

**Agenda Item No:** 7  
**Report To:** **AUDIT COMMITTEE**  
**Date:** **6 DECEMBER 2011**  
**Report Title:** **Audit Commission's Annual Audit Letter  
(2010/2011 audit)**  
**Report Author:** Andy Mack and Lynn Clayton (Audit Commission)  
Paul Naylor, Deputy Chief Executive (covering summary)



**Summary:** Attached is the District Auditor's Annual Audit Letter covering the external audit for the 2010/2011 financial year. Both Andy Mack (District Auditor) and Lynn Clayton (external audit team manager) will be present at the meeting to speak about the report and take any questions.

Once again it is pleasing to see acknowledgement of continued improvement; particularly as the 2010/2011 financial statements were prepared against complex new international financial reporting standards. The District Auditor has issued an unqualified opinion on the accounts and an unqualified value for money conclusion. The report explains no significant internal control weaknesses were identified. Consequently there are no recommendations in the letter for specific actions by the council. Also, the District Auditor comments favourably on the council's approach to priority setting for business and financial planning. On future challenges flowing from central government reforms the report highlights these in general terms and advises of the need to follow these closely. The council is doing this having established a series of member and officer task groups to consider the implications of the reforms in the Localism Act 2011.

**Key Decision:** Not applicable

**Affected Wards:** None specifically

**Recommendations:** **The Audit Committee is asked to note the District Auditor's Annual Audit Letter covering the 2010/2011 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 form judgements about the progress the council is making.

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

**Risk Assessment** There are no additional risks highlighted in the report that are not the subject of coverage through the council's risk management approach.

<b>Equalities Impact Assessment</b>	Not applicable
<b>Other Material Implications:</b>	None
<b>Background Papers:</b>	Supporting external audit reports to the Audit Committee during 2010/2011
<b>Contacts:</b>	<u><a href="mailto:Paul.naylor@ashford.gov.uk">Paul.naylor@ashford.gov.uk</a></u> – Tel: (01233) 330436

# Annual Audit Letter

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Ashford Borough Council

Audit 2010/11

# Contents

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- Key messages.....3**
  - Audit opinion and financial statements.....3
  - Value for money .....3
- Financial statements and annual governance statement.....4**
  - Overall conclusion from the audit.....4
  - Significant weaknesses in internal control.....4
- Value for money.....5**
- Future challenges .....7**
- Closing remarks .....8**
- Appendix 1 – Fees.....9**
- Appendix 2 – Glossary.....10**

**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.**

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

## **Audit opinion and financial statements**

I issued an unqualified opinion on the Council's financial statements on 30 September 2011.

The Council dealt successfully with the implementation of International Financial Reporting Standards (IFRS) in the financial statements in 2010/11. Officers prepared a restated balance sheet and income and expenditure figures well before year-end and this enabled me to review this work at an early stage.

## **Value for money**

I issued an unqualified value for money conclusion on 30 September 2011.

The Council has good financial governance and sound arrangements for financial control. The Council is fully aware of the significant financial pressures it faces from the economic downturn and decreases in grant funding. It is strengthening its financial planning and is well-placed to address the financial pressures it faces over the medium term.

The Council takes a strategic approach to setting priorities and achievement of cost reductions through improved efficiency and productivity.

# Financial statements and annual governance statement

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**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 30 September 2011. The Council prepared its financial statements to a good standard and they were supported by comprehensive working papers, which provided a good audit trail for testing.

The Council agreed to make several amendments to the draft financial statements before I gave my opinion. These changes had no impact on the reported financial performance of the Council for the year. The Council chose not to amend the statements for three items, which I highlighted in my annual governance report. The impact of these unamended items was not material to the overall presentation of the financial statements or the Council's financial performance for the year.

The 2010/11 financial statements were the first to be prepared under International Financial Reporting Standards (IFRS). Under IFRS the Council has been required to;

- review transactions and identify the appropriate accounting treatment under IFRS;
- restate the Council's balance sheet at 1 April 2009 and 1 April 2010; and
- produce several new disclosure notes.

Throughout 2010/11 the Council had an effective framework in place to complete this work.

## **Significant weaknesses in internal control**

I did not identify any significant weaknesses in the Council's internal control arrangements.

# Value for money

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

I assess the Council's arrangements to secure economy, efficiency and effectiveness in its 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.

