

# Taunton Deane Borough Council

## Corporate Governance Committee – 26 September 2011

### Audit Commission Annual Governance Report 2010/2011

#### 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 2010/11 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 2010/11 accounts.
- 1.2 The arrangements for securing the economy, efficiency, and effectiveness in the use of resources received an unqualified opinion.
- 1.3 Last year, I reported that both the preparation and audit of accounts had been particularly difficult due to implementation issues with the SAP system. I am pleased to report that this year, things have improved. The SAP system is working effectively and the controls in the system are robust. For future years, I am confident that this will improve further.

#### **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 The unadjusted misstatements in Appendix 3 are not of material value.

#### **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 greatly on last year.

9.3 As always, there is room for further improvement and Paul Fitzgerald is committed to making further improvements for 2011/12 audit.

## **10. Recommendation**

10.1 Members are requested to:

- Consider matters raised in the report and take note of the unadjusted misstatements in the Accounts set out in Appendix 3 of the Audit Commission 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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email: s.adam@tauntondeane.gov.uk

Our Ref: SA/EF

Your Ref:

26 September 2011

Brian Bethell  
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 2011**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Taunton Deane Borough Council the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011. All representations cover the Council's accounts and Group accounts included within the financial statements.

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

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

#### ***Uncorrected misstatements***

The effects of uncorrected financial statements misstatements summarised in the schedule in the Annual Governance Report are not material to the financial statements, either individually or in aggregate.

I have reviewed the items listed in Appendix 3 of the Annual Governance Report and I recognise and accept the issues flagged by our auditors. However, as the items are not material to the Authority's accounts I am happy that the accounts are not adjusted for 2010/11.

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

All relevant information and access to persons within the entity has been made available to you for the purpose of your audit, and all the transactions

undertaken by the Council have been properly reflected and recorded in the financial statements.

### ***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 that 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 Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

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 Council'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 requirement of the framework.

### ***Tone Leisure and South West One***

I confirm that I have provided you with all relevant information regarding the contractual and governance arrangements between Taunton Deane Borough Council and Tone Leisure and South West One to allow you to form a view on the Council's Group Accounts. There are no liabilities arising from the Council's relationships with these organisations other than those disclosed in the Council's financial statements.

***Subsequent events***

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

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

I confirm that this letter has been discussed and agreed by the Corporate Governance Committee on 26 September 2011.

Signed

Name	Shirlene Adam
Position	Strategic Director
Date	26 September 2011

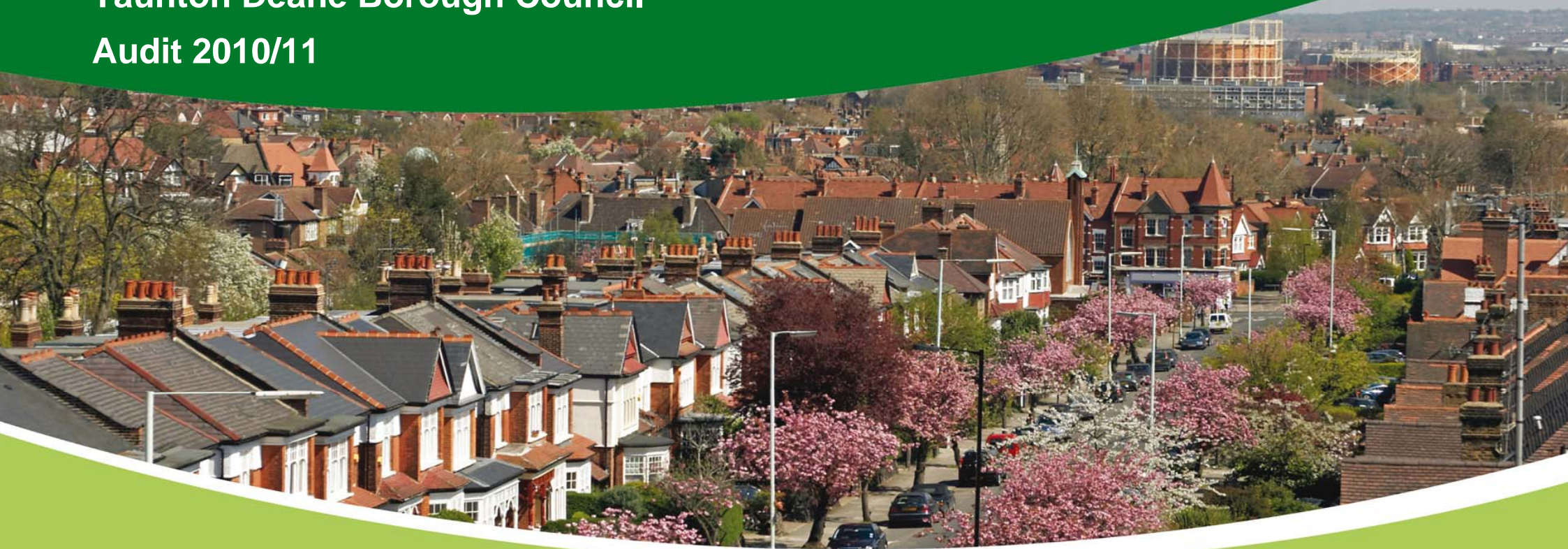
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# Annual governance report

