

Annual Audit Letter

Torbay Council

Audit 2008/09

December 2009



Contents

| | |
|---|----------|
| Key messages | 3 |
| Financial statements and annual governance statement | 5 |
| Value for money and use of resources | 6 |
| Closing remarks | 9 |

Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
-

Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Audit Opinion

- 1 I issued an unqualified opinion on the Council's accounts on 30 September 2009.
-

Financial Statements

- 2 I reported the findings from my audit to the Audit Committee on 16 September 2009. There were no material issues or adjustments arising from the audit and only a small number of enhanced disclosures. The statements presented for audit were well presented and complete.
-

Value for money

- 3 I issued an unqualified value for money conclusion on 30 September 2009 stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources in 2008/09.
 - 4 My work on the conclusion is supported by the Use of Resources assessment and the Council achieved an overall score of two - 'performing adequately'. The Use of Resources framework has been completely revised for 2008/09, so this score is not directly comparable with that for the previous year.
-

Objection to the accounts

- 5 An objection to an item of account was received from a local elector. The objection was not upheld and a certificate of audit closure was issued on 20 November 2009.
-

Audit fees

- 6 I reported my fee proposals in the Audit Plan for 2008/09. The actual outturn fee was in line with the planned fee, as shown in Table 1.
-

Table 1 Audit fees 2008/09

| | Actual | Planned |
|--|-----------------|-----------------|
| Financial statements and annual governance statement | £168,563 | £168,563 |
| Value for money | £66,201 | £66,201 |
| Total audit fees | £234,764 | £234,764 |

Independence

- 7** I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

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.

Significant issues arising from the audit

- 8** I have not identified any significant issues, except for the following:
- The assumed value of Devon Pension Fund assets used by the actuary in their FRS17 reports to the scheduled and admitted bodies was £1,767.9 million – an underestimate of £14.7 million compared with the actual audited figure. Torbay's share of this difference has been calculated at £1.24 million, using the actuarial calculation of the percentage share of assets. This is something over which Torbay had no control and is reported to you for information only. The amount is not material.
 - An unreconciled difference of £52,828 was identified between the schools bank total shown on the SIMs system and that shown on the ledger.
-

Material weaknesses in internal control

- 9** Although I identified weaknesses in the payroll and benefits systems in my Opinion Audit Plan, substantive testing by internal audit and ourselves provided assurance that figures produced by these systems and included in the financial statements were materially correct.
-

Accounting Practice and financial reporting

- 10** I considered the qualitative aspects of your financial reporting. I identified no significant accounting practice and financial reporting issues requiring the attention of members.

Value for money and use of resources

I considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources

- 11 In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 12 I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 13 The new use of resources assessment is more demanding than previous assessments. The KLOEs are more broadly based than previously and embrace wider resource issues such as the use of natural resources. The KLOEs focus more on value for money achievements, outputs and outcomes rather than on processes.
- 14 It follows that 2008/09 use of resources scores are not directly comparable with those for the previous year.
- 15 The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. This impacts upon the audit and, as part of my responsibility, I have reflected on the wider environment, specific issues and risks and the Authority's response in my work.
- 16 I have also, during my work, considered treasury management arrangements in the light of lessons learned from the failure of Icelandic bank investments, which has affected a number of authorities (but not Torbay) during 2009.
- 17 The outcomes from work in both these areas has been included in our reports and, where appropriate, the Council has taken action eg by providing training for Members on treasury management issues.

Judgements

- 18 The Council scored two - 'performing adequately' for its overall Use of Resources. The individual theme scores are shown in Table 2 below.

Value for money and use of resources

Table 2 Use of resources theme scores

| Use of resources theme | Scored judgement |
|------------------------|------------------|
| Managing finances | 2 |
| Governing the business | 2 |
| Managing resources | 2 |

- 19** Torbay is on an improvement journey - It has taken action to secure improvement in many areas of its operations.
- 20** For the most part, it has sound arrangements in place which are consistent with professional practice and guidance and which have the potential to deliver positive outcomes for the people of Torbay.
- 21** Many of these improvements are either relatively recent innovations or are in the process of being implemented in stages.
- 22** As a result, in many cases either positive outcomes are not generally identifiable yet, or there is work still to be done.
- 23** Therefore our overall judgements are that
- the authority has sound arrangements in place; but
 - higher levels will only be met when those arrangements are embedded more fully and more positive outcomes are identified.

Managing finances

- 24** The authority has sound arrangements for managing its finances, incorporating the characteristics expected at level 2.
- 25** While the Council has scored a 2 overall for Managing Finances, its performance in relation to Financial Reporting has earned a level 3 assessment for that sub-theme.
- 26** In relation to the other sub-themes, Torbay is developing its VFM processes, and there are opportunities for strengthening areas covered by the financial planning KLOE. Further evidencing of outcomes will be key in 2009/10.

Governing the business

- 27** The Council has sound governance arrangements in place which incorporate the characteristics expected at level 2.
- 28** Current year initiatives should strengthen performance in 2009/10 but we have also identified a number of areas where improvement is required, and this will need to be complemented by clear evidence of outcomes.

Managing resources

- 29** The council's initiatives have earned it a level 3 for Strategic Asset Management, even though a significant maintenance backlog exists.
- 30** Although the Council has ambitious targets and a number of good initiatives, Natural Resources was scored as a 2, due to limited evidence of outcomes across all areas.
- 31** Overall the council scores 2 for Managing Resources because Natural Resources is the dominant KLOE.
- 32** The Council will need to demonstrate clear outcomes contributing to a reduction in backlog in 2009/10.

VFM Conclusion

- 33** From 2008/09, the Audit Commission will specify each year which of the use of resources KLOEs are the relevant criteria for the VFM conclusion at each type of audited body.
- 34** I assessed the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources against criteria specified by the Audit Commission and I issued an unqualified conclusion, stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Closing remarks

- 35** I have discussed and agreed this letter with management. I will present this letter at the next Audit Committee and copies will be provided to all members.
- 36** 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.

Table 3

| Report | Date issued |
|-------------------------------------|--------------------|
| Audit and inspection plan | May 2008 |
| Opinion plan | July 2009 |
| Annual governance report | September 2009 |
| Opinion on the financial statements | September 2009 |
| Value for money conclusion | September 2009 |
| Accounts and systems | November 2009 |
| Internal audit | November 2009 |
| Use of resources | November 2009 |

-
- 37** 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
December 2009

The Audit Commission

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.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

© Audit Commission 2009

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk
