

AUDIT COMMITTEE

19 JANUARY 2012

REPORT OF HEAD OF RESOURCE MANAGEMENT

A.4 ANNUAL AUDIT LETTER 2010/11

(Report prepared by Richard Barrett)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To present for consideration the Audit Commission's Annual Audit Letter 2010/11.

EXECUTIVE SUMMARY

The Annual Audit Letter for 2010/11 has recently been received from the Audit Commission which primarily summarises the outcomes from various audit activities undertaken during the year.

The key messages set out in the letter highlight that the Council received an unqualified opinion on its financial statements and value for money conclusion.

In respect of the current and future challenges faced by the Council, these are being addressed via various activities that remain on-going such as the implementation of the housing self financing reforms by deadline of the 1 April 2012.

RECOMMENDATION(S)

a) That the contents of the Annual Audit Letter are noted

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

This report highlights that the Council continues to make good progress in achieving its priorities and ensuring robust governance arrangements are in place.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

There are no direct financial implications arising from this report.

Risk

The report highlights a number of issues and challenges that are either being progressed or plan on being addressed as appropriate.

LEGAL

The Annual Audit Letter is required to be published by the Audit Commission and made available to all members by the end of November each year.

A copy of the Annual Audit Letter 2010/11 was sent to all members by the end of November 2011.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

There are no direct implications arising from this report.

PART 3 – SUPPORTING INFORMATION

ANNUAL AUDIT LETTER 2010/11

There are a number of different strands of external audit inspection undertaken during the year such as specific activity in relation to the financial statements and value for money opinion. The outcomes from these activities are reported to the Council separately as they are completed during the year. The Annual Audit Letter is effectively an end of year report for the Council which captures and summarises these outcomes in one document. It is primarily directed to Members but it must also be made available as a public document. The Audit Commission's **Annual Audit Letter** relating to 2010/11 is attached.

The areas covered in the Annual Audit Letter include:

- Financial Statements opinion
- Value for Money opinion
- Annual Governance Statement and Internal Control
- Current and Future Challenges

The key messages highlighted include:

- In respect of the Council's Statement of Accounts, no significant issues were raised and an unqualified audit opinion was given as set out in the Annual Governance Report presented to the Audit Committee in September 2011.
- An unqualified opinion on the value for money conclusion was given as set out in the Annual Governance Report presented to the Audit Committee in September 2011.
- The audit work was concluded within the audit fee that had been planned and therefore budgeted for.

The items above have been subject to separate reports to members earlier in the year. Actions and associated activity have therefore already been identified and will form part of future reports to members as appropriate.

In respect of the current and future challenges faced by the Council that have been highlighted by the Audit Commission, these are either being progressed via various activities that remain on-going including the implementation of the housing self financing reforms, which is subject to a separate report to Cabinet on 25 January 2012, or plan on being addressed as appropriate when consultations and guidance have been made available.

BACKGROUND PAPERS FOR THE DECISION

None

APPENDICES

Annual Audit Letter

Tendring District 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:

- 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	

Audit opinion and financial statements

The changes arising from the introduction of International Financial Reporting Standards (IFRS) impacted upon both the Council's preparation and my audit of the accounts. The proactive approach adopted by the Council ensured that it met that challenge successfully with no material errors in the financial statements. I was therefore able to issue an unqualified opinion and certificate on 30 September 2011.

The documentation and working papers supporting the accounts were of a good standard, as they have consistently been in previous years.

I identified two weaknesses in your internal control arrangements and reported these to your Audit Committee. The Council are already addressing these.

Value for money

On 30 September 2011, I issued an unqualified value for money conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Current and future challenges

Economic downturn and pressure on the public sector

The economic downturn is placing increasing pressure on the public sector as a whole. This is reflected in the:

- challenging Comprehensive Spending Review settlement;
- increasing demand for key services; and
- reduced ability of members of the public to pay for services;

In addition there are challenges arising from Housing Revenue Account self-financing; possible boundary changes and the increased level of pension costs arising from the triennial revaluation and changing assumptions regarding pensionable employees. Taken together, these challenges will put increasing pressure on the Council's finances.

The Council is well-placed to meet these challenges. It has a well founded and robust budget setting and financial management system based on medium term planning. It has also modelled the impact of the challenges it faces and has in place a soundly based Medium Term Strategy.

Joint arrangements / shared services

Central Government has identified joint arrangement and shared services as a key element in councils reducing their overall costs. The Council has a track record of partnership working with a range of public, private and voluntary sector bodies. There are recent examples to show that this approach is being continued.

Housing Revenue Account self financing

Under the existing housing subsidy system councils with housing stock are required to prepare a notional Housing Revenue Account using a set of predetermined factors for such items as maintenance costs and rental income to reflect the mix and age of the housing stock. In simple terms, if this notional account is in credit then the surplus is payable to central government and if in a deficit situation an equivalent payment is made to the council to support the housing landlord function.

The current year, 2011/12, is to be the last year of the existing system. Under a new financing system, councils will be responsible for financing of the Housing Revenue Account, and the existing system of grants and payments will end. To fund this Central Government will be making payments to certain local authorities and in the case of local authorities that currently contribute to the scheme, transferring a debt liability. The debt liability transfer is to take place on 28 March 2012.