Taunton Deane Borough Council

Audit 2010/11



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**Traffic light explanation**

Red  Amber  Green 



# Key messages

**This report summarises the findings from the 2010/11 audit. 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.**

	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

## **Audit opinion and financial statements**

- I intend to issue an unqualified opinion.
- The Council has improved its closedown process since 2009/10 and I will work with the Council to further improve arrangements for 2011/12.

## **Value for money**

- I am satisfied that the council has proper arrangements in place to secure value for money.

# Before I complete my audit

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## I confirm to you

My report 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.

### **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 can also confirm that I have informed members of any safeguards that I have put in place to ensure that there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

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## I ask you to confirm to me

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

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
  - approve the letter of representation, provided alongside this report, on behalf of the Council before I issue my opinion and conclusion; and
  - agree your response to the proposed action plan (Appendix 5).
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# Financial statements

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## **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 report.

## **Errors in the financial statements**

There were no material uncorrected errors identified as a result of our audit.

Appendix 2 details amended errors identified that are not trivial.

Appendix 3 details non trivial errors which officers have not amended in the accounts.

# Financial statements

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

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

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## Key audit risk and our findings

Key audit risk	Finding
<b>1. The change in accounting standards to International Financial Reporting Standards (IFRS).</b>	The change to IFRS has created additional work on the Council's finance team. Based on the preparatory work that the Council had carried out during 2011 I had already identified accounting entries that the Council needed to revisit including the accrual for employee absences, leases, council houses held for sale and how government grants had been treated. In all material respects the Council has complied with the requirements of IFRS. However, there are some residual matters arising which are detailed later in this report.
<b>2. In 2009/10 the Council introduced a new financial system, SAP which proved very challenging. Key financial controls did not operate throughout the year.</b>	I reviewed the systems and controls of the Council's material systems in 2010/11. Although there has been an improvement in the operation of the Council's key financial controls during 2010/11, I carried out substantive testing (testing of transactions) for the earlier part of the year when the new controls were not yet operational for non pay expenditure. I also carried out substantive testing where there were weaknesses in controls. I reported my findings to the Corporate Governance Committee in July.

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# Financial statements

## Weaknesses in internal control

I reported the results of my review of the financial controls to the Corporate Governance Committee at its meeting in July 2011. The table below summarises my findings. The report in July contained a number of recommendations which have not been repeated in this report.

These weaknesses are only those I identified during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

### Internal control issues and our findings

Description of weakness	Potential effect	Management action
<p><b>1</b> Any member of staff can complete a journal on a standard form and email to a central mailbox for input.</p> <p>There is no independent review of journals at the time that they are input into the system.</p>	<p>Errors may go undetected. There is a higher risk of material misstatement in the accounts.</p>	<p>The Strategic Finance Officer has undertaken a review of journals above £1m for 2010/11 and she has already undertaken a review of journals for the first few months of 2011/12.</p>
<p><b>2</b> There has been a significant improvement in the controls over non pay expenditure since October 2010. However, the Council needs to strengthen controls around direct input payments (where no matching of invoices is required).</p>	<p>Direct payments are not material to my opinion but there is a risk of incorrect payments to other organisations. While these payments are input by an approved processor, there is no check to confirm that the authorisation of these payments is correct.</p>	<p>The Council has introduced the electronic payment request form. This allows the payment to be authorized through SAP using the delegation table. This will significantly reduce the number of direct input payments.</p>
<p><b>3</b> There has been a lack of evidence of authorisation of debtor requests and of credit</p>	<p>This control ensures that invoices raised and credit notes are valid and accurate.</p>	<p>The Council will revisit the process for the paper requests. However there are</p>

