

# Annual Audit Letter

Tamworth Borough Council

Audit 2010/11



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# 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.**

**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	●

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mainly to enhance or correct its disclosures and were not related to IFRS. This is a commendable achievement given the challenge posed by IFRS.

## Value for money

I reported that the Council had arrangements in place to secure adequate value for money.

The Council is facing unprecedented financial challenges following a 35 per cent fall in central government funding from 2010/11 onwards. It has identified a funding gap of £3.5 million over the period to 2014/15, although the relatively healthy level of accumulated reserves means that this will be used to smooth the spending reductions.

As at Quarter 2 of 2011/12, officers are reporting an under-spend of £349,000 for the year to date, and a projected over spend of £39,000 for the full year. The Council has instigated actions to mitigate the areas of overspend.

## Audit opinion and financial statements

This year was the first time that your financial statements had to comply with International Financial Reporting Standards (IFRS). This provided a significant challenge because of the number and nature of lease arrangements in place.

The Council responded well to this challenge and carried out a significant amount of work to review the accounting treatment of its leases and to make appropriate accounting disclosures.

I gave an unqualified opinion on the Council's 2010/11 financial statements on 27 September 2011. No material amendments were made to the accounts in the course of the audit. The amendments were

# Current and future challenges

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Economic downturn and pressure on the public sector.

The Corporate Director Resources has reported to the Cabinet the impact of the cuts in central government funding and the need to make savings of around £1.1 million per year from 2011/12 onwards. The careful management of finances in recent years has meant that the Council has been able to manage the funding reductions in an orderly manner without significant reductions in the quality of its services. However, the financial pressures will continue over the next few years, and the Council needs to continue to be prudent.

Joint arrangements/  
shared services

The Council entered into a Joint Administrative Arrangement for its waste collection and management service with Lichfield District Council from July 2010. The joint service has recently won the 'National Recycling Award for the Local Authority Team of the Year' and has been successful in delivering significant financial savings alongside improved service to citizens of both Councils.

Specifically in Tamworth recycling rates have increased from 43.5 per cent to 48.7 per cent in the first nine months of the service, and is currently achieving 50.6 per cent over the last six months. The amount of residual waste collected has dropped by just over 50kgs per household in the same timescale as a direct consequence of the new arrangements.

The cost saving for Tamworth during the first year was in excess of £450,000 from its previous budget.

Collectively carbon emissions have been reduced by 141,500 kgs between the two authorities.

The arrangements need to be kept under review to see if there are opportunities to secure more efficiencies, particularly through:

- reducing any unnecessary mileage by ongoing collection round reviews; and
- reviewing disposal and composting facilities in conjunction with the County Council to ensure they are in optimum locations.

IFRS

The Council has managed the challenge of implementing IFRS successfully. There will continue to be areas requiring more work, such as component accounting which the Council will need to implement as it revalues its property plant and equipment. The Council will also need to revisit its lease arrangements to ensure the accounting disclosures remain appropriate.

## Housing Subsidy

The proposed reforms of the HRA subsidy arrangements are expected to take place on 28 March 2012. This will involve the Council paying funds to the Department for Communities and Local Government (CLG) which will remove the Council from the HRA subsidy system. The expected payment is £45.148 million. This will affect the capital structure of the Council, as the HRA Capital Financing Requirement will rise by the size of the CLG payment. The treasury management service will need to consider the funding implications for the extra borrowing.

## Current and Future Funding – Localisation of Business Rates and Council Tax Benefit

Under existing arrangements, business rates revenue collected by local authorities is pooled for redistribution to local authorities in England. So while local authorities have a vital role to play in supporting the local economy, there is limited direct fiscal incentive to do so.

Localising support for council tax is part of a wider policy of decentralisation, giving councils increased financial autonomy and a greater stake in the economic future of their local area. This supports the Government's wider agenda to enable stronger, balanced economic growth across the country and complements the Government's proposals for other incentives, such as the New Homes Bonus.

In July 2011, the Local Government Resource Review (Phase One) published for consultation its proposals to allow Councils to retain their locally-raised business rates. These proposals represent a fundamental shift in the way that local authorities are funded, freeing councils from dependence upon central Government grant and giving them a strong financial incentive to drive local economic growth. The proposals allow councils to retain some but not all of the business rates collected.

Similarly, Councils were consulted in August 2011 on localising support for council tax.

You need to assess the impact for the Council once the Government publishes more information.

# 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**

I issued an unqualified opinion on the Council's statement of accounts on 27 September 2011.

2010/11 was the first year for which the Council was required to prepare accounts in line with International Financial Reporting Standards (IFRS). The draft accounts prepared were of a good standard and complied in most respects with these requirements. My report to the Audit Committee on 22 September 2011 identified the need for some disclosure amendments to fully comply.

There were no significant amendments necessary to the accounts. The amendments were mainly to enhance or correct disclosures.

## **Significant weaknesses in internal control**

I did not identify any significant weaknesses in your internal control arrangements.

# 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.

## Value for money criteria and key messages

Criterion	Key messages
<b>1. Financial resilience</b> <b>The organisation has proper arrangements in place to secure financial resilience.</b> Focus for 2010/11: 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.	I have reviewed the Council's financial governance, financial planning and financial control arrangements and consider that the Council has robust systems and processes in place to effectively manage financial risks and opportunities, and to secure a stable financial position. The Director of Finance has reported to the Council the impact of the cuts in central government funding and the need to make savings of around £1.1 million per year from 2011/12 onwards. The Council's prudent approach in recent years has resulted in a good level of reserves. This gives the Council a cushion as the current levels of reserves are sufficient to ensure it can operate effectively until the end of 2014/15 whilst maintaining a prudent level of reserves at the end of the period. It has already taken action to reduce costs and is making good progress in making the savings required to ensure it is in sound financial position for the foreseeable future.

## 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

There is strong leadership from senior management and members on prioritising resources and spending reductions. The Council has the capacity to deliver the scale of the spending reductions required of it without adversely impacting on services.

The Council uses benchmarking to identify areas of high spend/poor performance. It takes action to address these areas. An example of this is the changes made to housing repairs which has resulted in lower costs and improved customer satisfaction.

The Council explores other areas to gain efficiencies. This includes provision of a reception desk that can deal with Staffordshire County Council related queries; and provision of IT helpdesk facility to Bromsgrove DC.



# Closing remarks

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I have discussed and agreed this letter with the Chief Executive and the Corporate Director Resources. I will present this letter at the Audit & Governance Committee on 26 January 2012 and will provide copies to all board 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
Report on Grant Claim certification	March 2011
Opinion Audit Plan	March 2011
Communication with the auditor on auditing standards	June 2011
Annual Governance Report	September 2011
Audit opinion on financial statements and VFM conclusion	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 cooperation during the audit.

James Cook  
Engagement Lead  
November 2011

# Appendix 1 - Fees

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	Actual	Proposed	Variance
Scale fee	115,000	115,000	0
<b>Total</b>	<b>115,000</b>	<b>115,000</b>	<b>0</b>

In addition, the Audit Commission, as regulator, made two rebates during the year totalling £16,100 (14 per cent of audit 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.

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