

# Annual Audit Letter

Suffolk Coastal District Council

Audit 2010/11



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**Traffic light explanation**

Red ■ Amber ◆ Green ●

# Key messages

**This report summarises the findings from my 2010/11 audit. My audit covers:**

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

**I have included only significant recommendations in this report. The Council has accepted these recommendations.**

Key audit risk	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●
Significant weakness in internal control	◆

## **Audit opinion and financial statements**

The changes arising from the introduction of International Financial Reporting Standards (IFRS) into Local Government accounting had a significant impact on accounts preparation procedures at local authorities. Despite this significant change the Council submitted its financial statements for audit on 30 June 2011, within the statutory deadline.

The financial statements submitted for audit were complete. The statements contained some material errors and a high number of disclosure errors relating to the requirements of the Code of Practice on Local Authority Accounting.

On 30 September 2011, I issued an unqualified opinion on the Council's financial statements.

The arrangements for resolving audit queries were challenging for the Council, due to the level of staffing and working patterns within the finance department. Improvements to working papers and faster responses to audit queries are necessary to improve the efficiency of the audit process.

## **Value for money**

On 30 September 2011, I issued an unqualified value for money conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

## **Weakness in internal control**

There is a weakness in internal control relating to authorisation controls for BACS payments. Management included actions to address this matter in the Annual Governance Statement.

## **Matters relevant to audit closure**

At present I am unable to formally close the 2010/11 audit as I have received correspondence from an elector regarding the 2010/11 financial statements. Having considered this correspondence I have concluded that this represents a valid objection to the accounts and my investigation into the issue is ongoing.

# Current and future challenges

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## **Economic downturn and pressure on the public sector**

The economic downturn is placing increasing pressure on the public sector as a whole. This is reflected in the:

- challenging Comprehensive Spending Review settlement;
- increasing demand for key services; and
- reduced ability of members of the public to pay for services.

In addition there are challenges arising from possible boundary changes and the increased level of pension costs arising from the triennial revaluation and changing assumptions regarding pensionable employees. Taken together, these challenges will put increasing pressure on the Council's finances.

The Council is well-placed to meet these challenges. It has a well founded and robust budget setting and financial management system based on medium term planning. It has also modelled the impact of the challenges it faces and has in place a soundly based Medium Term Strategy.

## **Joint arrangements/shared services**

Central Government has identified joint arrangements and shared services as a key element in councils reducing their overall costs. The Council has a track record of partnership working with a range of public, private and voluntary sector bodies. There are recent examples to show that this approach is being continued, most notably the shared management and service arrangements with Waveney District Council.

## **Welfare reform**

The Welfare Reform Bill was introduced in Parliament in February 2011. The Bill means significant changes to the welfare system. It provides for the introduction of a 'Universal Credit' to replace a range of existing means-tested benefits and tax credits for people of working age, starting from 2013. These include Housing Benefit and Council Tax Benefit, which are administered by councils. The Bill follows the November 2010 White Paper, 'Universal Credit: welfare that works', which set out the Coalition Government's proposals for reforming welfare to improve work incentives, simplify the benefits system and tackle administrative complexity.

Besides introducing Universal Credit and related measures, the Bill makes other significant changes to the benefits system. The changes that specifically affect councils include:

- restriction of Housing Benefit entitlement for social housing tenants whose accommodation is larger than they need;
- up-rating of Local Housing Allowance rates by the Consumer Price Index; and
- capping of the total amount of benefit that can be paid.

The Government has yet to confirm the detailed timescale over which the full move from the existing Housing Benefit and Council Tax Benefit systems to the Universal Credit will take place. However, it is clear that this will have significant operational and resource implications for the Council. This is identified as a key issue and is being actively monitored.

More recently the Coalition Government released a consultation paper on local support for council tax. This stated that council tax support would not form part of Universal Credit and would remain a local authority responsibility. The paper also set out the need for a 10% cut in the existing level of support.