Description of weakness	Potential effect	Management action
notes.		only 5 to 6 paper requests each month. An authorized signatory list has been provided to the accounts receivable team. There is a request for service (RFS) in to create a new role within SAP for Credit Notes/Refunds which when fully tested will be given to a limited number of positions.
4 Although some assurance can be taken from the National Fraud Initiative exercise the Council does not have a programme for reviewing council tax discounts.	Without regular checking of discounts, the risk is that discounts are granted where the claimant/ household are no longer entitled resulting in lost income to the Council.	The Council is reviewing its programme for checking eligibility to single person discount. The programme will be in place by October 2011.
5 Previously the Council checked that the information recorded on the cash sheets (collected and banked from the car park machines), agreed to that recorded on the car park vault tickets produced by the machines when they were emptied. The Council no longer performs this check.	A loss of income to the Council may go undetected. My audit team checked a sample of receipts to ensure that I had sufficient evidence for my unqualified opinion.	These checks have been reinstated from May 2011.
6 Trading operations – direct service organisations. The same person can order, receipt goods and authorise payment.	There is insufficient segregation of duties, unlike the other goods that are ordered through SAP Accounts Payable.  My audit team tested a sample of expenditure for my opinion.	A replacement to the COSY system is being looked at as part of the DLO internal transformation project. Any new system will address the issues raised.

# Financial statements

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## Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

These are the issues I want to raise with you.

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### Accounting practices, policies, estimates and financial closures

Issue	Findings and recommendations
<b>The Government announcement that future pension increases will be based on the Consumer Price Index rather than the higher Retail Price Index has reduced the pension liabilities of local government. Similar to other local authorities, Taunton Deane had included the credit from past service costs of £9.9m in non distributed costs in the Consolidated Income and Expenditure Statement.</b>	The reduction of the Council's pension liabilities is an exceptional item and the Council has agreed to separately disclose the item as a narrative note at the bottom of the face of its Consolidated Income and Expenditure Statement. This should help explain the significant variance in the financial statements.
<b>Component Accounting. The Code for 2010/11 based on IFRS requires Councils to identify significant components of its assets and to separately account for depreciation. The Council had set a threshold of asset values above £500,000 before separate components would be</b>	For 2010/11 the Council has not identified any significant components. This is partly because in his rolling programme of valuations over 5 years the valuer had valued in this first year assets which were predominantly land (e.g. car parks). There were no separate components for the Council's housing stock because individual dwellings would not exceed the £500,000 threshold. However, for housing stock there are capital programmes which are applied to a number of

Issue	Findings and recommendations
<p><b>considered. The Council had set 20% of an asset's value as significant.</b></p>	<p> dwellings. The Council will need to determine how it accounts for additional expenditure such as the replacement of kitchens, bathrooms, windows, roofs when there are no components in the asset register to replace.</p> <p>There is no material impact on the financial statements for 2010/11 as component accounting was introduced prospectively from 1 April 2010 and depreciation is calculated on a weighted cost average anyway.</p>
<p><b>The Council has completed its review of the majority of recharges. For the remaining two services to be reviewed, customer services and property services, the method of apportionment is based on historic data dating back a number of years.</b></p>	<p>I have determined that the Council has applied its current methods of apportionment on a reasonable basis but I recognise that accuracy of recharges should improve once this exercise is fully completed.</p>
<p><b>The Council needs to strengthen its arrangements for identifying and disclosing Related Party Transactions in its financial statements.</b></p>	<p>I have reviewed the Council's process for disclosing related party transactions and concluded that</p> <ul style="list-style-type: none"> <li>- not all declarations were made by members in 2010/11, there was one dating back to 2009 and another to 2008</li> <li>- many declarations state no change, but have done so for a few years. It would help if members were provided with a list of declarations that they have already made to support their updated declarations of "no change" .</li> <li>- while declarations are filed, there is no master record of what disclosures are made. This will ensure that all declarations can be monitored and updated easily. Also it will ensure that disclosure of related parties for the accounts will be easier to compile.</li> </ul>
<p><b>The Council needs to set out terms of reference for instructing the valuer, including the</b></p>	<p>The Council has yet to implement my recommendation from 2009/10. It has not issued the valuer with written terms of reference or instructions that provide an audit trail and to</p>



