to the HRA on page 90, 6015 in the return to the CLG and 6022 - page 11 in the HRA business plan.	The Authority should reconcile housing stock figures between the valuers, housing and rents systems and business plan.

## Recommendation

**R1** In preparing its draft financial statements, the Authority should ensure that it has received a completed annual declaration from all members of any related party interests and those of close family

**R2** Reconcile the information in payroll and the ledger for members' expenses

## Recommendation

**R3** Reconcile housing stock figures so that there is consistent disclosure in the accounts and business plan

## Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following.

- Qualitative aspects of your accounting practices. These include accounting policies, accounting estimates and financial statement disclosures.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest

I have the following matters I wish to report.

Table 4: **Other matters**

Issue	Finding
Calculation of the impairment of debtors (or provision for bad debts) for Council Tax	<p>I have reviewed the Authority's method of calculating the impairment of council tax debtors. I have compared what the Authority estimated it would collect by age of debt with what it did collect during 2011/12. The collection rates suggested that the Authority should be providing for more bad debt.</p> <p>Although this is not material for my opinion the Authority should take into account the collection performance by age of debt when calculating the impairment.</p>
Income from investment properties	<p>The Authority has been unable to separately analyse rental income from investment properties from other rental income. Consequently it has been unable to comply with the Code to provide this disclosure in 2011/12. However, the Authority has restructured its coding arrangements and will be able to provide the disclosure in 2012/13.</p>
Recharges of expenditure from the Housing Revenue Account (HRA)	<p>The Authority has recharged the General Fund £260,000 from the HRA. The Authority was not able to identify the actual costs behind this recharge because of changes to the</p>

Issue	Finding
	coding structure in 2011/12. The Authority is confident that the budget is an accurate basis for these recharges and will be in a position to provide the actual costs for 2012/13.
Reconciliation of National Non Domestic Rates (NNDR) year end position	Included within the accounts is a creditor payment due to DCLG as its balance on the contribution to the NNDR national pool for 2011/12. I have reviewed the method of reconciling to this balance and raised a number of questions on the method used. The Authority recalculated the contribution using an alternative method which provided me with the assurances that the amount is not materially misstated. The Authority should review how it reconciles the NNDR when determining the year end position.
Licensing Fees A local government elector has raised some concerns about the Authority's arrangements for agreeing License Fees to the Hackney and Private Hire trade.	The Authority is currently working through the concerns raised by the local government elector.

## Recommendation

- R4** Review the method of calculating the impairment of debtors taking into account the aged of the debt and recovery rates.
- R5** Ensure that income from investment properties is disclosed in the accounts for 2012/13
- R6** Review the actual costs to support the basis of recharges from the HRA to the General Fund.
- R7** Review the method to reconcile the year end NNDR position and ensure that this is in line with the Authority's contribution to the national pool.

## Whole of Government Accounts

Alongside my work on the financial statements, I also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report were specified by the National Audit Office. I have no matters to report.

# Value for money

**I am required to conclude whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.**

I assess your arrangements against the two criteria specified by the Commission. In my Audit Plan I reported to you in March the significant risk regarding HRA self financing that was relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing the risk I identified.

Table 5: Value for money conclusion criteria and my findings

Criteria	Risk	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</p> <p>The organisation 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.</p>	<p>The Authority planned to borrow £85.2 million on 28 March 2012 for the self financing of the HRA. This is a very significant amount of money in comparison to the total income in the HRA in 2010/11 of £21.2 million.</p>	<p>I reviewed the key assumptions in the Authority's HRA business plan 2012-2042 and concluded that the risk had been managed to a point where I have sufficient assurance for my value for money conclusion. However, I set out below this table some matters which I wish to bring to your attention.</p>
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2011/12: The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>There were no significant risks identified at the planning stage.</p>	<p>The Authority should further develop benchmarking.</p>



I intend to issue an unqualified conclusion stating that the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

## **Financial Resilience**

The Authority has adequate arrangements to maintain financial resilience.

The Authority's General Fund Balance of £3.3 million at 31 March 2012 is well above its minimum balance (£1.25 million) and well above the budgeted forecast balance of £2.3 million. However, the Authority faces financial challenges – similar to other councils - with anticipated reductions in Government revenue funding in 2012/13 in 2013/14 and beyond.

The HRA balance of £1.4 million at 31 March 2012 decreased by £0.24 million but is above its minimum balance (£0.9 million). The HRA 30 year business plan forecasts an increase in balances to £1.8 million, which is the revised minimum balance from April 2012. The Authority doubled the minimum balance from £0.9 million to £1.8 million as a response to government inspired changes in HRA finances. From April 2012, the Authority is now responsible for the HRA without any government housing subsidy.

