

TAUNTON DEANE BOROUGH COUNCIL

CORPORATE GOVERNANCE COMMITTEE 12th DECEMBER 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 report introduces the Annual Audit Letter 2010/11 – prepared by our external auditors, the Audit Commission (and set out in and Appendix to this report).

The report, which will be presented by the Audit Commission, summarises their findings from their 2010/11 audit work.

1. Background

- 1.1 Each year the Audit Commission is required to make arrangements for the production of an audit letter for each local authority. The letter outlines the following:
 - A conclusion on the Statement of Accounts and annual governance statement;
 - A conclusion on Value for Money;
 - The fees charged by the Audit Commission compared to those budgeted.
 - Current and Future Challenges
 - Action Plan
- 1.2 Members will note that they have already seen at previous meetings, or will see at this meeting, the detailed reports referred to in this report.
- 1.3 Members are advised that, following the retirement of Brian Bethell, we have a new Audit Commission “appointed auditor” (district Auditor) – Stephen Malyn. Stephen will be attending the meeting on 12th December 2011.

2. Financial Issues / Comments

- 2.1 As reported previously, the additional external audit fee of £10,000 will have to be met from existing budgets as part of the budget monitoring process.

3. Legal Comments

- 3.1 There are no legal implications from this report.

4. Links to Corporate Aims

- 4.1 No direct implications.

5. Environmental and Community Safety Implications

5.1 No direct implications.

6. Equalities Impact

6.1 No implications.

7. Risk Management

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

8. Partnership Implications

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

9. Recommendation

9.1 Members are requested to note the Annual Audit Letter 2010/11.

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Annual Audit Letter

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 my 2010/11 audit. My audit comprises two elements:

- the audit of your financial statements; and
- my assessment of your arrangements to achieve value for money in your use of resources.

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

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

Value for money

I issued an unqualified value for money conclusion for 2010/11. This means that I am satisfied that there are proper arrangements in place for securing economy, efficiency and effectiveness in your use of resources.

Audit opinion and financial statements

I issued an unqualified opinion on the Council's financial statements on 28 September 2011. In my opinion, the Council's financial statements were free from material error or omission and comply with the relevant accounting standards.

Financial challenges

The Council is facing significant financial challenges, similar to the rest of the public sector. In December 2010 the Secretary of State announced that there would be reductions in government grants for local government. The Government reduced Taunton Deane's revenue grants by £0.91 million (13.2 per cent) for 2011/12 and a further £0.67 million (11.2 per cent) in 2012/13.

The Council's general fund balance stood at £2.9m at 31 March 2011 and is well above the minimum level determined by the Strategic Director of £1.25m. The Council has deliberately kept reserves high in order to fund the costs of redundancies or investment in technology.

However, the Council is reporting budgetary pressures in the current financial year (2011/12) and a forecast overspend of £0.8 million for the year. It is estimating that general fund balances will reduce to £2.2 million by 31 March 2012 which will affect the Council's ability to finance the one off costs of longer term budget reductions.

Although the Council has been successful in achieving efficiency savings in recent years, it has identified that it has a budget gaps of £1.2 million and £2.8 million in 2012/13 and 2013/14 respectively.

Councillors are considering various options to reduce the Council's revenue expenditure to achieve a balanced budget for 2012/13 and beyond. The Council will need to take difficult decisions to close the budget gap and my audit for 2011/12 will review the Council's progress to achieve the required savings.

Recommendation

R1 Ensure that future budgets are balanced by closing the gap between expenditure and projected income.

Financial statements and annual governance statement

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

Overall conclusion from the audit

I issued an unqualified opinion on the Council's financial statements on 28 September 2011.

I commented in my Annual Governance Report in September that the Council had improved its closedown process since 2009/10. However, the Accounts and Audit Regulations 2011 require the Responsible Financial Officer (the Strategic Director) to sign by 30 June that the accounts present a true and fair view of the Council's financial position. There were delays in the production of the Council's draft financial statements and the Strategic Director was not able to sign her statement until 5 July 2011. I will work with the Council to further improve arrangements for 2011/12 so that the Council produces its financial statements by the statutory deadline of 30 June 2012.

Significant weaknesses in internal control

I reported the results of my review of the financial controls to the Corporate Governance Committee at its meeting in June 2011. I reported the actions taken by management to mitigate these weaknesses in my Annual Governance Report in September 2011.

In summary, the Council has improved controls over non pay expenditure during 2010/11. However, I carried out substantive testing (testing of transactions) for the earlier part of the year when the new controls were not yet operational. I also carried out substantive testing where there were weaknesses in controls, such as car park income and expenditure at the direct service organisation.

I recommended that the Council review its bad debt provision for those debts, totalling £291,000, which are more than two years old and for which there is no bad debt provision. These were mainly arrears from former tenants.

I made a number of recommendations to improve the control environment and the Council needs to ensure that they are implemented for 2011/12.