Issue	Findings and recommendations
<p><b>requirement for annual revaluations of investment properties.</b></p> <p><b>These instructions should also set out how the results of the revaluation are reported – the key assumptions that the valuer has made and the basis of the valuations.</b></p>	<p>regularise the basis of his work.</p> <p>The Council should provide written terms of reference for the valuer, setting out the programme of valuations that it is commissioning. The Code does not apply the 5 year rolling programme to investment properties: their values should be reviewed at the end of each accounting period.</p> <p>Priorswood Toilets included in the asset register at £28K net replacement cost had not been separately identified by the valuer in his report.</p> <p>The Council should match the list of assets in its asset register with the valuer's report to ensure the correct classification and avoid any omissions.</p>
<p><b>Note 27 Segmental Analysis</b></p> <p><b>Under the IFRS based Code, the Council is required to prepare a subjective analysis of its revenue expenditure between pay and non-pay.</b></p>	<p>The Council has provided a segmental analysis within the financial statements, which is in line with the reporting to Committee. However it has not produced for each segment a subjective analysis of pay and non pay costs, and income sources. This is because the information is not currently presented internally in this way.</p> <p>The Council should ensure that it complies with the Code and produces a full segmental and subjective analysis.</p>
<p><b>Unallocated cash balances</b></p> <p><b>Included in short term creditors is £92,000 of unallocated cash.</b></p>	<p>This is where income has been received by the Council, but it has been unable to identify the service heading to which this income needs to be allocated.</p> <p>Most of the funds have been rolled forward from 2009/10 and relates to balances where the Council moved from the old FMS system to SAP.</p> <p>The Council should review this balance with a view to clear the credit balance and recognise the income.</p>
<p><b>Cash flow statement. The Council has had difficulties producing a cash flow statement and to restate the figures in 2009/10 into the current format.</b></p>	<p>The Council has revised its cashflow statement and reduced the balancing items so that they are not material for my opinion. They are £960K for 2009/10 and £125K for 2010/11.</p>

Issue	Findings and recommendations
<p><b>Rental income relating to quarter 1 for 2011/12 was included in 2010/11 income balances. The Council has included four quarters of income for 2010/11 but has not reduced the general fund balance for the receipt in advance.</b></p>	<p>The Councils' approach has not changed from the previous year. Although rental income for the year 2010/11 is fairly stated, the General Fund balance is overstated. The overall impact is not material on total income for the year of £430K but the Council should review its year end closedown for recognising the receipt in advance.</p>

Recommendation
<p><b>R1</b> Provide clear written instructions to the valuer to ensure that the Council meets the requirements of the Code.</p>
<p><b>R2</b> Provide a full segmental analysis required by the Code for the financial statements for 2011/12</p>
<p><b>R3</b> Investigate and clear the unallocated cash balances</p>
<p><b>R4</b> Review how the cash flow statement is prepared to eliminate significant balancing items</p>
<p><b>R5</b> Review the process for recognising and accounting for rental income in advance</p>

# Financial statements

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## Significant matters that were discussed or subject to correspondence with management

### Leases

In its interpretation of applying IAS 17 (accounting for leases) the Council has set criteria for recognising finance leases at a level which would mean that it would be highly unlikely that the Council would recognise a finance lease. Under previous accounting standards, SSAP21, it was presumed that if the total minimum lease payments (discounted at present value) exceeded 90% of the fair value then that would indicate a finance lease (i.e. the lessee would recognise the lease on its balance sheet). International Financial Reporting Standards have removed this numeric threshold and identified a number of other indicators including whether the lease term accounted for the major part of the asset life.

For the Council to recognise a lease as a finance lease, the present value of the minimum lease payments need to exceed 90% of the fair value of the asset and the lease term has to exceed 75% of the estimated asset life. It may be that this approach inadvertently excludes some leases that ought to be treated as finance leases according to the IFRS indicators.

