

# Annual Audit Letter

Torbay 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 (page 4); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (page 6).**

## **Audit opinion and financial statements**

**1** I issued an audit report including an unqualified opinion on the financial statements on 30 September 2010. I found no material errors in the accounts but one non-trivial error was identified and will be corrected in 2010/11. Another non-trivial error was amended in the analysis of debtors.

**2** Eight amendments or additions to disclosures were made to meet SORP and LAAP bulletin 85 requirements before the audit opinion was issued.

## **Value for money**

**3** I gave an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources when I gave my opinion on the financial statements.

## **Current and future challenges**

**4** The Council faces some major challenges. These include

- responding to the government's Comprehensive Spending Review
- responding to the critical OFSTED inspection report on Safeguarding and Looked After Children services
- responding to health changes being implemented by the government, particularly as they impact upon adult care services; and
- preparing for International Financial Reporting Standards.

**5** The detailed grant implications of the Spending Review are not yet known but the Council has developed budget options and has refocused the planned Civic Hub proposals to maximise efficiency savings.

**6** The Council has been taking action to secure improvement in childrens' services and this was re-inforced following the critical June report by OFSTED on Contact, Referral and Assessment arrangements.

**7** Following the October OFSTED report, which judged Safeguarding and Looked After Children services as inadequate overall, a draft action plan

has been proposed. This is subject to review by the Department for Education, as they consider whether statutory intervention is required.

**8** The Council faces a significant challenge arising from the changes which the government is implementing in the health service and the impact this will have upon adult care services.

**9** Like other local government bodies the Council must prepare financial statements for 2010/11 based upon International Financial Reporting Standards (IFRS). It has a project plan for putting IFRS in place, which is on track.

**10** I continue to liaise with officers on preparations and am satisfied that good progress is being made.

# 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.**

## Overall conclusion from the audit

**11** I gave an unqualified opinion on the Council's 2009/10 financial statements on 30 September 2010.

**12** I identified no material errors in the financial statements. I did, however, identify one non-trivial error. The Council incorrectly capitalised expenditure of £757k on design and set-up costs for the South Devon link road as fixed asset additions. There are issues of ownership and accounting which need to be discussed and agreed with Devon County Council and therefore both Councils will make any necessary amendments in 2010/11.

**13** Another non-trivial error of £200k was amended in the analysis of debtors.

**14** The Council, along with other admitted bodies, disclosed, at my request, a non-adjusting post balance sheet event in relation to the change in assumptions used to calculate the pension fund liability.

## Internal control

**15** Re-implementation of the payroll system was completed in 2009/10. However, the framework of controls had not been fully implemented and additional substantive testing was necessary to confirm that system outputs could be relied upon. It is understood that controls are being fully implemented in 2010/11.

## Accounting practice and financial reporting

**16** Eight amendments or additions to disclosures were made to meet SORP and LAAP bulletin 85 requirements before the audit opinion was issued. I also identified a number of minor presentation/ consistency issues in the accounts and foreword, which have been amended.

## **Schools balances**

**17** In 2008/09 we reported imbalances on Local Payment School bank reconciliations. The total net difference was £52,828.

**18** No reconciliations were carried out during 2009/10 and a reconciliation carried out at the year-end identified that the net difference had increased to a net figure of £131,950. At the schools finance team processed a series of adjustments as at March 2010 to bring the reconciliations into balance.

**19** In my Annual Governance Return I recommended that reconciliations should be carried out between the ledger and schools balances on a regular basis and that explanations should be sought for significant adjustments.

## **Recommendations**

**20** I made three further recommendations in my Annual Governance Report relating to the financial statements and the Council has agreed an action plan for implementation.

## **Economic downturn**

**21** I have considered the effect of the economic downturn on the Council and in relation to matters covered by my audit of the financial statements. The main effect so far has been a fall in the value of the Council's land and buildings over the last two years. The fall recorded is similar to falls in values seen in other public bodies and does not present a financial risk to the Council.

# 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**

**22** 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.

**23** 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.

**24** I report the significant findings from the work I have carried out to support the VFM conclusion.

## **VFM conclusion**

**25** 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.

**26** The table that follows shows 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
Strategic asset management	Yes
Workforce	Yes

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

### **Progress 2009/10**

**28** Work which the Council started in 2008/09 to strengthen value for money areas which had been assessed as operating effectively (rather than consistently above minimum requirements) has progressed in 2009/10 with clear improvement being apparent in all areas.

**29** The Council has also maintained its strong performance in those areas previously assessed as consistently above minimum requirements.

### **Workforce**

**30** The new KLOE that I reviewed for 2009/10 was Workforce. This examined whether the Council planned, organised and developed its workforce effectively to support the achievement of its strategic priorities.

**31** I found that the Council's arrangements to manage its workforce were effective. The council is in a period of transformation. It has a programme - Supporting the People Dimension of Change - which it is implementing.

