

**Agenda Item No:** 6

**Report To:** **AUDIT COMMITTEE**

**Date:** **14 DECEMBER 2010**

**Report Title:** **Annual Audit Letter (Audit 2009/2010)**

**Report Author:** Andy Mack, District Auditor  
Paul Naylor, Deputy Chief Executive (covering summary)



**Summary:** Attached is the District Auditor's Annual Audit Letter covering the external audit for the 2009/2010 financial year. Andy Mack will be present at the meeting to present the report and take any questions.

It is pleasing to see the acknowledgement of continued improvement. There is only one recommendation in the report, which is a technical matter concerning the preparation of the Council's annual return to Government for the Whole of Government Accounts. Following the abolition by the Coalition Government of the 'Use of Resources Assessment' there is no 'scored' element in this letter as in past years. Members will see from the letter that the District Auditor nevertheless considers that the Council has adequate or strong arrangements and approaches across the range of issues examined. There was an unqualified conclusion about the Council's satisfactory arrangements to secure value for money and an unqualified opinion on the Financial Statements. The Letter also explains the scope of the auditor's work on examining value for money.

**Key Decision:** Not applicable

**Affected Wards:** None specifically

**Recommendations:** **The Audit Committee is asked to note the District Auditor's Annual Audit Letter for the 2009/2010 financial year.**

**Policy Overview:** It is a longstanding objective for the Council to maintain sound governance arrangements and deliver good value for money services to its residents. The Annual Audit Letter is important external feedback to help Members appreciate the progress the Council is making.

**Financial Implications:** None arise from this report

**Risk Assessment** Risks in relation to the Council's business are managed through assessments made by the Management Team and managers individually. There are no additional risks highlighted through the District Auditor's report that are not the subject of coverage through the risk management procedures.

**Other Material Implications:** None

**Background Papers:** Annual Audit Letter 2009/2010 and supporting external audit reports

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**Annual Audit Letter**

**Ashford Borough Council**

**Audit 2009/10**

**The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.**

**Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.**

**As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.**

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# Key messages

**This report summarises my findings from the 2009/10 audit. My audit comprises two elements:**

- **the audit of your financial statements (pages 4 and 5); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 9).**

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

## **Audit opinion and financial statements**

**1** I issued an audit report including an unqualified opinion on the financial statements on 29 September 2010. The accounts presented for audit were prepared to a good standard overall and I am pleased to note improvements in both the accounts and working papers compared to previous years.

**2** I am unable to formally conclude the audit and issue a certificate until I have completed my consideration of matters brought to my attention by local authority electors. I am satisfied that these matters do not have a material effect on the financial statements.

## **Value for money**

**3** I issued an unqualified value for money conclusion stating the Council has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources during the year ending 31 March 2010.

## **The economic environment**

**4** The Council achieved a good financial performance in difficult circumstances in 2009/10. Management action to target resources on priority areas, whilst reducing non-critical spending ensured the original budget was underspent by £200,000 and the Council was able to make a contribution to reserves.

**5** The economic downturn and the recent comprehensive spending review are however imposing unprecedented financial pressures on the public sector. The Council is preparing a five-year business plan which aims to address these pressures. The success of this exercise will be critical to the future of the Council.

# 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.**

**I gave an unqualified opinion on the Council's 2009/10 financial statements on 29 September 2010.**

## Overall conclusion from the audit

**6** The Council prepared accounts to a good standard overall. Although I identified some errors and adjustments during the audit, none of the adjustments impacted on the overall general fund balance or the Council's reported financial position for the year. I am pleased to report the Council has improved the quality of the accounts and working papers and this reflects hard work from officers and the support of the Audit Committee.

**7** During my audit I recommended the Council revise procedures to ensure timely completion of related party transaction declarations by all members and officers. Officers agreed to address this.

**8** I have subsequently completed my work to certify the Council's Whole of Government Accounts (WGA) Return. I identified some material misstatements in this return and this is one area where the Council still needs to strengthen arrangements. I am currently in discussion with the finance team about the most effective and efficient way to do this.

**9** The Audit Commission carried out a national survey during 2010 to assess the Council's preparation for implementing the International Financial Reporting Standards (IFRS) from 2010/11. This is a complex new area which requires significant input from staff, in finance and across the Council.

**10** As part of this survey I have assessed the Council's performance as 'Amber'. The Council is on track with its plan and is undertaking the necessary preparatory work. The Council has identified the most complex areas for review, including accounting for leases and is putting time aside to deal with these. This represents sound progress overall. I will continue to work with the Council over the coming months as it completes its restated accounts.



## Recommendation

**R1** Integrate preparation of the WGA return with preparing the financial statements and ensure robust review arrangements are in place.

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# 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.**

## **2009/10 use of resources assessments**

**11** At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

**12** However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

**13** I report the significant findings from the work I have carried out to support the vfm conclusion.

## **VFM conclusion**

**14** I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

**15** This is a summary of my findings.

Criteria	Adequate arrangements?
<b>Managing finances</b>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
<b>Governing the business</b>	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
<b>Managing resources</b>	
Natural resources	Yes

**16** I issued an unqualified conclusion stating the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **Managing finances**

**17** The Council is currently developing a five-year business plan. This intends to address any shortfalls in funding from central government, set out clear priorities and test delivery models for services. The Council has recognised the need to consult with residents to inform the plan and now members and officers are determining priorities and spending. The outcome of this work will form of the basis of the business plan and budgeting for the next five years and will be critical to the future of the Council.

