

Annual Audit Letter

Thanet District Council

Audit 2010/11



Contents

- Key messages.....3**
 - Audit opinion and financial statements.....3
 - Value for money3
- Financial statements and annual governance statement.....4**
 - Overall conclusion from the audit.....4
 - Significant weaknesses in internal control.....4
- Value for money.....5**
- Future challenges and opportunities.....7**
- Closing remarks9**
- Appendix 1 - Fees.....10**
- Appendix 2 - Glossary.....11**

Traffic light explanation

Red  Amber  Green 

Key messages

This report summarises the 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 gave an unqualified audit opinion on the Council's financial statements on 30 September 2011. The Council coped well with the first year of IFRS implementation, despite capacity within the finance team being stretched.

The statements were prepared to a sound standard overall. Although I agreed a number of amendments during the course of the audit, these resulted in no material impact on the Council's reported financial position.

I am holding open the certificate on the audit while I consider matters raised by local electors. I expect to conclude these shortly.

Value for money

I gave an unqualified value for money conclusion on 30 September, stating that the Council has proper arrangements in place for securing economy, efficiency and effectiveness.

The Council has good financial governance. Financial planning is effective and forward looking. There are sound arrangements for financial control. It is well-placed to address the financial pressures it faces over the medium term. Strong financial management will be vital going forwards because the financial position continues to be tightly drawn, reserves are at the minimum level necessary to provide against future pressures and there is limited or no scope for growth.

The Council takes a strategic approach to the prioritisation of resources and the achievement of cost reductions through improved efficiency and productivity. It is working effectively with its partners to deliver improved efficiencies.

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.

Overall conclusion from the audit

I gave an unqualified opinion on the Council's financial statements on 30 September 2011. The Council presented a draft set of accounts at 30 June 2011 which was complete except for the cashflow statement and notes for financial instruments, IFRS transition, Segmental Reporting and Capital Adjustment Account. These notes were completed the following week and in overall terms the Council coped well with the additional requirements posed by the International Financial Reporting Standards. Delays were due to the complexity of these areas and competing demands on staff time during the closedown period.

I reported on the detailed findings of my audit to the Governance and Audit Committee on 29 September 2011, including a recommendation to build in additional time within the accounts preparation process to allow for stronger internal consistency checks.

Significant weaknesses in internal control

I did not identify any significant weaknesses in your internal control arrangements. However, I identified weaknesses in the key controls at your outsourced payroll provider which reduce the effectiveness of your control environment for payroll transactions. I reported these weaknesses to the Governance and Audit Committee in my June 2011 audit progress report and my September Annual Governance Report

The Council is working with partners to ensure initial weaknesses in the key controls over payroll processing at the payroll provider are fully rectified for 2011/12.

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 Council has good financial governance, an effective financial planning framework and adequate arrangements for financial control. It has a good understanding of the financial pressures it faces over the medium term and plans in place to deal with these. Strong financial management will be vital going forwards because the financial position continues to be tightly drawn, reserves are at the minimum level necessary to provide against future pressures and there is limited or no scope for growth.</p> <p>Thanet District Council has good systems and processes in place to manage its financial risks in a challenging economic climate. It has a good understanding of its financial position and effective medium term financial planning.</p> <p>Financial monitoring and forecasting is fit for purpose and accruals based. The Council achieved a £1.1 million budget underspend and useable reserves (excluding HRA balances) have increased from £13,544,000 to £15,972,000. Reserves are consistent with the requirements of</p>

Criterion	Key messages
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>the Council's medium term financial strategy and provide a degree of comfort against future pressures. However any reduction in reserves from the current level would leave the Council vulnerable to future uncertainties.</p> <hr/> <p>The Council takes a strategic approach to prioritisation of resources and achievement of cost reductions through improved efficiency and productivity.</p> <p>The Council has reviewed its medium term financial plan and identified strategies to manage the financial position despite the current economic pressures. Medium term service priorities have been clarified and changes have been made to management structures.</p> <p>Management have undertaken a rigorous review of each service and identified a variety of actions for 2011/12 to reduce expenditure and increase income. These include internal restructures as well as participation in partnership working with Dover District Council and Canterbury City Council to deliver key services. A balanced revenue budget has been produced for 2011/12 with no increase in council tax.</p>

Future challenges and opportunities

The Council has coped well in meeting the immediate pressures of the credit crunch. Demands on the public sector to manage within ever more constrained resources look set continue. The Council has positioned itself well and is exploring opportunities to work in new ways with its partners. Constrained resources mean it will however need to continue to focus on its priorities.