# Financial statements and annual governance statement

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**The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.**

## **Overall conclusion from the audit**

The Council's financial statements were published on the Council website by the 30 June statutory deadline. This was an achievement given the complexities involved with preparing accounting entries for the first time in line with International Financial Reporting Standards (IFRS).

Capacity in the finance team significantly delayed the audit process. Some working papers were incomplete at the start of the audit and did not provide all the information we required.

I reported the findings of my audit to Suffolk Coastal District Council's full Council meeting on 29 September 2011. I reported that my audit had identified some material errors and a high number of disclosure errors in the accounts. My report also referred to any issues I identified in respect of accounting practices, accounting policies, accounting estimates and financial statements disclosures. All matters identified were adjusted by the Council.

I issued my audit report including an unqualified opinion on the financial statements on 30 September 2011 and this opinion is included in the financial statements that the Council has published on its website.

## **Significant weaknesses in internal control**

Capacity issues raise the risk that internal controls in place are weakened. Members should monitor the impact of resourcing levels on the internal controls of the Council. A control weakness in the year occurred relating to BACS processing, resulting in a duplicate payroll run. The need to address some authorisation and reconciliation controls is still outstanding.

There was an improvement in the process to gather evidence to support the disclosures in the Annual Governance Statement, including consideration of issues by heads of service and the holding of corporate governance days. However, we were unable to obtain evidence of the process for inclusion and exclusion of issues, following review of supporting evidence, in the Annual Governance Statement for 2010/11. This year a serious control weakness was included in the final Annual Governance Statement after having been omitted from the draft statement.

## Recommendations

- R1** Review the resourcing of the finance team to ensure that future audit queries can be addressed promptly.
  - R2** Improve the quality of the working papers to ensure that adequate evidence is provided.
  - R3** Ensure that evidence is available to support the inclusion and exclusion of issues in the Annual Governance Statement.
  - R4** Ensure that internal control weaknesses relating to authorisation and preparation of reconciliations and BACS payments are addressed.
  - R5** Monitor the impact of resourcing levels on the internal controls of the Council.
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## Matters relevant to audit closure

At present I am unable to formally close the 2010/11 audit as I have received correspondence from an elector regarding the 2010/11 financial statements.

Having initially assessed and considered this correspondence I have concluded that this represents a valid objection to the accounts. I have liaised with Council officers and the local elector on this matter and will continue to do so during my ongoing investigation.

At this stage, I am minded to conclude that the issues raised do not have an impact on my 2010/11 audit opinion and value for money conclusion. However, there will be a delay in the certification of completion of the audit due to the time required to investigate matters raised by the objection. I will conclude the audit following the completion of my investigation into this matter.

# Value for money

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**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.

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## Value for money criteria and key messages

Criterion	Key messages
<p><b>1. Financial resilience</b></p> <p><b>The organisation has proper arrangements in place to secure financial resilience.</b></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 Council had a savings and efficiency plan in place for 2010/11. This identified in-year efficiency savings, with an additional £0.572 million in budget savings. The focus has been on longer term financial solutions rather than short term financial fixes. There is no evidence of dependency on reserves and investment income to balance budgets, or the use of reserves to fund recurrent expenditure.</p> <p>The Council completed some scenario planning at the initial budget planning stage. This contributed to the longer term service and financial planning documents which highlighted a funding gap going forward.</p> <p>The Council reviewed its priorities in light of increased financial pressures. Linked to this is good communication to staff and external stakeholders of the medium- to long-term financial strategy, current financial position and likely financial challenges.</p>

## Criterion

## Key messages

Accurate in-year forecasting enabled the Council to deliver a small revenue underspend of £0.726 million at the end of 2010/11, increasing Earmarked Reserves by £0.572 million and increasing the general fund balance carried forward by £0.154 million.

Our previous assessment indicated that monitoring arrangements were strong, with good finance and performance links via the quarterly Integrated Performance and Finance monitoring report. These arrangements have been maintained in this period.