The Council is committed to paying £233,000 of lease payments and consequently any finance leases would not be material.

In addition, the Council has entered into a sale and lease back agreement for some of its vehicles in the DLO, which it purchased for £131,000 and sold them to a 3rd party and recognised a small loss of £368. The Council has determined the arrangement to be an operating lease but it is my opinion that this sale and lease back is a finance lease. The Council should review whether this arrangement represents value for money.

#### **Recommendation**

**R6** The Council should review the accounting treatment and value for money arising from sale and leaseback proposals before they are approved.

## Sundry debtors

Included in the Council's balance sheet is £3.6m of sundry debtors, of which £2.6m are debts under 90 days. Of the remaining £1m, £0.9m relates to debts more than 2 years. The Council's policy is to provide for all of these debts at 100%. However, it has not provided for £291K of these debts more than 2 years old. The analysis is provided below:

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Table 1: **Analysis of sundry debts in excess of 2 years old for which there is no provision / impairment**

Table header	£000
Former tenant arrears	209
South West One	78
Other	4
<b>Total</b>	<b>291</b>

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The Council has provided assurances that following contract negotiations, the debt relating to South West One will be paid. The Council will review how it calculates the provision for former tenants. and provide a reconciliation of the aged debt analysis with the figures in the balance sheet.

The report that provides the aged debt analysis is £56K more than that in the control account (and balance sheet) because the Council generates the reports on different dates. The Council has resolved to provide a reconciliation of the aged debt analysis with the figures in the financial statements.

## Recommendation

**R7** The Council should review its bad debt provision for former tenants and ensure that the aged debt analysis for all debts is reconciled to the figures in the balance sheet.

## Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. [The draft Letter of Representation is attached in a separate document.](#)

# Value for money

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

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

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## Value for money criteria and our findings

Criterion	Findings
<p><b>1. Financial resilience</b></p> <p><b>The organisation has proper arrangements in place to secure financial resilience.</b></p> <p>Focus for 2010/11:</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><b>The Council's general fund balance of £3.166m at 31 March 2011 is well above its minimum balance and higher than the forecast at the beginning of 2010/11 when the budget was set. However, the Council faces financial challenges for future revenue expenditure with significant reductions in Government revenue grants in 2011/12 and 2012/13. The Council's reserves have been kept deliberately high to support the Budget Review that is underway to deliver a sustainable ongoing budget position for the Council.</b></p> <p><b>The HRA balances of £1.6m at 31 March 2011 decreased by £1m over the year and are lower than forecast when the budget was agreed in February 2010. The Council has</b></p>

## Criterion

## Findings

**reported that this is mainly because of overspending due to a higher than forecast level of negative subsidy. Although HRA balances are above the minimum thresholds determined by the Council, the Council needs to take remedial action in 2011/12 to prevent balances falling below minimum levels. It should avoid the risk of negative HRA balances.**

The current years budget monitoring results in the first quarter show a potential overspend in of £800k in the General Fund. This is mainly due to falling levels of income in the Council's car parks, in the Planning Service and the Licensing Service. The Corporate Management Team is reviewing the position and meeting to decide on "in-year" action in early September.

The HRA budget monitoring results for Qtr1 show a potential underspend of £166k against budget, which would result in a minor net deficit for the year. HRA reserves are projected to be at a similar level of £1.6m at 31<sup>st</sup> March 2012.

### **General Fund balances**

The Council set a balanced budget for 2010/11 and during the year it was able to reduce its budget by £1m, through a one off VAT refund and efficiency savings achieved through its waste collection and recycling services. In addition, there was an underspend of £0.49m for the year through lower staffing costs, support services and homelessness.

During 2010/11 the general fund balance increased from £1.6m to £3.2m, well above the minimum balance determined by the Council of £1.25m.

The Government reduced the Council's revenue grants by £0.91m (13.2%) for 2011/12 and will reduce this by a further £0.67m (11.2%) in 2012/13. In its budget for 2011/12 the

## Criterion

## Findings

Council set out to achieve over £1m of savings. The final budget required £0.2m of General Fund Reserves to support spending – but to compensate the General Fund Reserves were enhanced by £0.30m of earlier years invest to save initiatives. The Council's Budget Strategy allows the Council to plan to use these reserves, to allow it time to consider carefully the decisions on its services from 2012/13.