Whole of Government Accounts

External auditors of local authorities are required to provide a statement of assurance for the Council and Comptroller and Auditor General regarding the accuracy of financial submissions to the Department of Communities and Local Government for preparation of the accounts for the whole public sector. I have to certify that Taunton Deane Borough Council's submission is consistent with its audited accounts and that it has been properly prepared in accordance with HM Treasury Guidance. This work includes a review of the Council's disclosure of 'counter party' transactions (ie income and expenditure, debtors and creditors with other public bodies, whose accounts are also included in the national accounts). For 2010/11, the certification and reporting process was more detailed than in previous years and the Council made a number of amendments to the return. My team spent more time on this certification than I had planned. For 2011/12 the Council needs to improve its arrangements for ensuring the accuracy of its submission.

Recommendations

- R2** Further improve the closedown process so that the draft financial statements are prepared in time to meet the statutory deadline of 30 June.
 - R3** Strengthen the arrangements to ensure the accuracy of the whole of government accounts submission.
-

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

Value for money criteria and key messages

Criterion	Key messages
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</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>The Council's audited general fund balance of £2.9 million 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.</p> <p>The HRA balances of £1.6 million at 31 March 2011 decreased by £1 million over the year and are lower than forecast when the budget was agreed in February 2010. The Council reported that this is mainly because of overspending due to a higher than forecast level of negative subsidy.</p>

Criterion	Key messages
	<p>I reported in my Annual Governance Report that although HRA balances are above the minimum thresholds determined by the Council, the Council needed to take remedial action in 2011/12 to prevent balances falling below minimum levels. The Council is currently forecasting that HRA expenditure will remain within its 2011/12 budget and the balance will remain at around £1.5 million by 31 March 2012, above the minimum balance of £0.9 million determined by the Strategic Director.</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 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>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. (My recommendations are included in the Annual Governance Report, with the accompanying action plan agreed with management.)</p>

National Fraud Initiative (NFI)

The National Fraud Initiative is a data matching exercise to identify potential frauds across the public sector. In 2010/11 Taunton Deane had 4157 data matches in total, of which 54 per cent or 2228 were 'recommended' for investigation as a higher priority. Even with the higher priority cases, only a small minority are likely to lead to a fraud being identified. The Council has made reasonable progress in reviewing the data matches. To date the Council has not identified any frauds. There are other matches with queries outstanding, where there are notes on the file requesting further information from other organisations. The Council should complete this work so that it can close the higher priority cases.

Recommendation

R4 Complete the investigations into the higher priority NFI data matches.

Closing remarks

This letter has been agreed with the Strategic Director and it will be presented at the Corporate Governance Committee on 12 December 2011.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Audit Plan	March 2011
Audit of Financial Controls	June 2011
Annual Governance Report	September 2011

The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Brian Bethell

District Auditor

October 2011

Appendix 1 – Fees

	Scale	Actual	Variance
Audit Fee	£120,300	£116,850	-£3450 below scale fee (communicated in audit fee letter - 6 April 2010)
Additional fee for testing of transactions because of weaknesses in controls in non pay expenditure, car park income, DLO expenditure. Additional controls testing following changes to creditor payments		£10,000	£10,000 (weaknesses and additional audit work communicated to Corporate Governance Committee in June and September 2011)
District Auditor time spent on challenge work		£1,000	£1,000 - objection from elector to the accounts regarding South West One
IFRS rebate from Audit Commission		-£7,112	-£7,112
Further rebate from Audit Commission of 1.5 per cent (December 2010)		-£2,120	-£2,120
Non-audit work - housing challenge		£1,785	£1,785
Total payable	£120,300	£120,403	£103
National Fraud Initiative	£1,100	£1,100	-

This analysis does not include fees for the certification of claims and returns to government departments, which I estimated at £34,250 in my audit fee letter of 6 April 2010.

Appendix 2 – Action plan

Recommendations

Recommendation 1

Ensure that future budgets are balanced by closing the gap between expenditure and projected income.

Responsibility Strategic Director

Priority High

Date 31 March 2012

Comments The Budget Review Project has raised awareness of the challenges ahead. Members are now reviewing options and will present savings plans for comment to Scrutiny in November 2011.

Recommendation 2

Further improve the closedown process so that the draft financial statements are prepared in time to meet the statutory deadline of 30 June.

Responsibility Financial Services Manager (Southwest One)

Priority High

Date 30 June 2012

Comments Agreed. The process will be improved to ensure the draft accounts are prepared to the Council's agreed timetable. A number of factors impacted in 2011, including the major task of IFRS implementation, information dependencies from services, and unplanned staff absences. The major changes for the move to IFRS are now embedded, and preparation will focus on mitigating other challenges. We will also continue to improve ways of working - building on the improvements already made in 2011 - and work with services to ensure dependencies are met.

Recommendation 3

Strengthen the arrangements to ensure the accuracy of the whole of government accounts submission.

Responsibility	Financial Services Manager (Southwest One)
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Priority	Medium
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Date	31 July 2012
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Comments	Agreed. Arrangements for the preparation of the WGA will be reviewed and strengthened to ensure accuracy.
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Recommendation 4

Complete the investigations into the higher priority NFI data matches

Responsibility	Strategic Director
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Priority	High
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Date	31 December 2011
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Comments	Agreed. The Strategic Director will progress with service managers.
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Appendix 3 – Glossary

Annual governance statement

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

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

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

Audit opinion

On completion of the audit of the 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.

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.

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.

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