

Annual Audit Letter

St Edmundsbury 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 covers:

- 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) into Local Government accounting had a significant impact on accounts preparation procedures at local authorities. Despite this significant change the Council submitted its financial statements for audit before 30 June 2011 statutory deadline.

The primary financial statements did not contain any material errors although the notes contained both material and non-trivial errors which management agreed to adjust. These amendments were presentational in nature and did not impact on the Council's financial position.

This was an excellent achievement given the complexities involved with preparing IFRS accounting entries in 2010/11 and I was therefore able to issue an unqualified opinion and certificate on 30 September 2011. We found that the documentation and working papers provided for audit were generally adequate. However, the Council can improve the quality of working papers and the timeliness of resolving audit queries in some areas of the financial statements. In part, we did need to undertake extra work and experienced some delays resolving queries. This additional work resulted in an extra audit fee of £9,800, shown at Appendix 1.

I have not identified any significant weaknesses in internal control.

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 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. These include progressing shared services with Forest Heath District Council and making a commitment to appoint a single Chief Executive and Management Team across Council boundaries and the recent revenues and benefits service transfer to Anglia Revenues Partnership (ARP).

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 remain a local authority responsibility. The paper also set out the need for a 10% 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. 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. 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 adequate working papers to support the financial statements and this allowed my team to perform the audit work in sufficient time to meet the audit deadline.

I reported the findings of my audit to St Edmundsbury Borough Council's Performance and Audit Scrutiny Committee at its meeting of 20 September 2011. I reported that my audit had identified a number of amendments in the financial statements which management agreed to adjust. Two non-trivial adjustments were made to the core financial statements while the remaining adjustments, both material and non-trivial, were made to the supporting notes. This was to comply with the disclosure requirements specified by the IFRS Code of Practice. These amendments were presentational and did not impact on the financial position of the Council.

My report also referred to any issues I identified in respect of accounting practices, accounting policies, accounting estimates and financial statements disclosures. My audit team experienced difficulties in reconciling the accounts to underlying working papers in some key areas such as Income and Expenditure statement, debtors and creditors. This required additional audit work to resolve. In addition, we experienced some inefficiencies and delays whilst progressing some sample testing. As result of this additional work, I have raised an extra audit fee of £9,800, summarised at Appendix 1.

We recommended that all working papers provided for audit show how the material figures within the financial statements have been calculated and are fully supported by source documentation. We have agreed to hold a workshop with Council's finance team in January 2012 with the joint aim of securing improvements in the quality and timeliness of working papers and resolution of queries for our audit of the Council's 2011/12 financial statements.

Significant weaknesses in internal control

I did not identify any significant weaknesses in your internal control arrangements. However, we identified weaknesses in three key controls in respect of benefits system reconciliations and journal authorisation. The Council are already addressing these.

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
1. Financial resilience The organisation has proper arrangements in place to secure financial resilience. Focus for 2010/11: 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>The Council has a robust approach to delivery of efficiency savings through the DRI-VE scheme which has results in significant year on year savings since 2005/06. In 2010/11 the Council delivered savings of £1.6m. The focus continues to be on longer term financial solutions rather than short term financial fixes. There is no evidence of dependency on reserves and investment income to balance budgets, or the use of reserves to fund recurrent expenditure.</p> <p>The Council completed some scenario planning at the initial budget planning stage. This contributed to the longer term Medium Term Financial Strategy document for 2011/14 which highlighted a funding gap going forward.</p> <p>The Council reviews its priorities and updated its financial plans in the light of increased financial pressures. Linked to this is good communication to staff and external stakeholders of the medium to long-term financial strategy, current financial position and likely financial challenges.</p>

Criterion	Key messages
	<p>Accurate in-year forecasting enabled the Council to deliver a revenue underspend of £0.847m at the end of 2010/11, increasing the general fund balance carried forward by £0.643m. Previous assessments indicated that monitoring arrangements were strong, with good finance and performance reporting. These arrangements have been maintained in this period.</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>There is evidence of strong leadership from senior management and members to ensure that resources are prioritised and there is a focus on spending reductions. Resources have been reallocated to meet changing needs as part of this process.</p> <p>Review arrangements are in place to ensure that strategic priorities are delivered. The Council also consulted with stakeholders during the year.</p> <p>The Council uses regular performance and financial monitoring to ensure ongoing efficiency and productivity.</p> <p>There is a good understanding of costs and how these related to performance. The Council is prepared to investigate longer term options in order to secure reductions, for example via shared working with Forest Heath District Council and moving the revenues and benefits function to Anglia Revenues Partnership from 2011/12.</p>

Closing remarks

I have discussed and agreed this letter with the Chief Executive and the Chief Finance Officer. I will present this letter at the Performance and Audit Scrutiny Committee on 30 January 2012 and will provide copies to all Council members.

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	January 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	110,600	100,800	9,800
Total	110,600	100,800	9,800

When I set my 2010/11 audit fee in April 2010, this was based on a number of assumptions, including that good quality, accurate working papers are available at the start of the financial statements audit. The audit team experienced difficulties in reconciling the accounts to underlying working papers in some key areas which required additional audit work to resolve. In addition, inefficiencies and delays were experienced whilst progressing some sample testing. For this reason, I have confirmed with the Chief Finance Officer that I will need to charge additional audit fees to cover the costs of this extra work. My additional fee is £9,800.

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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