## **HRA business Plan**

On 28 March 2012, the Authority borrowed £85 million to pay the Government to self finance the HRA as the previous central government subsidy system has been abolished. In return, the Authority no longer has to pay £7 million each year into a central housing fund.

As outlined in my audit plan, presented to the Corporate Governance Committee in March 2012, I have reviewed the Authority's 30 year HRA business plan and the financial modelling and assumptions which underpin its financial projections.

Although I am satisfied that the Authority has followed the guidance from the Department of Communities and Local Government (DCLG), I have the following observations (these observations do not alter my unqualified conclusion on the Authority's arrangements to secure financial resilience):

**Housing stock – right to buy.** The Authority recognises that the Government change to right to buy discounts has increased the number of queries from tenants and is likely to lead to increased sales of housing stock. The Authority needs to update its financial model for the impact of increased sales – as reductions in stock will reduce future income streams (although the capital receipts may be used to part finance new stock).

**Housing stock – assumptions in the financial model.** The Authority had assumed that there would not be any demolitions and disposals would average 10 each year (seven in 2012/13). In 2011/12 there was a stock reduction of 25 dwellings including 10 demolitions. The Authority should assess whether the 2011/12 level of disposals and demolitions reflects a longer-term trend and update its financial model accordingly.

**Voids.** The DCLG financial model expects 2% voids but this is adapted to the particular circumstances for each authority. Taunton Deane Borough Council uses 2% after year 4 but a range of figures in the short term which are in effect balancing figures, as follows:

Yr 1	Yr 2	Yr 3	Yr 4	Yr 5+
0.99%	1.23%	-0.04%	0.87%	2.00%

The actual void figure for 2011/12 was 1.01% and 0.86% in the first quarter of 2012/13, which shows that over the 30 year plan the assumption for voids is reasonable. However, the negative void figure in year 3 suggests that occupancy is in excess of actual housing stock and clearly incorrect. The impact on the financial model is an overstatement of income of around £0.2 million. The Authority recognises that the financial model was complex and the void figures were flexed to produce anticipated results. Therefore the void rates used in the calculations don't necessarily reflect the true void rates anticipated for each and every year.

**Deferred capital programme** - £12 million of capital expenditure planned in years 1 to 4 has been deferred to years 5 to 9 in the financial model. This is recognised in page 31 of the HRA business plan and has been approved by members. Nonetheless, there is a risk to the financial model that in order to be financially sustainable in years 1 to 4, capital works to the value of £12 million will be deferred for four years until 2016/17. The Authority believes that the backlog position was overstated and actual condition of some key components such as roofs is better than expected. The Authority believes that any risk is mitigated by the fact that there is sufficient capacity and potential flexibility in the capital programme to accommodate any urgent works and headroom of £16 million of capital borrowing in a worst case scenario.

## Recommendation

**R8** Update the HRA financial model for actual changes in housing stock - such as sales, demolitions and voids

## Securing economy efficiency and effectiveness

The Authority has employed comparative cost and performance information to develop its target setting. The next stage is for the Authority to use comparative information to influence its drive for greater efficiencies and budget setting. Furthermore members will need to prioritise the services that the Authority can afford in order that its future expenditure can be met from its reduced income.

Members have yet to make decisions about prioritising the funding of services in the future. The Authority intends to assess its corporate and service priorities this autumn to set the basis for its budgets for 2013/14.

Taunton Deane has begun to use comparative costs to inform its target setting, such as housing to achieve top quartile performance. It has begun to capture cost information in a comparative exercise for housing enabling; Housing Options, and Private Sector Housing services. The Authority has provided many examples of comparative information to help set targets and compare performance. The next stage is to develop benchmarking so that it can support members in the difficult decisions that they need to take in allocating reduced resources, underpinned by effective consultation with the public.

### Recommendation

**R9** Develop benchmarking to support decisions in allocating resources

# Fees

## In March I reported my planned audit fee in my Audit Plan.

Although I have undertaken additional work on financial controls (reported to the Corporate Governance Committee in June) I will complete the audit within the planned fee.

Table 6: Fees

	Original scale fee (£)	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	£111,008	£111,008	£111,008
Claims and returns		£33,000	£33,000
Non-audit work		NIL	NIL
<b>Total</b>		<b>£144,008</b>	<b>£144,008</b>

The Audit Commission has paid a rebate of £8,880 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £135,128.