Further reductions in Government revenue grants will require the Council to decide what it can afford. Members will consider the prioritisation of services to inform its budget setting for 2012/13.

### **HRA balances**

The HRA balance at 1 April 2010 was £2.65m and the Council used some of the balance to support revenue expenditure in 2010/11 to take the balance down to £1.6m. Although this is above the minimum balances determined by the Council of £0.9m, it is still £0.8m below what it planned in February 2010.

Indicative budgets for the Housing Revenue Account for 2012/13 show that unless the Council takes action to reduce expenditure then it would incur a negative balance on its HRA of £0.2m by March 2013.

The Strategic Director recognises that the Council cannot incur a negative balance on its HRA and if necessary the planned maintenance budget would be delayed to avoid any deficit in HRA balances.

A fundamental review of HRA spending and income is underway as the Council prepares a robust 30 year business plan to support the forthcoming HRA Reforms.



Criterion	Findings
<p><b>2. Securing economy efficiency and effectiveness</b></p> <p><b>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</b></p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p><b>In 2010/11 the Council achieved significant savings and a one-off refund, which have increased its balances. The Council needs to use comparative cost information to inform its drive for greater efficiencies. Furthermore members will need to prioritise the services that the Council can afford in order that its future expenditure can be met from its reduced income.</b></p> <p>Even before the Government announced the reductions in external support from 2011/12, the Council was identifying significant savings and increased income of £1.13m for 2011/12 (Corporate Scrutiny – 21 October 2010).</p> <p>The Council has achieved savings of £0.8m to date from the procurement partnership with South West One but it is lower than the original forecast when the partnership was formed in 2007. As part of its financial planning, the Council needs to consider the impact of the slippage in projected savings. Given the subsequent changes to the shape of the Council, and reductions in government revenue grants and the consequential effect on the Council's spending, the original savings projections need revisiting.</p> <p>Although Members have yet to make decisions about prioritising the funding of services in the future, the Council is being proactive in preparing for and meeting the financial challenge. The Council intends to assess its corporate and service priorities this autumn to set the basis for its budgets for 2012/13.</p> <p>In August the Council distributed information packs to members including a number of options for service provision but these packs do not include any comparative cost</p>

Criterion	Findings
	<p>information. Management had intended that this information should be made available but there were concerns about the reliance that could be placed on the data. The Council should 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.</p> <p>There are a variety of sources of cost comparisons such as SPARSE and CIPFA. For example each year the Audit Commission publishes value for money indicators.</p> <p>The Council should use robust cost comparisons to inform its drive for greater efficiencies and the allocation of its resources to services.</p> <p>The Council needs to complete its review of services so that ongoing future expenditure is sustainable without the need for the support from balances.</p>

Recommendation
<b>R8</b> Determine spending priorities and reduce expenditure to ensure that future budgets are balanced.
<b>R9</b> Ensure that HRA balances remain in excess of the minimum levels
<b>R10</b> Use comparative information such as benchmarking to inform strategic decisions on the allocation of resources.

# Appendix 1 – Draft audit report

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

### Opinion on the Council and Group accounting statements

I have audited the Council and Group accounting statements of Taunton Deane Borough Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The Council and Group accounting statements comprise the *Council and Group Movement in Reserves Statement, the Council and Group Comprehensive Income and Expenditure Statement, the Council and Group Balance Sheet, the Council and Group Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and Collection Fund* and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

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 Council and Group's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting 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 accounting statements sufficient to give reasonable assurance that the accounting 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 Council and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Council and Group; and the overall presentation of the accounting statements. I read all the information in

the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on accounting statements**

In my opinion the accounting statements:

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

### **Opinion on other matters**

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

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

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

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

### **Council's responsibilities**

The Council 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.

### **Auditor's responsibilities**

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Council 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 Council 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 Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Basis of conclusion**

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 2010, as to whether the Council 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 Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

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 Council 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 2010, 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 ending 31 March 2011.

### **Certificate**

I certify that I have completed the audit of the Council and Group 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.

