

Audit of the Financial Statements

Torbay Council 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.

Contents

Summary Report	2
Introduction	2
Background.....	2
Audit approach.....	2
Main conclusions	3
Detailed Report	5
Substantive testing to address system control weaknesses.....	5
Post-Statements testing.....	6
Annual Governance Statement.....	8
Appendix 1 Action Plan	10

Summary Report

Introduction

1 Our principal objective as the appointed auditor of Torbay Council is to carry out an audit that meets the Audit Commission's Code of Audit Practice.

2 This report sets out:

- the findings from our audit of the financial statements and the Whole of Government Accounts return; and
- the work undertaken to address the risks identified and reported in our 2009/10 Interim Audit Report.

Background

3 The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of funds.

4 The Responsible Financial Officer is responsible for preparing financial statements which give a true and fair view of the financial position of the Authority and its income and expenditure for the year in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (the SoRP).

5 The annual governance statement must comply with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE.

6 The financial statements and annual governance statement must be approved by Full Council by 30 June following the year-end, with the audit opinion issued by 30 September.

7 In addition, the Authority must complete the Whole of Government Accounts return by 30 July, and this must be audited by 1 October. This work is completed in accordance with guidance issued by HM Treasury.

Audit approach

8 Our audit approach is designed to comply with the requirements of the International Standards on Auditing, as they apply to the United Kingdom and Ireland (ISA UK&I). The approach we take focuses on areas of greatest risk and evaluates the adequacy of the Authority's own arrangements to address the risk.

9 The accounts element of the audit is divided into two main parts: pre-statements (interim) and post-statements (final accounts). Our pre-statements work was completed across 2009/10 and the findings from this work were reported in our interim audit report, which was presented to members of the Audit Committee on 15 September 2010.

10 Upon receipt of the draft financial statements, our post-statements work is planned, and substantive tests designed to address the risks arising from:

- our overall review of the financial statements, including analytical review;
- our knowledge of business risks facing the Authority as identified in risk registers and reports;
- our review of the financial performance of the Authority;
- our assessment of internal control, including reviewing the control environment, the IT control environment and Internal Audit;
- findings from our pre-statements work on material information systems; and
- issues raised in technical guidance.

11 In designing these tests, we consider the concept of materiality. Our audit is not expected to detect all erroneous entries.

12 In addition, we review the Whole of Government Accounts return to ensure it is consistent with the financial statements, and is properly prepared under the Government Resources and Accounts Act 2000 and HM Treasury guidance.

Main conclusions

Substantive testing to address control weaknesses

13 We have undertaken a programme of substantive testing to address the risks arising from the control weaknesses identified and reported during our interim audit.

14 This work has allowed us to conclude that these control weaknesses have not led to a material misstatement in the year.

Financial Statements

15 The draft financial statements for 2009/10 were approved by Full Council on 24 June 2010, and we completed our audit and issued an unqualified audit opinion on 30 September 2010.

16 We reported our audit findings to the Audit Committee on 15 September 2010 in our Annual Governance Report. We have detailed these findings and the agreed recommendations in the body of this report.

Annual Governance Statement

17 We have reviewed the Councils annual governance statement and confirmed it is consistent with our knowledge of the Council and compliant with the relevant guidance.

18 We have identified some areas where this can be strengthened in future years and have reported this, with recommendations, in the body of this report.

Whole of Government Accounts

19 We completed our audit of the Whole of Government Accounts return on 30 September 2010 and submitted this to the Department for Communities and Local Government to meet the 1 October 2010 deadline. There are no issues to bring to your attention.

Action plan

20 Our recommendations are summarised in the Action Plan at Appendix 1.

Acknowledgement

21 Our thanks are due to all the officers who helped us in the course of the audit.

Detailed Report

Substantive testing to address system control weaknesses

22 The following section sets out the work we have undertaken to address the control weaknesses identified and reported during our interim audit. This work has allowed us to conclude that these control weaknesses have not led to a material misstatement in the year.

23 The Council should note that these control weaknesses will still need to be addressed as agreed in the 2009/10 Interim Report action plan.

Payroll

24 As part of our pre-statements audit we have walked through the revised payroll system and discussed the controls environment with officers and concluded, as in previous years, that the system contained a number of control weaknesses. It was agreed with management that substantive testing would be undertaken by Internal Audit prior to the financial statements audit to provide evidence that figures produced by the payroll system contained no material errors.