# Appendix 1 – Draft independent auditor’s report

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## INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF TAUNTON DEANE BOROUGH COUNCIL

### Opinion on the Authority’s financial statements

I have audited the financial statements of Taunton Deane Borough Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Taunton Deane Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### Respective responsibilities of the Strategic Director and auditor

As explained more fully in the Statement of the Strategic Director's Responsibilities, the Strategic Director is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group’s circumstances and have been consistently applied and adequately disclosed; the

reasonableness of significant accounting estimates made by the Strategic Director and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view of the financial position of Taunton Deane Borough Council as at 31 March 2012 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

### **Opinion on other matters**

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which I report by exception**

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

## **Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Respective responsibilities of the Authority and the auditor**

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 review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Taunton Deane Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

***Certificate (please refer to my comments in the Key Messages section of my Annual Governance Report)***

*I certify that I have completed the audit of the accounts of Taunton Deane Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.*

*[Signature]*

Stephen Malyn

District Auditor

Audit Commission  
Westward House  
Lime Kiln Close  
Stoke Gifford  
Bristol  
BS34 8SR

24 September 2012



# Appendix 2 – Draft letter of management representation

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To:  
Stephen Malyn  
District Auditor

Audit Commission  
Westward House  
Lime Kiln Close  
Stoke Gifford  
Bristol

BS34 8SR

## **Taunton Deane Borough Council - Audit for the year ended 31 March 2012**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other assistant directors and directors of Taunton Deane Borough Council the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

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

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of

the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

### **Supporting records**

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

### **Irregularities**

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my 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;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

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

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

### **Accounting estimates including fair values**

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

**Related party transactions**

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

**Subsequent events**

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

I confirm that this letter has been discussed and agreed by the Corporate Governance Committee on 24 September 2012.

Signed on behalf of Taunton Deane Borough Council

Shirlene Adam

Strategic Director

24 September 2012

# Appendix 3 – Glossary

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## **Annual Audit Letter**

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

## **Annual Governance Statement**

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.

## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

## **Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

**Auditor(s)**

Auditors appointed by the Audit Commission.

**Code (the)**

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

**Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

**Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

**Financial statements**

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

**Group accounts**

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

**Impairment**

Reduction in the value of an asset

**Internal control**

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

## **Significance**

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

## **Those charged with governance**

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Corporate Governance Committee.

## **Whole of Government Accounts**

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

# Appendix 4 – Action plan

## Recommendations

### Recommendation 1

In preparing its draft financial statements, the Authority should ensure that it has received a completed annual declaration from all members of any related party interests and those of close family

<b>Responsibility</b>	Tonya Meers, Monitoring Officer and Paul Fitzgerald, Financial Services Manager
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<b>Priority</b>	High
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<b>Date</b>	May 2013
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<b>Comments</b>	Agreed
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### Recommendation 2

Reconcile the information in payroll and the ledger for members' expenses

<b>Responsibility</b>	Paul Fitzgerald, Financial Services Manager
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<b>Priority</b>	Medium
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<b>Date</b>	May 2013
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<b>Comments</b>	Agreed
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### Recommendation 3

Reconcile housing stock figures so that there is consistent disclosure in the accounts and business plan

<b>Responsibility</b>	Paul Fitzgerald, Financial Services Manager
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<b>Priority</b>	Medium
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<b>Date</b>	May 2013
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<b>Comments</b>	Agreed
<b>Recommendation 4</b>	
Review the method of calculating the impairment of debtors taking into account the aged of the debt and recovery rates.	
<b>Responsibility</b>	Paul Fitzgerald, Financial Services Manager
<b>Priority</b>	High
<b>Date</b>	May 2013
<b>Comments</b>	Agreed
<b>Recommendation 5</b>	
Ensure that income from investment properties is disclosed in the accounts for 2012/13	
<b>Responsibility</b>	Paul Fitzgerald, Financial Services Manager
<b>Priority</b>	Medium
<b>Date</b>	May 2013
<b>Comments</b>	Agreed
<b>Recommendation 6</b>	
Review the actual costs to support the basis of recharges from the HRA to the General Fund.	
<b>Responsibility</b>	Paul Fitzgerald, Financial Services Manager
<b>Priority</b>	Medium
<b>Date</b>	May 2013
<b>Comments</b>	Agreed
<b>Recommendation 7</b>	
Review the method to reconcile the year end NNDR position and ensure that this is in line with the Authority's contribution to the national pool.	
<b>Responsibility</b>	Paul Fitzgerald, Financial Services Manager
<b>Priority</b>	Medium



<b>Date</b>	May 2013
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<b>Comments</b>	Agreed
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**Recommendation 8**

Update the HRA financial model for actual changes in housing stock - such as sales, demolitions and voids

<b>Responsibility</b>	Paul Fitzgerald, Financial Services Manager
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<b>Priority</b>	High
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<b>Date</b>	May 2013
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<b>Comments</b>	Agreed
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**Recommendation 9**

Develop benchmarking to support decisions in allocating resources

<b>Responsibility</b>	Dan Webb, Performance Manager
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<b>Priority</b>	Medium
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<b>Date</b>	May 2013
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<b>Comments</b>	Agreed and will be progressed in the most appropriate and affordable manner.
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