Brian Bethell

Officer of the Audit Commission

Audit Commission  
Westward House

Lime Kiln Close  
Stoke Gifford  
Bristol  
BS34 8SR

26 September 2011 (draft)

# Appendix 2 – Amendments to the draft financial statements

I identified the following adjustments during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Adjusted misstatement	Nature of adjustment	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
<p>Housing Benefit Subsidy</p> <p>The year end subsidy position for the Council was based upon a provisional claim.</p> <p>Once the final claim was prepared, this was not taken into account to revise the amounts the accounts.</p> <p>Expenditure and creditors had been understated.</p>	<p>The Council has made the adjustment to increase expenditure and reduce the General Fund Balance.</p>	228			228

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Loan Interest payable. Accrued interest had been included in the sundry creditors balance instead of adding to the value of the loans outstanding at the 31 <sup>st</sup> March 2011.	The amount of interest payable has been added to the value of the loan outstanding at 31st March 2011, and no longer included in creditors balance			172	172
Note 40 – officers’ remuneration – comparative information amended to ensure that it agreed to the 2009/10 accounts.	Disclosure only – no impact on the financial performance of the Council				
Collection Fund Disclosure Review of the detailed information in the Collection Fund notes found that the non domestic rateable value was based on information at 16/3/2011. The Code requires the non domestic rateable value to be disclosed as at 31 March 2011	Disclosure only – the Council has amended to include the valuation at 31 March 2011. There is no impact on the financial performance of the Council				



		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
<p>NNDR Year end debtor position overstated due to incorrect reversal of prior year posting of receipts in advance for 2009/10.</p> <p>The impact is that the Council's Contribution to the NNDR pool is overstated. Also the creditor balance is overstated by the same amount as incorrectly shown as a receipt in advance.</p>	<p>No impact on the balance sheet position as the debtor and creditor balances net against each other.</p>			375	375
<p>Cash and cash equivalents – accounting policy did not reflect how the Council classified investments.</p>	<p>The Council has amended the wording of its accounting policy to include all investments maturing by 30 April 2011 as short term, rather than classified by the length of the investment.</p>				
<p>IFRS Restatement for 2009/10 – comparatives</p>	<p>Reclassification of the type of debtors £35K (from other to local authorities) and creditors £230K (central govt. to local authorities)</p>				

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
<p>Group Accounts – Tone Leisure</p> <p>The Council's accounts were prepared from the accounts from Tone Leisure, received as final. Following completion of the Tone Leisure audit, its accounts were subsequently amended for the adjustment to pensions from RPI to CPI. This turned a deficit of £104K to a surplus of £367K.</p>	<p>I received the amended Tone Leisure accounts which I passed on to the Council.</p> <p>The Council amended the Group Accounts to take into account the late adjustment from the auditor of Tone Leisure.</p> <p>Impacts upon the group accounts only.</p> <p>There is no impact on the financial performance of the Council</p>				
<p>Note 32 Grant Income note</p> <p>The Rent Rebate Income £11.6m had been netted against the HRA Subsidy payable £6.3m amount in the accounts. The disclosure note only then shows a net amount for Rent Rebates of £5.3m</p>	<p>The Council has amended the note to show the gross amounts received in 2010/11. This is disclosure only and there is no impact on the financial performance of the Council</p>				
<p>There have been a number of amendments to wording, arithmetic, references within the financial statements</p>	<p>There have been additional disclosures to explain some of the entries.</p>				

# Appendix 3 – Unadjusted misstatements to the financial statements

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements.

If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Unadjusted misstatement	Nature of required adjustment	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Sale and leaseback The DLO purchased vehicles and then sold them to a financing company registering a small loss of £368.	The arrangement is a finance lease and the assets and liabilities should be included in the balance sheet.			131	131

		Comprehensive income and expenditure statement		Balance sheet	
Unadjusted misstatement	Nature of required adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Investment Properties and Property, Plant and Equipment (PPE). The Council needs to ensure that the classification of its assets agree with the information provided by the valuer.	<p>There are two assets classified in the accounts and asset register as PPE but valued as investment properties</p> <p>Land at Longforth Road, Wellington leased to Taxis £23,500 and Site for Transmitter Mast, Priory Way Depot, Taunton £63,500</p> <p>The Council should ensure that the classification of its non current assets (PPE and investment properties) in its asset register agrees with the classification provided by the valuer.</p>				
The Council did not accrue for DLO timesheets entered in the new financial year which related to jobs completed in 2010/11.	<p>Expenditure is understated and the general fund and housing revenue account balance should be reduced.</p> <p>The DLO trading account income balance is understated by the same amount.</p>	50			50

