



St Edmundsbury
BOROUGH COUNCIL

B438

Performance and Audit Scrutiny Committee 24 January 2011

Audit Commission - Presentation of 2009/10 Annual Audit Letter

SUMMARY

Neil Harris, District Auditor, will be attending the meeting to present the attached Annual Audit Letter covering the 2009/10 Audit. This document summarises the Audit Commission's findings from its audit of the Council's financial systems, and its assessment of the Council's arrangements to achieve value for money in its use of resources.

The District Auditor will be available to answer any questions Members may wish to raise following presentation of the document.

PURPOSE OF THE REPORT

The content of the Annual Audit Letter is for information, and informs the Committee of the Council's performance in the key areas audited during 2009/10.

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Annual Audit Letter

St Edmundsbury 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 covers two parts:

- **the audit of your financial statements (pages 3 to 4);**
and
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 5 to 7).**

Audit opinion and financial statements

1 On 29 September 2010, I gave an unqualified opinion on the Council's financial statements. I did not identify any significant issues from the audit.

Value for money

2 I assessed the Council's value for money arrangements. On 29 September 2010, I issued an unqualified value for money conclusion.

Audit fees

3 My July 2010 opinion audit plan report set out my planned 2009/10 audit fees. I have looked at my costs and fees at the end of this audit. There is no need to change my 2009/10 fee.

Current and future challenges

4 The economic environment continues to have a significant impact on councils, with significant spending cuts announced in the government's spending review. The Council is responding to these changes by seeking opportunities for joint working with other local authorities and envisages that this will allow financial savings and greater efficiencies.

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, within the statutory target date.

Overall conclusion from the audit

5 I gave an unqualified opinion on the Council's financial statements on 29 September 2010.

6 The financial statements presented for audit were of a high quality, and were free from material error. Arrangements for accounts closure and production of the financial statements continue to be robust. Clear disclosures within the financial statements also provide excellent clarity to a reader of the accounts.

7 Officers adjusted the financial statements for a number of non-trivial errors although there was one non-trivial error which officers and Members declined to amend.

Significant weaknesses in internal control

8 I did not identify any significant weaknesses in your internal control arrangements.

International Financial Reporting Standards

9 As reported in my last audit letter, local government will introduce International Financial Reporting Standards (IFRS) in the 2010/11 financial statements.

10 Successful implementation of IFRS will testify to the ability of local government to manage a major change in its financial arrangements. Failure, on the other hand, could result in late or qualified opinions on accounts and will reflect badly on the reputation of individual authorities and, potentially, the sector as a whole.

11 I have checked the Council's progress in implementing IFRS and it is on track to prepare IFRS-compliant accounts. Recently completed restatement work and ongoing progress reporting will help the Council to identify the areas they need to address as they move closer to the final stages of IFRS implementation.

12 The Council's Performance and Audit Scrutiny Committee has a key role to play in this process where members can challenge officers on the progress of IFRS implementation. I would encourage the Council to continue to discuss with us emerging IFRS issues.

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

13 At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on Comprehensive Area Assessment (CAA) would stop with immediate effect. At that point, the Commission would no longer issue scores for its use of resources assessments.

14 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.

VFM conclusion

15 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 audited body.

16 There is a summary of my findings overleaf.

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural resources	Yes
Strategic asset management ⁱ	-
Workforce ⁱⁱ	Yes

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

18 Appendix 2 summarises my key findings and conclusions for the three themes.

Approach to local value for money work from 2010/11

19 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.

20 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.

ⁱ not assessed in 2009/10

ⁱⁱ assessment brought forward from 2008/09

21 I will decide 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 provide an annual scored judgement about 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

Economic downturn and pressure on the public sector

22 The economic downturn and the international banking crisis have had a significant impact on public finances over the last two years.

23 The government's spending review aims to achieve efficiency and value for money and challenge local authorities to fundamentally change the delivery of services so more power lies in the hands of individuals and frontline professionals. Recent policy announcements include:

- the end of ring-fencing to many local government grants from 2011/12;
- changes in financing rules which will allow local authorities to borrow against future increases in business rates;
- reforms to the planning system, with a New Homes Bonus introduced to promote housing supply;
- proposals for elected mayors being subject to local referendums; and
- replacing public Service Agreements by a Transparency Framework.

24 Significant cuts in government grant of 7.1 per cent for each year up to 2014/15 and rising demand pressure on local services could lead to a funding gap. I will review, as part of my value for money work, how the Council will secure financial resilience and prioritises its resources during this challenging period.

Future developments

25 From 1 April 2011, the Council's revenues and benefits service will join the Anglia Revenues Partnership. It is expected that by working in partnership with other authorities this will deliver significant cost savings and improve the efficiency of frontline services.

26 The Council is continuing to work with Forest Heath District Council as part of the shared services project. Business cases to bring the two workforces together across a number of work streams and services will be presented to the Shared Service Steering Group by March 2011.

Closing remarks

27 I have discussed and agreed this letter with the Chief Finance Officer. I will present this letter at the Performance and Audit Scrutiny Committee on 24 January 2011 and will provide copies to all Members.

28 My reports this year include more detailed findings, conclusions and recommendations in the areas covered by our audit.

Report	Date issued
Audit Opinion Plan	July 2010
Annual Governance Report	September 2010
Auditor's report including the value for money conclusion	September 2010
Annual audit letter	November 2010

29 The Council has taken a positive and helpful 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 2010

Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£58,850	£58,850	£0
Value for money	£37,050	£37,050	£0
Whole of government accounts	£4,900	£4,900	£0
Total audit fees	£100,800	£100,800	£0

Appendix 2 Value for money

Theme summaries

Managing finances

The Council's financial planning is an integrated process, linked to strategic/corporate planning, financial/service performance monitoring and risk management. There is a consistent record of delivering strategic objectives whilst maintaining a track record of overall under-spending on the total budget set. Resources are allocated to priority areas, following effective engagement with key stakeholders and service users. The draft 2010/11 Medium Term Financial Strategy (MTFS) modelling has been considered in light of the economic climate with different types of costs and income streams now having individual incremental assumptions applied.

The Council uses a number of different methods of engagement depending on the issue and stakeholders involved. A new Community Engagement Strategy was approved in the year and the Council can demonstrate that views of local people are taken into account when determining future developments.

The Council's financial standing is sound and it has a track record of performing within budget. The Council continues to reinforce the importance of financial planning.

The Council can evidence a good understanding of its costs and continues to use this to challenge VFM. Efficiency targets are ambitious, clearly assessed and set, then taken out of base budgets. Efficiencies are achieved whilst maintaining quality of service delivery.

The Council has sound arrangements in place for financial reporting. Performance information is used to explain budget variances, with budget monitoring reports being presented to the Performance & Audit Scrutiny Committee and robustly challenged by Members. The Council can clearly demonstrate that the performance of significant partnerships is monitored and scrutinised.

Governing the business

The Council has continued to develop a range of collaborative arrangements for procurement with other councils and partners. Partnership arrangements have brought improved value for money, for example a shared waste procurement has led to lower costs and work with Suffolk CC at West Suffolk House has enabled the council to rationalise services and share contract costs, eg for facilities management.

The Council has a robust framework for data quality in place which includes a governance framework, performance and audit scrutiny, internal audit and data quality policy. Data sharing protocols are in place and a Suffolk Intelligence Network, set up in 2009, bring together key partner agencies secure effective data and information exchange in support of statutory needs analysis and strategic assessment activity. The Council has a disaster recovery plan in place which was successfully tested in August 2009. This included the full recovery of key systems from off-site backups to new servers provided by our disaster recovery service provider. Business continuity and disaster recovery plans and security policies are in place and available via the Council website.

The Council promotes and demonstrates the principles and values of good governance, including governance arrangements over partnerships. There are constructive and well defined roles between officers and Portfolio Holders.

Theme summaries

Member training arrangements are of a high standard, with job descriptions and development plans in place. The council has updated its constitution this year and revised the anti-fraud and anti-corruption strategy

The council has an up to date risk strategy and robust monitoring procedures. The council revised its risk strategy in October 2009. The Performance and Audit Scrutiny Committee provides assurance of the effectiveness of the corporate risk assessment process and monitors the effective development and operation of risk management policies in the council, specifically including monitoring of the risk management strategy and the corporate risk register. Our interim audit work confirmed that an effective internal control environment is in place.

Managing resources

St Edmundsbury is performing very well on natural resources and has a very good understanding through 1990's baselines and good monitoring systems across a full range of resources. A long established environmental management system is linked to a strong strategic approach and corporate systems embedded into the council's culture. It has a good track record of partnership working to reduce impacts and has made major progress on reducing its own carbon footprint.

The Council understands its use of natural resources. It was the first local authority in Suffolk, and one of the first in the region to review climate change impact and energy dependency. It has established baselines across the full range of natural resources eg use of peat-free planting; energy use; transport; overall CO₂ emissions; office waste and recycling. It has challenging targets across all areas.

Capital projects consider energy efficiency and climate change adaptation routinely. Benchmarking against other organisations in the region shows the council to be the best public sector performer in the region on reducing the impact of climate change.

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 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.

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