**18** The Council underspent against its budget in 2009/10 by £200,000. It achieved savings of £1.9 million, however, the impact of this was offset by increased costs caused by unforeseen demands (£950,000), the impact of the recession (£410,000) and savings not achieved (£490,000). The underspend; recovery of VAT and higher Housing Planning Delivery Grant than budget has had a positive impact on reserves. The Council now has a General Fund balance of £3.4 million, a Housing Revenue Account balance of £1.6 million and other reserves of £2.9 million. I consider this to represent a reasonable position in difficult external circumstances.

**19** The Council continues to have a good understanding of costs, linked to its support and back office functions through its work as part of the Mid Kent Improvement Partnership (MKIP). The Council has recently decided to withdraw from MKIP and alternative cost saving and efficiency measures are being developed as part of the business planning process. Costing information remains of good quality and is used to aid decision-making. Use of benchmarking is systematic through service reviews. Development of benchmarking linked to work to refresh corporate priorities would be of use to wider decision-making.

### **Governing the business**

**20** The Council takes a proactive approach to exploring shared services with others and is keen to achieve transformational change. However, any change must meet the objectives of the Council and deliver real value for money. The Council has strengthened processes for evaluating procurement options and these are effective. Its Procurement Board now carries out regular reviews of procurement practice as contracts are approaching their renewal dates.

**21** There are sound arrangements for collecting, recording and reporting data used in decision making. Risk management arrangements are working effectively and incorporate partnership working. The Council is strengthening performance reporting, including risk management, to members.

### **Managing resources**

**22** The Council is developing a climate change strategy and its understanding of its emissions underpins this. Some strategies and plans are in place on tackling climate change, such as on water and open space management. The Council is part of the Energy Savings Trust's local authority one-to-one support programme and is now working on an action plan. The Carbon Trust has carried out audits which identified energy savings initiatives. Work is carried out with the Kent Environment Directors Group and through the Kent Energy Efficiency Partnership. The Council worked well with its partners on the Kent Resilience Forum to develop a multi-agency flood plan.

**23** The Council has an adequate approach to reducing its impact on the environment. Good quality performance data is collected for the National Indicators which focus on sustainability. Key messages on energy conservation are promoted throughout Council owned buildings. Water consumption has fallen by 20 per cent in the Civic Centre following changes made. The Council plays an effective role in sustainable development and effective land management, seeking to ensure development is of a high and sustainable quality. Its adopted Core Strategy sets high standards for sustainable construction and carbon reduction and it has established an Ashford carbon fund to ensure developments in the Borough achieve carbon neutrality.

## Approach to local value for money work from 2010/11

**24** Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

**25** My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

**26** For your audit, I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

# Current and future challenges

## Future challenges

**27** During 2009/10 the Council has demonstrated good financial management in difficult circumstances. However, in common with the rest of the public sector it is facing significant financial challenges ahead. The scale of the financial savings required by the governments Comprehensive Spending Review are unprecedented. This is exacerbated by the fact that demand for some services, notably benefits, is increasing and the income from fees and charges may reduce. Efficiency savings alone will therefore not be enough to balance the budget.

**28** As part of developing the five-year business plan both members and officers are facing difficult decisions about spending priorities. The Council has also recognised the need to:

- focus all activities, resources and partnership arrangements firmly on business priorities;
- keep the Medium Term Financial Plan, including the realisation of planned savings, firmly under review; and
- develop enhanced performance management arrangements which will support staff in refreshing their skills and embracing a fresh approach to service planning.

**29** My team and I will work with you over the coming months, sharing good practice where appropriate and providing support as a 'critical friend' where we can.

## Closing remarks

**30** I have discussed and agreed this letter with the Chief Executive and the Deputy Chief Executive. I will present this letter at the Audit Committee on 14 December 2010 and will provide copies to all board members.

**31** Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit Fee Letter	June 2009
Opinion Audit Plan	June 2010
Annual Governance Report	September 2010

**32** The Council has taken a positive and helpful approach to our audit. I wish to thank the Council staff for their support and cooperation during the audit.

Andy Mack  
District Auditor  
October 2010

# Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements, WGA and annual governance statement	101,350	101,350	0
Value for money	34,100	34,100	0
Total audit fees	3,350	3,350	0
Non-audit work	0	0	0
<b>Total</b>	<b>138,800</b>	<b>138,800</b>	<b>0</b>



## Appendix 2 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 accounts, auditors must give their 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;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

### **Financial statements**

The annual accounts and accompanying notes.

### **Qualified**

The auditor has some reservations or concerns.

### **Unqualified**

The auditor does not have any reservations.

### **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 money, people and time.

## Appendix 3 Action plan

### Recommendations

#### Recommendation 1

Integrate preparation of the WGA return with preparing the financial statements and ensure robust review arrangements are in place.

<b>Responsibility</b>	Finance Manager
<b>Priority</b>	Medium
<b>Date</b>	End June 2011
<b>Comments</b>	<p>The WGA process will be reviewed and we will seek to integrate further into the process for the production of accounts. The form was used as part of the validation process for the statement and does need to be completed concurrently with the statement.</p> <p>The Officer responsible for the preparation of the return has been briefed on the need to update the return for audit adjustments in a timely fashion.</p>