

Annual Audit Letter

Torbay Council

Audit 2010/11



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Key messages

This report summarises the significant findings from my 2010/11 audit.

My audit comprises two elements:

- 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 audit opinion on the financial statements on 30 September 2011. My audit identified one material error, three material disclosure errors and a number of non-trivial errors in the financial statements. The accounts were adjusted for all the material errors and all of the non-material ones (with some minor exceptions). None had an effect on Council balances.

In addition I identified a significant number of minor errors, omissions and/or inconsistencies in the text, which were all corrected at audit.

Overall, however, this was a good achievement, given the significant additional requirement this year for Local Government bodies to

implement International Financial Reporting Standards – a major project.

Value for money

I issued an unqualified value for money conclusion for 2010/11.

My VFM conclusion is based on the nationally-set criteria:

- Securing financial resilience – Confirming that the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- Securing and challenging arrangements for economy, efficiency and effectiveness – Confirming that the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

I was satisfied the Council had appropriate arrangements in place to satisfy each of the criteria.

B/W symbol key: Red ■ Amber ◆ Green ●

Current and future challenges

The Council is working in an increasingly demanding environment as funding is restricted.

The Council is facing significant challenges because of the economic downturn. However, it is taking positive action to address these issues.

Revenue budget outturn projection 2011/12

An overspend of £1.525m is projected for the end of the current year. This has been reduced from the £3m projected at the end of the first quarter.

The Council has agreed a series of savings proposals and other actions to address the projected deficit.

Economic downturn and budget pressures going forward

The Council faces significant budget gaps over the coming years as a result of reductions in government funding combined with other financial pressures. The budget gap for 2012/13 is challenging at an expected £10.7m, but is then expected to gradually reduce subsequently.

Significant service pressures include

- the additional costs involved in addressing Childrens' Services issues;
- growth in demand for Adult Services; and
- increasing landfill costs, combined with associated Waste Disposal spending.

A revised Medium Term Financial Plan has been prepared and will be presented to Members, along with budget options for 2012/13.

The Council has conducted widespread consultation on where expenditure should be focused and savings should be made.

They will, nevertheless, have difficult decisions to make to balance the 2012/13 budget

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 issued an unqualified opinion on the Council's financial statements and annual governance statement on 30 September 2011. Before giving my opinion I reported to those charged with governance (in this case the Audit Committee) on the issues arising from the 2010/11 audit.

The Council prepared its financial statements before the deadline of 30 June 2011. I identified one material error, three material disclosure errors and a number of non-trivial errors in the financial statements. The accounts were adjusted for all the material errors and virtually all of the non-material ones. None had an effect on Council balances. In addition I identified a significant number of minor errors, omissions and/or inconsistencies in the text, which were corrected at audit.

Overall, however, this was a good achievement, given the significant additional requirement this year for Local Government bodies to implement International Financial Reporting Standards – a major project.

In my Annual Governance Report I identified two areas for future improvement:

- The operation of a key payroll system control should be strengthened to improve assurance over payroll expenditure.
- Quality improvements are recommended in the following accounts preparation areas: Valuation reports; the setting of council tax and NNDR bad debt provisions; the identification of related parties' transactions; and the need to strengthen quality assurance arrangements and improve working papers.

Recommendation

I recommend that the Council takes action to address the issues which I have raised in our Annual Governance Report in relation to payroll system controls and accounts preparation quality matters.

Our memo to management (Report on the Audit of System Controls and Financial Statements) contains an action plan which has been agreed by officers.

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
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</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>The criterion is met.</p> <ul style="list-style-type: none">■ The Council agreed a well-evidenced and balanced budget for 2011/12 in February 2011, following a rigorous review of spending■ The Medium Term Financial Plan was agreed in December 2011, but officers have updated it subsequently and an updated version will be agreed shortly as part of the 2012/13 budget setting process.■ The Council's reserves have been maintained and are adequate. Their robustness has been confirmed by the Chief Financial Officer.■ Although the first quarter outturn in the current year projected a £3m overspend at the year-end, the latest budget monitoring report projects a significant reduction to £1.5m and the Council is continuing to pursue a series of savings proposals and other actions to address this.

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 prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key messages

The criterion is met.

- The 2011/12 budget prioritised resources to meet realistic tighter budget constraints. Arrangements are in place to ensure that the Council can continue to drive out inefficiencies.
- The Council's Annual Governance Statement confirms that underlying performance management systems continue to operate effectively.
- The Council has been able to respond with valid reasons for variances identified by the Audit Commission's VFM profiles.
- The management of Adult and Children's services continues to be challenging as demand pushes up costs but the Council is committed to driving up standards in Childrens' Services and delivering priorities in Adult Services and is actively managing these issues.

Closing remarks

I have discussed and agreed this letter with management. I will present this letter at the Audit Committee on 21 December 2011 and will provide copies to 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 (revised to reflect the abolition of CAA and Use of Resources)	July 2010
Opinion audit plan	June 2011
Annual governance report	September 2011
Audit of system controls and financial statements (including IFRS)	November 2011

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

Alun Williams

District Auditor

November 2011

Appendix 1 – Fees

	£ Actual	£ Proposed	£ Variance
Agreed fee *	250,000	250,000	nil
Non-audit work	nil	nil	nil
Audit Commission refund re IFRS 6%	-14,656	-14,656	nil
Audit Commission refund re Use of Resources 1.5%	-8,750	-8,750	nil
Total	226,594	226,594	nil

* The agreed fee reflected extra work required to audit the introduction of International Financial Reporting Standards and new Auditing Standards but, in recognition of the financial pressures facing authorities, the Audit Commission refunded these costs, as shown above.

In addition the Audit Commission refunded a further 1.5% in respect of changes to the Use of Resources audit regime.

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 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 resources 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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