		Comprehensive income and expenditure statement		Balance sheet	
Unadjusted misstatement	Nature of required adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
The incorrect consolidated rate of interest was applied when calculating the Council's Housing Revenue Account subsidy for 2010/11.	Expenditure is understated and the housing revenue account balance should be reduced.	24			24
Capital creditors. I reviewed two capital accruals (estimates of expenditure incurred before 31 March) The actual payments in April and May 2011 exceeded the accrual in the accounts by £100K and £16K. However, further testing identified an over accrual of £61K which offsets the two under accruals.	Capital expenditure is understated but not by a material amount.			56	56

# Appendix 4 – Glossary

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## Annual governance statement

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

## Audit closure certificate

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 financial statements.

## Audit opinion

On completion of the audit of the financial statements, I must give my 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; and
- whether they have been prepared properly, following the relevant accounting rules.

## Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

## Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical 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’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

## Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

## 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 resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.



## Appendix 5 Action Plan

### Recommendations

#### Recommendation 1

Provide clear written instructions to the valuer to ensure that the Council meets the requirements of the Code.

<b>Responsibility</b>	Financial Services Manager
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<b>Priority</b>	Medium
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<b>Date</b>	31 March 2012
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<b>Comments</b>	Agreed
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#### Recommendation 2

Provide a full segmental analysis required by the Code for the financial statements for 2011/12

<b>Responsibility</b>	Financial Services Manager
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<b>Priority</b>	Medium
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<b>Date</b>	30 June 2012
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<b>Comments</b>	Agreed
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#### Recommendation 3

Investigate and clear the unallocated cash balances

<b>Responsibility</b>	Financial Services Manager
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<b>Priority</b>	Medium
<b>Date</b>	31 December 2011
<b>Comments</b>	Agreed

#### Recommendation 4

Review how the cash flow statement is prepared to eliminate significant balancing items

<b>Responsibility</b>	Financial Services Manager
<b>Priority</b>	Medium
<b>Date</b>	31 March 2012
<b>Comments</b>	Agreed

#### Recommendation 5

Review the process for recognising and accounting for rental income in advance

<b>Responsibility</b>	Financial Services Manager
<b>Priority</b>	Medium
<b>Date</b>	30 June 2012
<b>Comments</b>	The Council is satisfied that the comprehensive income and expenditure statement includes four quarters of rental income. The Council will disclose in its accounting policies its assumptions that to adjust the balance sheet for a receipt in advance is not material. It will disclose the estimated impact on the balance sheet.

#### Recommendation 6

The Council should review the accounting treatment and value for money arising from sale and leaseback proposals before they are approved.

<b>Responsibility</b>	Financial Services Manager for the accounting treatment and the
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	Highways and Cleansing Manager to consider value for money
<b>Priority</b>	Medium
<b>Date</b>	31 December 2012
<b>Comments</b>	Agreed

#### Recommendation 7

The Council should review its bad debt provision for former tenants and ensure that the aged debt analysis for all debts is reconciled to the figures in the balance sheet.

<b>Responsibility</b>	Financial Services Manager
<b>Priority</b>	Medium
<b>Date</b>	31 March 2012
<b>Comments</b>	Agreed

#### Recommendation 8

Determine spending priorities and reduce expenditure to ensure that future budgets are balanced.

<b>Responsibility</b>	Strategic Director
<b>Priority</b>	High
<b>Date</b>	31 March 2012
<b>Comments</b>	Agreed. This recommendation is in hand and will be dealt with as part of the Medium Term Financial Plan and budget setting for 2012/13.

#### Recommendation 9

Ensure that HRA balances remain in excess of the minimum levels

<b>Responsibility</b>	Strategic Director
<b>Priority</b>	High

<b>Date</b>	31 March 2012
<b>Comments</b>	Agreed. This recommendation is in hand and will be addressed in the HRA business plan.

**Recommendation 10**

Use comparative information such as benchmarking to inform strategic decisions on the allocation of resources.

<b>Responsibility</b>	Client and Performance Lead
<b>Priority</b>	High
<b>Date</b>	31 December 2012
<b>Comments</b>	Agreed.

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