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## Value for money criteria and key messages

Criterion	Key messages
<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 has good financial governance and sound arrangements for financial control. It is strengthening its financial planning and is well-placed to address the financial pressures it faces over the medium term.</b></p> <p>The Council has a good understanding of its financial position. Members scrutinise and challenge performance and hold officers to account. The Council is introducing a new performance management framework and risk management arrangements in 2011/12 to strengthen existing arrangements.</p> <p>The Council refreshed its corporate priorities in 2010/11, in its new Five-Year Business Plan. It also updated its medium term financial plan to reflect these priorities and the impact of the current economic climate.</p> <p>The Council has a good track record of managing within its budget. It achieved a £248,000 budget underspend in 2010/11 despite significant budget pressures. At 31 March 2011 the Council had general fund balances and reserves of £7,152,000, which is in line with its projected long-term requirements.</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 setting its priorities within tighter budgets, for example by achieving cost decreases and by improving efficiency and productivity.

## Key messages

**The Council takes a strategic approach to setting priorities and achievement of cost reductions through improved efficiency and productivity.**

Over the past year the Council has reviewed its corporate priorities and identified new strategies to help it manage its financial position in the medium term. It carried out a comprehensive consultation with residents and staff to ensure it based its 2011/12 budget decisions on local needs and expected delivery costs.

The Council's spending is low when compared to similar authorities. Further reductions of 15 per cent are required over the next 12 months. The Council's updated medium term financial plan clearly considers the implications of this reduced spending. Officers have shown a strong commitment to exploring the most effective way of delivering services to achieve this savings target. The Council continues to explore all opportunities; for example new income generation, asset utilisation, service efficiencies and partnership working arrangements.

The Council is updating and strengthening its business planning arrangements, including performance management and risk management. It is important the new arrangements are finalised as a priority to ensure the full benefit of the changes is secured.



# Future challenges

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Economic downturn and pressure on the public sector

The national economic environment continues to be challenging for public organisations, with decreases in income from grants and investments and lower economic activity. The Council's current medium term financial forecast assumes a 30 per cent fall in income over the four years to 2014/15. The Council has identified that it needs to make savings of £3.7 million in the five years to 2015/16, including £1.796 million in 2011/12, to ensure it continues to deliver a balanced financial position in the medium term. The Council's new five-year business plan recognises the need for the Council to do things differently to deliver its priorities with reduced income. The business plan reflects the Council's focus on achievement of its major priorities (agreed following extensive public consultation) alongside delivery of a decent service in essential areas of business.

Impact of new legislation.

The government has announced some wide-ranging reforms to the public sector since taking office in May 2010. Many are contained in the Localism Bill, key aspects of which include:

- introducing a general power of competence for local authorities;
- introducing the right for communities to buy local assets threatened with closure, challenge the way services are provided and initiate referendums; and
- significant reforms to the planning system.

The government is proposing the current method of financing the Housing Revenue Account (HRA) will change from 2012/13, to a self-funding system. Under the new system authorities will take control of their housing rental income and a share of the national £28 billion housing debt. The debt settlement will be based on a valuation of the authority's housing stock. From 2012/13 HRA debt will be ring-fenced and authorities will no longer receive housing subsidy or major repairs allowance income and will be expected to fund all HRA revenue and capital expenditure from existing resources.

The Welfare Reform Bill contains proposals which will affect benefits administration. Some proposals are still the subject of consultation, for example those relating to the local retention of business rates and the introduction of new localised schemes to replace council tax benefit.

The Council will need to consider the implications of this new legislation. Some proposals may involve changes to workloads or more coordination with other local authorities. The Council will also need to consider the implications for their medium term financial plans of changes to funding arrangements or to the overall central government support.

# Closing remarks

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I have discussed and agreed this letter with the Chief Executive and Deputy Chief Executive. I will present the letter to the December 2011 Audit Committee. A copy of the letter will also be circulated to all Members.

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

Report	Date issued
Audit and inspection fee letter	April 2010
Audit plan	February 2011
Interim Audit Memorandum	June 2011
Annual Governance Report	September 2011

The Council has taken a positive and constructive approach to the audit. I wish to thank the Council's staff for their support and cooperation during the audit.

Andy Mack  
District Auditor

November 2011

# Appendix 1 – Fees

	Actual 2009/10	2010/11 Initial Estimate (April 2010)	2010/11 Revised Estimate ( April 2011)	Actual 2010/11
Audit fee	138,800	139,500	139,500	139,500
Inspection Fee	9,152	9,152	0 <sup>i</sup>	0
<b>Total</b>	<b>147,952</b>	<b>148,652</b>	<b>139,500</b>	<b>139,500</b>

In addition the Audit Commission issued rebates for the 2010/11 audit fee as follows:

April 2010 rebate for the costs associated with the first year implementation of IFRS	(7,684)
December 2010 rebate to reflect the new approach to VFM work in 2010/11	(1,921)

<sup>i</sup> Inspection activity cancelled following the abolition of CAA.

# Appendix 2 – Glossary

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## **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 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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