Localism Bill

This Bill is expected to receive Royal Assent in early 2012 to allow the Housing Revenue Account self financing proposals discussed earlier to proceed. However, the Bill has far reaching implications for local authorities including the following.

- Granting of a 'general power of competence', to provide councils with the legal power to do what is not specifically prohibited.
- New rights and powers for communities. These include:
 - 'community right of challenge' – would allow voluntary and community groups to express an interest in taking over and running local authority services; and
 - 'community right to buy' – local authorities to hold a list of community value assets and if wish to dispose of community groups must be allowed time to put together bids and finance.
- Planning system reforms including changes to the community infrastructure levy with a proportion going to neighbourhoods affected by the developments.

The full implementation of the provisions of the Bill will have significant service provisions and hence budgetary implications for the Council.

Welfare reform

The Welfare Reform Bill was introduced in Parliament in February 2011. The Bill means significant changes to the welfare system. It provides for the introduction of a 'Universal Credit' to replace a range of existing means-tested benefits and tax credits for people of working age, starting from 2013. These include Housing Benefit and Council Tax Benefit, which are administered by councils. The Bill follows the November 2010 White Paper, 'Universal Credit: welfare that works', which set out the Coalition Government's proposals for reforming welfare to improve work incentives, simplify the benefits system and tackle administrative complexity.

Besides introducing Universal Credit and related measures, the Bill makes other significant changes to the benefits system. The changes that specifically affect councils include:

- restriction of Housing Benefit entitlement for social housing tenants whose accommodation is larger than they need;
- up-rating of Local Housing Allowance rates by the Consumer Price Index; and
- capping of the total amount of benefit that can be paid.

The Government has yet to confirm the detailed timescale over which the full move from the existing Housing Benefit and Council Tax Benefit systems to the Universal Credit will take place. However, it is clear that this will have significant operational and resource implications for the Council. This is identified as a key issue and is being actively monitored.

More recently the Coalition Government released a consultation paper on local support for council tax. This stated that council tax support would not form part of Universal Credit and would be a local authority responsibility. The paper also set out the need for a 10 per cent cut in the existing level of support.

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

The Council's financial statements were published on the Council website before the 30 June statutory deadline. This is a very good achievement given the complexities involved with preparing accounting entries for the first time in line with International Financial Reporting Standards (IFRS).

Management provided good working papers to support the financial statements and this allowed my team to perform the audit work in good time to meet the audit deadline.

I reported the findings of my audit to Tendring District Councils Audit Committee at its meeting of 22 September 2011. Despite being the first year that the Council had to report its accounts under International Financial Reporting Standards, I reported that my audit had identified only two minor errors in the accounts and one of these related to the previous, 2009/10, financial year. My report also referred to any issues I identified in respect of accounting practices, accounting policies, accounting estimates and financial statements disclosures. There were only a few of these and they had all been amended by the Council.

I issued my audit report including an unqualified opinion on the financial statements on 30 September 2011 and this opinion is included in the financial statements that the Council has published on its website.

Significant weaknesses in internal control

There were two weaknesses in internal control that I reported to the audit committee in September 2011. Neither indicated a material error in the Council accounts and management reported the progress that they had already made in rectifying these weaknesses to the audit committee.

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>Tendring District Council underspent by £1.753m against its net revenue expenditure budget in 2010/11. The Council's earmarked reserves increased by £2.482m to £12.804m with general fund balances remaining at £4m. The Council continues to exercise strong monitoring arrangements for progress against budgets and the impact of savings upon performance.</p> <p>The Council early financial forecast identified a deficit of up to £2.724m for 2011/12, substantially increased cost pressures and a worsening public sector financial position. Due to the uncertainty of the level of the Government Settlement in future years, the 2011/12 forecast has been calculated on a range of assumptions from a 1 per cent increase to a 10 per cent decrease, with a funding gap which could be greater than £2.724m. Council plans to meet this gap through savings plans, management and service restructures and increasing its partnership working.</p> <p>The Council has reviewed its priorities in light of increased financial pressures. There is good communication with external stakeholders of the medium- to long-term financial strategy, current financial position and likely financial challenges.</p>

Criterion

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key messages

Members and senior management provide strong leadership to prioritise resources. The Council has set a clear vision for future service delivery and related Council structure.

During 2010/11 the Council has actively engaged with staff, stakeholders and the community to communicate plans and strategies.

There is a good understanding of costs and how these relate to performance. The Council uses performance and financial monitoring to ensure ongoing efficiency and productivity. The Council routinely benchmark performance to identify performance outliers and take action where appropriate.

Closing remarks

I have discussed and agreed this letter with the Chief Executive and the Head of Resource Management. I will present this letter at the next Audit Committee and will provide copies to all members of the Council.

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 Fee Letter	April 2010
Audit Opinion Plan	May 2011
Annual Governance Report	September 2011
Audit opinion on the accounts	September 2011
Annual Audit Letter	November 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.

Neil Harris
District Auditor

November 2011

Appendix 1 – Fees

	Actual (£)	Proposed (£)	Variance (£)
Audit fee	135,750	135,750	0
Total	135,750	135,750	0

Appendix 2 – Glossary

Annual governance statement

Governance is about how a Council ensures that it is 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 the Council is directed and controlled and through which it accounts to, engages with and where appropriate, leads its community.

The annual governance statement is a public report by the Council on the extent to which it complies with its own 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 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 opinion.

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