### **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.

There is evidence of strong leadership from senior management and Members to ensure that resources are prioritised and there is a focus on spending reductions. Resources have been reallocated to meet changing needs as part of this process.

Review arrangements are in place to ensure that strategic priorities are delivered. The Council also consulted with stakeholders during the year.

There is a good understanding of costs and how these relate to performance. The Council is prepared to investigate longer term options in order to secure reductions, for example via shared working with Waveney District Council and partnership working with other providers.

The Council uses performance and financial monitoring to ensure ongoing efficiency and productivity. There is good use of benchmarking by the Council, combined with peer assessment, stakeholder feedback and review of indicators. Staff are engaged in the efficiency savings programme via individual service delivery plans and via monitoring of outturn by service managers.

There is use of outsourcing and commissioning to challenge the way that activities are delivered.

# Closing remarks

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I have discussed and agreed this letter with the Chief Executive, Director of Resources and the Head of Financial Services. I will present this letter at the Audit and Governance Committee on 18 January 2012 and will provide copies to all Council 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	April 2010
Audit Opinion Plan	June 2011
Annual Governance Report	September 2011
Audit opinion on the accounts	September 2011
Annual Audit Letter	November 2011

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

Neil A Harris  
District Auditor

November 2011

# Appendix 1 - Fees

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	Actual	Proposed	Variance
Scale fee	To be confirmed	116,500	To be confirmed
<b>Total</b>			

When I set my 2010/11 audit fee, this was based on a number of assumptions, as detailed in my Audit Plan presented to the Audit and Governance Committee on 29 June 2011. I will reassess whether these assumptions for my opinion audit have been met at the end of the audit process.

I am incurring additional costs of my time and of my own in-house legal and technical advice team to review matters relating to correspondence and the subsequent objection to the 2010/11 accounts received from a local elector. My fee did not include any assumptions that I would undertake work in this area.

For this reason, I have informed the Head of Finance that I will need to charge additional audit fees to cover the costs of this extra work. Once I have issued my audit opinion on the Council's 2010/11 financial statements and concluded my work in response to the objection received, I will confirm my additional fee with the Head of Finance and then report this to the next Audit and Governance Committee. At this stage, I am unable to determine the amount of my additional fee.

# Appendix 2 - Glossary

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## **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.

# Appendix 3 - Action plan

## Recommendations

### Recommendation 1

Review the resourcing of the finance team to ensure that future audit queries can be addressed promptly.

**Responsibility** Head of Financial Services

**Priority** High

**Date** October 2011

**Comments** This will be addressed as part of Finance restructure.

### Recommendation 2

Improve the quality of the working papers to ensure that adequate evidence is provided.

**Responsibility** Chief Accountant

**Priority** High

**Date** March – June 2012

**Comments** As part of Joint approach and also service improvement.

### Recommendation 3

Ensure that evidence is available to support the inclusion and exclusion of issues in the Annual Governance Statement.

<b>Responsibility</b>	Head of Financial Services
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<b>Priority</b>	Medium
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<b>Date</b>	March 2012
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<b>Comments</b>	As part of improvement plan.
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### Recommendation 4

Ensure that internal control weaknesses relating to authorisation and preparation of reconciliations and BACS payments are addressed.

<b>Responsibility</b>	Head of Financial Services
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<b>Priority</b>	High
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<b>Date</b>	March 2012
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<b>Comments</b>	As part of improvement plan.
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### Recommendation 5

Monitor the impact of resourcing levels on the internal controls of the Council.

<b>Responsibility</b>	Head of Financial Services
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<b>Priority</b>	High
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<b>Date</b>	April 2012
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<b>Comments</b>	Services restructuring are assessed based on business case and risk assessment. Key service activities are also subject to assessment by internal audit. The adequacy and appropriateness of any revised arrangements will be measured and monitored on an ongoing basis.
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