

Babergh District Council
Annual Audit Letter 2009/10

Report to Members

November 2010



Local Public Services

Contents

1	Executive summary	1
2	Introduction.....	2
3	Key findings.....	4

Appendix

Reports issued in relation to the 2009/10 audit

<http://www.pkf.co.uk/>

Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

<http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/Pages/codelocalgov.aspx>

<http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/Pages/statementresponsibilities.aspx>

1 Executive summary

- 1.1 This Annual Audit Letter (Letter) summarises the key issues arising from the work we have carried out during the year.
- 1.2 We have already reported the detailed findings from our audit work to those charged with governance in the reports documented in the Appendix to this report. We have no additional recommendations for the Council at this time.
- 1.3 Emerging issues highlighted within Section 3 of this report:
 - the current economic climate
 - proposed integration/merger with Mid Suffolk District Council
 - Treasury management
 - shared revenues and benefits service with other Suffolk authorities.
 - International Financial Reporting Standards.

Key findings

- 1.4 A summary of key conclusions is included in the table below:

Area	Conclusion
Financial statements	We issued an unqualified opinion on the financial statements. We noted a significant improvement in the quality of supporting working papers and the draft accounts.
Value for money conclusion	We issued an unqualified value for money conclusion. Our work undertaken this year found that the Council had made very significant improvements in the year in key areas.
Data Quality	All five indicators were fairly stated, although one identified a number of errors in the underlying data.
Grants	All of the claims audited in relation to 31 March 2009 were unqualified, however, five of the six were certified with amendments.

Acknowledgement

- 1.5 We would like to thank staff for their co-operation and assistance during the audit and throughout the period.

2 Introduction

About the Council

- 2.1 Babergh is a largely rural District with a population of approximately 84,000. It covers an area of 230 square miles and contains several small towns and villages, the largest town in Babergh is Sudbury. The Council consists of 43 elected Members representing 76 parishes. Babergh employs about 370 employees of whom around 130 are part-time.
- 2.2 The Council has a medium term financial strategy in place which is reviewed annually and drives the annual budgets, capital programmes and Council Tax levels. In 2009/10, the Council spent £50.2m on providing services to residents in the District which was funded by Central Government Grants, Council Tax, fees and charges (including housing rents) and other sources of income.
- 2.3 Further information on the activities of the Council is detailed in the Annual Report which is publicly available on the Council's website at www.babergh.gov.uk.

The purpose of this Letter

- 2.4 The purpose of this Letter is to summarise the key issues arising from the work that we have carried out during the year. Although this Letter is addressed to Members, it is also intended to communicate the significant issues we have identified, in an accessible format, to key external stakeholders, including members of the public. The Letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website at www.babergh.gov.uk.

Responsibilities of the auditors and the Council

- 2.5 We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England.
- 2.6 As the Council's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Council achieving its objectives. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

The scope of our work

- 2.7 Our main responsibility as the appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:
- the Council's financial statements
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

3 Key findings

Financial statements

- 3.1 We issued an unqualified opinion on the Council's financial statements on 28 September 2010. Our opinion confirms that the financial statements gave a true and fair view of the Council's financial affairs as at 31 March 2010 and of its income and expenditure for the year then ended.
- 3.2 The Council provided us with files of comprehensive working papers as well as electronic working papers to support the disclosures within the financial statements. We noted a significant improvement in the quality and completeness of working papers presented for our review. The draft financial statements had been prepared to a good standard which facilitated early analytical review of the core statements. A number of technical issues had been discussed in advance of the audit demonstrating the Council's improved proactive approach to the accounts process.
- 3.3 We were satisfied that the Annual Governance Statement was not inconsistent or misleading with other information we were aware of from our audit of the financial statements.
- 3.4 We did not identify any significant issues from our review of the Council's accounting and internal control systems. The key financial systems are generally adequate as a basis for preparing the financial statements. Some minor failures in controls were reported in our Annual Governance Report presented to the September 2010 Overview and Scrutiny (Stewardship) Committee.

Key issues arising from the audit

- 3.5 No material errors were identified during the course of the audit, some recommendations were made in our Annual Governance Report in respect of the Council's tangible fixed assets and the Council is in the process of purchasing new software as part of the International Financial Reporting Standards implementation that will address the majority of these.
- 3.6 The following issues were identified during the course of our audit of the financial statements:

Vacant possession value

- 3.7 The prior year comparative figure included within Note 11 to the Housing Revenue Account has been restated from £379.7m to £378.6m so that the figures were disclosed on a consistent basis to the current year. This adjustment reflects the removal of non-dwelling assets from the valuer's vacant possession value calculation.

Cashflow

- 3.8 Changes were made to the cashflow statement regarding council tax and National Non-Domestic Rate (NNDR) cashflows in both the current year and prior year comparative figures. The treatment of Council Tax and NNDR movements were problematic for all authorities due to the changes in accounting treatment within the Statement of Recommended Practice (SORP).
- 3.9 A number of adjustments were made to the figures and the net effect was a £9.7m decrease in “other liquid resources” which was the net effect of the adjustments consisting of the preceptors’ proportion of the council tax benefit plus other adjustments.

Use of resources

- 3.10 The Code requires us to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources. This is known as the “value for money conclusion”.

Value for money conclusion

- 3.11 We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money).
- 3.12 In June 2010 the Government announced the abolition of Comprehensive Area Assessment. As a result the Audit Commission announced changes to its use of resources approach, effective immediately, which included removal of the scored judgements for use of resources assessments in local government bodies. It was still necessary, however, for auditors to complete sufficient use of resources assessment work to support their statutory duty to give a value for money conclusion. In practice, much of the use of resources assessment had already been completed at the time of the announcement, in order to meet the prior deadline of submitting indicative scores to the Audit Commission by 21 April 2010.

2009/10 value for money conclusion

- 3.13 We have concluded that proper arrangements are in place to secure value for money and have provided an unqualified value for money conclusion for the year ended 31 March 2010. Our findings on our work to the date when the removal of the scoring of judgements was announced showed that the Council had made very significant improvements in the year in key areas. We set out below the key messages from our work under the three main headings our work addressed:

Managing finances

- 3.14 The Council has been able to demonstrate improvements in its financial and its corporate planning processes showing improved links to outcomes, supported by engagement. A sound overall process has been enhanced by improvement to cost analysis and service planning. Key improvements include the formalisation of the Savings & Efficiency Plan; improvements to the budgeting process; and an innovative budget deconstruction exercise. Budget monitoring and forecasting arrangements continue to be sound and variances are managed.
- 3.15 We worked more closely with officers this year in relation to the preparation for the audit and this was beneficial to both parties. A number of technical issues such as the redundancy provision had been discussed in advance of the audit demonstrating the Council's proactive approach to the accounts process. The Council provided us with files of comprehensive working papers at the start of the audit as well as electronic working papers. We noted a significant improvement in the quality and completeness of working papers presented for our review and only a small number of minor errors were noted during the audit process.

Governing the business

- 3.16 The Council's approach to procurement and commissioning has been strengthened during the year and carry on delivering outcomes. Commissioning decisions continue to be driven by the 10-year Strategic Plan and ultimately delivered through the One Year Delivery Plan. The Procurement Strategy & Framework (which is linked to the strategy), focuses on procurement and commissioning decisions, major contract, and joint commissioning opportunities.
- 3.17 The Council approved a data quality policy in April 2009 that sets out roles and responsibilities. There is a performance improvement co-ordinator group that is attended by the Performance Indicator Co-ordinators for each service. Monthly meetings are held in which data quality is included as a standard agenda item. An action plan is also in place, with progress reported to Members during the year. Training has been undertaken for staff, driven by needs identified through staff appraisals and internal audit work.
- 3.18 A Partnership Strategy has been approved in the year and, using criteria set out in this strategy, the Council identified six significant partnerships. A self-assessment has been carried out for one of these significant partnerships and the Overview and Scrutiny (Stewardship) Committee reviewed this and resolved that the outcomes should be shared with two neighbouring councils. Any improvement points will be reported to the partnership and they will be asked to address them.

- 3.19 The Council have improved their risk management arrangements, with service plans now including divisional risk logs; new staff receiving training and further work being undertaken to identify partnership risks. The Council has been more pro-active in embedding its counter fraud culture, with increased awareness work and internal audit days. Business Continuity arrangements have also improved.

Managing resources

- 3.20 Only the natural resources value for money conclusion criteria was assessed in 2009/10.
- 3.21 The Council has a track record in its development of a strategic approach to sustainability going back to 2004 and there has been an estimated 20% reduction in gas and electricity consumption e.g. reduction in air conditioning systems, installation of condensing boilers, water flow restrictors.. The Council has done a baseline assessment and quantified carbon impact, and has a strategic approach to sustainability with actions. The Council has worked with the Energy Saving Trust and the Carbon Trust during 2009/10 to update the assessment of its current performance and the Council has now developed action plans relating to its carbon footprint. The sustainability agenda is monitored by the senior management and to demonstrate the Council's on-going commitment to the sustainability agenda it was also in the process of appointing an Environmental Management Officer to further develop monitoring and performance management arrangements in this area.

Approach to local value for money audit work from 2010/11

- 3.22 Given the scale of the pressures facing public bodies in the current economic climate, the Audit Commission has reviewed its work programme for 2010/11 onwards. As part of this exercise, the Audit Commission has been discussing possible options for a new approach to local value for money (VFM) audit work with key national stakeholders. From 2010/11 we will therefore apply a new, more targeted approach to our local VFM audit work. This will be based on a reduced number of reporting criteria specified by the Audit Commission, concentrating on:
- securing financial resilience; and
 - prioritising resources within tighter budgets.
- 3.23 We will determine a local programme of VFM audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities. We will no longer make annual scored judgements relating to our local VFM audit work. Instead we will report the results of all the local VFM audit work and the key messages for the audited body in our annual report to those charged with governance and in a clear and accessible annual audit letter.