- 32** Positive aspects of the Council's performance which I noted included:
- The Council has a 2008-11 workforce strategy in place. Managers and frontline staff have attended change workshops.
  - The Council uses a range of recruitment tools. The apprenticeship strategy and student placements bring younger people into the Council, contributing to a workforce more representative of the community.
  - The council surveys staff every two years and the results are reported corporately and within services.
  - Sickness absence is routinely monitored, benchmarked against other authorities, and reported. A stress action plan is in place.
  - The Council monitors and manages agency costs.
  - The Council has achieved the new Equality Framework at level 2 (achieving) and is undertaking a gap analysis to identify work to achieve level 3 (excellent). Equality impact assessments are in place
  - The Council has a good range of consultation groups on equality and diversity and there is a corporate equality action group.
  - The re-enabled payroll system will provide the Council with enhanced reporting.

**33** The Council acknowledges that further development is required in a number of areas. We found that:

- Workforce profiles in services, identifying skills and training gaps, were not consistently in place.
- Workforce planning was not yet fully integrated with service planning.
- There were some gaps in the equality and diversity training for more senior managers and commissioners.
- Although there were examples of succession planning within some grade structures, it was not in place formally at senior level during 2009/10.
- The monitoring of performance through the RADAR performance appraisal system lapsed in 2009/10 and it was not used consistently to manage performance.
- The Council has made a skills pledge to support employees to gain skills and qualifications but this is still dependant upon identifying skills gaps across all services.
- The council acknowledges that it has more work to do to improve communication with staff. Feedback on the management of change and staff morale has been mixed.

**34** Our findings have been reported to officers.

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

**35** 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.

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

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

**37** 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.

**38** 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

## Comprehensive spending review

**39** In the government's Comprehensive Spending Review the Communities and Local Government settlement includes a 28 per cent reduction in central government revenue funding to councils over the Spending Review period (2011/12 - 2014/15). However, the deepest cuts are expected to occur in the earliest part of the review period.

**40** The full implications of the Review are not yet known and will not become apparent until the provisional details of local grant reduction become available in December 2010.

**41** The Council is preparing for the impact of these cuts. It has sought efficiencies and developed budget options.

**42** In the light of the expected cuts in grant it has decided to scale back its plans for the Castle Circus Regeneration Project, taking the Business Hub plan forward with the private sector to reduce risks, and focusing on the Civic Hub and the potential for savings which have been identified in re-organising council services.

## Children's services

**43** In June 2010, following an unannounced inspection of Contact, Referral and Assessment arrangements, OFSTED, while identifying some areas of satisfactory practice, listed a number of areas requiring development.

**44** The report highlighted that the following areas required priority action:

- Managerial oversight and case planning, including the recording of management decision-making on case files, were of poor quality, insufficiently robust, and were not consistent.
- Staff supervision at all levels within the service was not compliant with council requirements.
- In some cases the response to child protection referrals did not meet statutory guidance and did not ensure that some children are adequately safeguarded.

**45** The OFSTED report on its inspection of Safeguarding and Looked After Children services in October 2010 judged the services to be inadequate overall.

46 The main findings are summarised below

Service/assessment heading	Adequate arrangements?
<b>Safeguarding service</b>	
Overall effectiveness	Inadequate
Capacity for improvement	Inadequate
<b>Outcomes for children &amp; young people</b>	
Children & young people are safe	Inadequate
Children & young people feel safe	Adequate
<b>Services for looked after children</b>	
Overall effectiveness	Adequate
Capacity for improvement	Adequate
<b>Outcomes for looked after children &amp; care leavers</b>	
All elements (except economic well-being which was assessed as Outstanding)	Adequate

47 The Council is taking action to address these issues and has proposed a draft action plan. This is subject to review by the Department for Education, as they consider whether statutory intervention is required.

## Adult social care

48 The Council faces a significant challenge arising from the fundamental changes which the government is implementing in the health service. In the immediate future this will require re-commissioning of adult social care from April 2011.

## International financial reporting standards

49 Like other local government bodies the Council must prepare financial statements for 2010/11 based upon International Financial Reporting Standards (IFRS).

50 The Council recognises the challenges posed by IFRS and has a project plan for putting IFRS in place which is on track.

51 I have liaised with the Council's finance team, and reviewed their arrangements to capture the data required to restate the opening balance sheet and address the changes needed for 2010/11.

52 In particular:

- I reviewed and commented on procedure notes produced by officers to support the work they were doing on those items and balances most affected by IFRS; and
- I assessed progress by way of a national survey conducted by the Audit Commission; and
- I brought to the attention of officers and the Audit Committee the series of briefing papers produced by the Audit Commission on IFRS.

**53** I am satisfied that good progress is being made by Torbay in its IFRS preparations.

## Closing remarks

**54** I have discussed and agreed this letter with senior managers. I will present this letter at the Audit Committee on 8 December 2010 and will provide copies to all members.

**55** 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 plan	May 2009
Opinion plan	May 2010
Interim audit	August 2010
Annual governance report	September 2010
Opinion	September 2010
Value for money conclusion	September 2010
Financial statements	November 2010

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

Alun Williams  
District Auditor  
November 2010

## Appendix 1 – Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£170,670	£170,670	nil
Value for money	£67,030	£67,030	nil
<b>Total audit fees</b>	<b>£237,700</b>	<b>£237,700</b>	<b>nil</b>
Certification of claims and returns	In progress	Based upon the prescribed daily rate	



## 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.

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