Economic downturn and pressure on the public sector

The economic forecast for the UK and western developed economies remains gloomy. Since taking office in May 2010 the Coalition government has focused its attention on deficit reduction measures and the public sector has faced an unprecedented squeeze on its funding. The UK recovery continues to remain weak and there is considerable volatility in financial markets as Europe struggles to deal with the sovereign debt crisis affecting Greece and other countries in the euro zone.

The Council has positioned itself well to ensure it is financially resilient, having significant restructuring and prioritisation review.

In the first quarter of 2011/12 the Council's year end projection is an underspend of £325,980. The Council is currently undertaking a full review of budget allocations with the aim to realign budgets and deliver substantial savings. This information will be used to inform the 2011/12 monitoring position and contribute towards setting the 2012/13 budget.

Joint arrangements/shared services

2011/12 sees the first year of East Kent Services, hosted by Thanet DC. This is a shared service arrangement with Dover DC and Canterbury CC including shared Revenues and Benefits, ICT and Customer Services provision. As a result it plans to achieve savings of approximately £630,000 over the first two years.

The Council continues to pursue any savings or service improvements through the use of partnerships including HR and payroll, waste contract and the first shared Housing Arms Length Management Organisation.

The Council is also working with partners including other districts and Kent County Council to explore opportunities for regional growth funding. Members are promoting a culture of invest to save and service heads have identified some good opportunities to drive service efficiencies in the current budget round. The success of these will be critical in enabling the Council to progress in the future.

Planned changes to legislation

The government has announced some wide-ranging reforms to the public sector since taking office in May 2010. Many are contained in the Localism Bill, key aspects of which include:

- introducing a general power of competence for local authorities;
- introducing the right for communities to bid for local assets threatened with closure, challenge the way services are provided and initiate referendums; and
- significant reforms to the planning system.

The government is proposing the current method of financing the Housing Revenue Account (HRA) will change from 2012/13, to a self-funding system. Under the new system authorities will take control of their housing rental income and a share of the national £28 billion housing debt. The debt settlement will be based on a valuation of the authority's housing stock. From 2012/13 HRA debt will be ring-fenced and authorities will no longer receive housing subsidy or major repairs allowance income and will be expected to fund all HRA revenue and capital expenditure from existing resources.

The Welfare Reform Bill contains proposals which will affect benefits administration. Some proposals are still the subject of consultation, for example those relating to the local retention of business rates and the introduction of new localised schemes to replace council tax benefit.

The Council will need to consider the implications of this new legislation. Some proposals may involve changes to workloads or more coordination with other local authorities. The Council will also need to consider the implications for their medium term financial plans of changes to funding arrangements or to the overall level of central government support.

Closing remarks

I have discussed and agreed this letter with the Leader and Chief Executive. I will present this letter at the Audit Committee on 13 December 2011 and will provide copies to all 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 Plan 2010/11 audit	March 2011
Audit Commission Progress Report	June 2011
Annual Governance Report	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.

Andy Mack
District Auditor

November 2011

Appendix 1 - Fees

	Actual 2009/10	2010/11 Initial Estimate (April 2010)	2010/11 Final
Fee for Audit	145,000	153,500	153,500
Inspection Fee	9,152	9,152	0
Total	154,152	162,652	153,500

Our inspection activity and associated fee was cancelled following the abolition of CAA. In addition to the figures above, the Audit Commission issued rebates to the Council of £8,518 in April 2010 in respect of the cost of first year audit work on IFRS and a further rebate of £2,219 in December 2010.

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.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

© Audit Commission 2011.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

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.