Data Quality

- 3.24 The arrangements for the production for good quality data were reviewed and an increased number of spot checks on 31 March 2009 indicators was undertaken which formed part of our Use of Resources assessment for the 2008/09 value for money conclusion. Our findings were that all five indicators were fairly stated, though one identified a number of errors in the underlying data.
- 3.25 Further progress has been made during 2010 in terms of the arrangements surrounding data quality. We undertook spot checks on three of the 2009/10 indicators reported by the Council. One issue was identified but the Council already has plans in place to address this.

Grants

- 3.26 Our work on the 31 March 2010 grant claims remains on-going at the time of finalising this report. All of the claims audited in relation to 31 March 2009 were unqualified, however, five of the six were certified with amendments. In a number of cases, additional testing and enquiries had to be undertaken in order to resolve issues identified and make appropriate corrections to claim. However, an improvement from prior year was seen in the preparation of these claims, with a lower number of amendments identified.
- 3.27 A further improvement has been noted in the quality of supporting working papers in 2009/10 in claims certified to date.

Emerging issues

Current economic climate

- 3.28 The Government announced the results of its Comprehensive Spending Review in October 2010. This suggested that Local Government faces cuts with an expected real-terms reduction in the Government Formula Grant of 7% per annum. However, the actual grant settlement proposals received in December 2010 will result in nearly a 15% cash reduction in 2011/12 with a further 10% reduction in 2012/13. The Council forecast a fall in the level of funding it would receive within its Medium Term Financial Strategy (MTFS) but will be reviewing its MTFS to take account of the outlined proposals, especially when more detail becomes available.
- 3.29 The Council had previously forecast a significant level of savings (£3.2m) that need to be delivered in the medium term and that position will need to be reconsidered in light of the recent grant settlement announcement. A Task Group is reviewing costs and service provision as well as the capital programme to update the MTFS and take account of the Spending Review announcement. Given the size of savings needed, an impact on services

will be inevitable and the Council will need to manage stakeholders and staff during the process.

Proposed integration/merger with Mid Suffolk District Council

- 3.30 The Council on the 28 September 2010 voted to pursue the integration and potential merger between Babergh District Council and Mid Suffolk District Council and the two Councils are now looking at ways of working together operationally. The merger is due to take place by 2013 and Councillors will need to monitor and scrutinise the process during the transitional phase to ensure that quality of service remains unaffected and the financial position of Babergh is effectively managed. A significant amount of work is currently being undertaken on implementation plans to deliver the desired integration and savings.

Treasury management

- 3.31 Following the collapse of the Icelandic banks in October 2008 the Audit Commission conducted a study to examine treasury management arrangements in local authorities. The resulting report *Risk and Return* was published in March 2009 and the Communities and Local Government Select Committee also made a series of recommendations in its report *Local Authority Investment* published in June 2009. In light of both of these documents, CiPFA revised the *Treasury Management in Public Services: Code of Practice (Second edition 2009)* which sets out the minimum level of arrangements that would be acceptable and the Council's own arrangements were considered as part of the 2009/10 Value for Money conclusion.
- 3.32 We concluded from this work that the Council's treasury management arrangements are satisfactory and the Council has taken action to strengthen its arrangements in light of the collapse of the Icelandic banks.

Shared revenues and benefits service with other Suffolk authorities

- 3.33 The Council is preparing to enter into a Shared Revenues Partnership with Mid Suffolk Council and Ipswich Borough Council from April 2011. This involves the transfer of all back office functions associated with revenues and benefits services to a one location (currently Ipswich is the proposed host). The estimated net savings of the initiative are £4m over a 10 year period, with savings starting to be generated from 2011/12 which is an ambitious target although start up costs/investment costs are estimated to be £2.5m.
- 3.34 There are a number of potential risks and rewards attached to the proposal and the Council will have to continue to monitor closely the transitional process to ensure service performance is not adversely affected and that the partnership delivers the objectives and financial targets set out in the proposals.

International Financial Reporting Standards (IFRS)

- 3.35 IFRSs will be adopted in local government from 2010/11 and will require transitional arrangements to be put in place by the Council. Management should prepare for the adoption of IFRSs based on the Treasury timescales and ensure that staff have sufficient knowledge of IFRSs to restate the current financial statements.
- 3.36 The Council has made progress since the previous Audit Commission IFRS survey in November 2009. The Audit Commission updated their Local Government IFRS preparedness survey in 2009/10 and our assessment rated the Council as amber (previously "Red") because an initial impact assessment has been completed with a further review due to take place to consider asset register requirements and other practical implications. The opening balance sheet restatement work has progressed but is not yet complete. Leases are also being reviewed again in conjunction with Mid Suffolk District Council to ensure all the relevant standards and guidance have been considered.
- 3.37 The 2009/10 financial statements are due to be restated by the end of February 2011 along with the preparation of skeleton draft IFRS statements.

Appendix: Reports issued in relation to the 2009/10 audit

Report	Date Issued
Audit Fee Letter	April 2009
Audit plan	December 2009
Grant Claim Certification for the year ended 31 March 2009	February 2010
Annual governance report	September 2010
Annual Audit Letter	November 2010