25 Internal Audit have substantively tested payments made to 77 employees through the payroll system and have provided us with working papers to support this testing. We have reviewed the working papers and re-performed a sample of this work and are satisfied that we are able to place reliance on it.

26 The testing has provided adequate assurance that payroll expenditure is not materially misstated. Internal Audit have identified some minor issues which they have reported to payroll.

Supporting People

27 We reported that we did not have full assurance over the occurrence and existence of supporting people service users and subsequently the accuracy of payments made to them.

28 To address this risk we have undertaken a substantive review of a sample of new and existing service users and agreed that each user existed and that the payments made to them were accurate.

29 This provided the required assurance.

Adult Social Care Expenditure

30 We identified that the Council did not request or receive adequate information to allow them to have full assurance over the expenditure incurred within the partnership with Torbay Care Trust.

31 We have completed substantive testing on a sample of 62 adult social care clients. For each client sampled we have agreed that

- a contract was in place between the client and the provider and this had been signed by both parties and by the Care Trust.
- payments made against these contacts were accurate
- expenditure had been correctly classified within the headings of the pooled budget.

32 This provided the required assurance.

Manual Creditor Payments

33 We identified and reported weaknesses in the authorisation arrangements for manual payments. To address this risk we substantively tested the accuracy of manual payments as part of our post statements audit.

34 We concluded that 56 of the 59 items sampled were satisfactory, Two of the three orders were authorised by a signatory who did not have authority to do so. The remaining order did not signed supporting evidence. We have undertaken further analysis of these three errors and have confirmed that the payments made were appropriate.

35 The Council are updating the authorised signatory list and strengthening other manual payment controls.

Recommendation

R1 Recommendations made in our interim audit report to strengthen controls should be actioned in accordance with the agreed timetable.

Post-Statements testing

36 We completed our audit and issued an unqualified audit opinion on 30 September 2010. We reported the following significant matters and recommendations, where applicable, to the Audit Committee on 15 September 2010.

Draft Statements

37 The draft statements presented for audit contained a number of disclosures errors and omissions. These were added or amended in the final statements to comply with the Statement of Recommended Practice

38 The financial statements and foreword also contained a number of presentation/consistency issues and these were amended in the final statements.

39 The Council have agreed to update its 2010/11 closedown plan to ensure that there are stronger QA arrangements for the preparation of future statements and that these are sufficiently strong to pick up on SORP non-compliance and presentation/consistency issues

NNDR Debtor

40 The analysis of debtors (note 12) included the NNDR amount due from the Government as £2m - an overstatement of £200k. This was a misclassification from accrued income and has been amended. The adjusted errors had no overall impact on the authority's reported financial position.

South Devon link road

41 The Council capitalised expenditure of £757k on design and set-up costs for the South Devon link road as fixed asset additions. Torbay do not own the land to which this relates and therefore the expenditure should be treated as a revenue expense. In addition Devon County Council have capitalised the same expenditure in their accounts. The Council do not plan to amend this in the 2009/10 accounts. The Council have agreed to discuss the issues of ownership and accounting with Devon County Council and both Councils will make any necessary amendments in 2010/11.

Post Balance Sheet Event

42 In their first budget the coalition Government announced that, in future, public service pensions will be linked to the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). Therefore the assumptions used to calculate the pension fund liability relating to future levels of pension increase have changed. The Council along with other admitted bodies agreed to seek a revised deficit calculation and added a Post Balance Sheet Event disclosure note to the accounts. This note disclosed a reduction of £17.104m in the Council's pension liability.

Schools Bank Reconciliation

43 In 2008/09 we reported imbalances on Local Payment School bank reconciliations. The total difference was £52,828 - The net of six schools where the schools balance exceeded the ledger balance by £106,332 and nine schools where the ledger balance exceeds the schools balance by £53,584.

44 We reported in our interim report that no reconciliations had been carried out during 2009/10.

45 A reconciliation carried out after the year-end identified that the net difference had increased to £131,950 - The net of eight schools where the

schools balance exceeded the ledger balance by £187,893 and nine schools where the ledger balance exceeds the schools balance by £319,483.

46 The schools finance team have processed a series of adjustments to bring the reconciliations into balance. The Council have agreed to ensure that reconciliations are performed on a regular basis to prevent a recurrence. Further to this, internal audit will review the adjustments that took place at the end 2009/10, seek explanations and, where appropriate, will take this into account when planning future school visits.

Recommendation

R2 Most of the errors we identified were amended before the audit opinion was given. The remaining significant issues were agreed in the action plan to the Annual Governance Review.

Annual Governance Statement

47 We have reviewed the Councils annual governance statement and confirmed it is consistent with our knowledge of the Council and compliant with the relevant guidance.

48 The Annual Governance Statement (AGS) has been prepared in accordance with CIPFA / SOLACE guidance and follows the model format. This year CIPFA produced further guidance (Statement on the Role of the Chief Financial Officer in Public Service Organisations) recommending that Councils provide additional information in their AGS on the governance arrangements underpinning the role of the Chief Financial Officer.

49 The recommendations are not obligatory and it is commendable that the Council has complied with the guidance and reported compliance with the new Statement in its AGS.

50 We have identified some areas where this can be strengthened in future years and have set these out below.

Improvement opportunities

51 The first paragraph suggests that the purpose of the AGS, is confined to “decision making”, when the governance framework is much wider than that.

52 As part of the process of compiling the AGS, Directors/Assistant Directors prepare annual statements confirming that risks are being identified and adequate controls are in place for managing them. We found that 3 of the 8 departmental assurance statements had not been signed.

These were:

- Customer services
- Children’s services
- Chief Executive.

53 The Executive Head Governance agreed to obtain the missing signed assurance statements.

54 A review of the content of the AGS suggests scope for improvement in the following areas:

- The table setting out significant governance weaknesses and the actions taken to address them could be made more rigorous and informative by:
 - Fully disclosing weaknesses in the payroll system. Internal Audit reported that they could not provide full assurance on this system for 2009/10, yet these significant weaknesses are understated in the AGS.
 - Explaining the governance / accountability issues at the Care Trust. The reference in the AGS refers to partnership issues in general rather than those specifically related to the Care Trust.
 - Explaining why the items listed are “issues.” Headings such as “Risk Management,” “Review Corporate Governance Arrangements and performance management of the Council and its Partnerships” do not achieve this.
- The “actions” listed in the table could also be clearer and more specific. For example, under “Risk Management” there is a statement explaining that implementing risk management has been delayed, but no indication of what actions have been planned.

55 The section on the “Governance Framework” could be improved by addressing the following;

- Section (A), page 146, para 8 is about performance management and would be more appropriately placed in Section (C)
- Section (E), page 152, para 6 refers to an “Audit Commission peer review.” This was not a peer review.
- Section (L), page 157, para 3. Should the opening hours of Call Centres be included in what is intended to be a strategic document?
- Section (M), page 158, para 3. The reference to the “TSP wheel” requires an explanation of what it is.

56 The above matters have been discussed with the Executive Head Governance who agreed to consider the improvement opportunities identified.

Recommendations

R3 Annual assurance statements should be sought from all Directors / Assistant Directors and any missing ones should be followed up.

R4 The improvement opportunities identified in this report should be considered and actioned as appropriate..

Appendix 1 Action Plan

Recommendations

Recommendation 1

System controls - Recommendations made in our interim audit report to strengthen controls should be actioned in accordance with the agreed timetable.

Responsibility	Executive Head Governance
Priority	High
Date	2010/11
Comments	Changes to the Payroll system controls are being implemented in a phased programme in accordance with the report elsewhere on this agenda. Other control issues are being reviewed as appropriate.

Recommendation 2

Final accounts - Most of the errors we identified were amended before the audit opinion was given. The remaining significant issues were agreed in the action plan to the Annual Governance Review.

Responsibility	As AGR action plan
Priority	
Date	
Comments	Recommendations included in the original action plan are being implemented in accordance with the original report.

Recommendation 3

Annual Governance Statement - Annual assurance statements should be sought from all Directors / Assistant Directors and any missing ones should be followed up.

Responsibility	Executive Head Governance
Priority	Medium
Date	2010/11
Comments	Signed copies of completed forms will be obtained.

Recommendations

Recommendation 4

Annual Governance Statement - The improvement opportunities identified in this report should be considered and actioned as appropriate..

Responsibility	Executive Head Governance
Priority	Medium
Date	2010/11
Comments	The Council is concerned that the document may become too unwieldy with detail included that has been reported elsewhere in a document that is intended to be strategic in nature. Further consideration to these matters will be given when preparing the 1010/11 statements.