

Annual Audit Letter

Torridge District Council

Audit 2009/10

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.

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Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements (pages 4 to 5); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 10).**

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

Audit opinion and financial statements

1 I issued an unqualified audit opinion on the financial statements and on the arrangements to secure value for money. In addition I did not identify any weakness in the design or operation of an internal control that might result in a material error in your financial statements.

Value for money

2 The Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Council met the requirements of the nine criteria set for district councils in the year to 31 March 2010.

Future challenges

3 Like most other public bodies the Council will face significant challenges over the next few years. Public sector spending cuts will increase pressure on the Council's financial resources and the Council will need to make tough decisions when it comes to providing high-quality services. The Council will need to use strong financial management, robust data and transparent decision-making more than ever before, to ensure the future success of the Council.

4 The Council also needs to manage the transition from preparing financial statements under UK accounting standards to International Financial Reporting Standards (IFRS) in the current year. This will put more pressure on the finance team and other areas of the Council, like human

resources, legal and estates. It is important the Council continues to give this a high priority and monitors progress against the IFRS project plan.

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.

I gave an unqualified opinion on the Council's 2009/10 financial statements on 28 September 2010.

Overall conclusion from the audit

- 5** I issued an audit report including an unqualified opinion on the financial statements.
- 6** The draft statements and working papers presented for audit were of a good quality. I reported one non-trivial error of £29,000, which the Council adjusted.
- 7** I identified some disclosure errors and management have adjusted the financial statements and supporting notes.
- 8** I did not identify any weakness in the design or operation of an internal control that might result in a material error in the financial statements.
- 9** The Council's Balance Sheet at 31 March 2010 shows a net liability of £3.8 million. The deficit arises because it has pension liabilities of £33.1 million. However, this deficit does not threaten the financial viability of the Council.

Economic Downturn

10 I have considered the effect of the economic downturn on the Council and in relation to matters covered by my audit of the financial statements. The main effect so far has been a fall in the value of the Council's land and buildings over the last two years. The fall recorded is similar to falls in values seen in other public bodies and does not present a financial risk to the Council.

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.

2009/10 use of resources assessments

11 At the end of May 2010, the Commission wrote to all chief executives to inform them that:

- following the government's announcement, work on CAA would stop with immediate effect; and
- the Audit Commission would no longer issue scores for its use of resources assessments.

12 However, I am still required by the Code of Audit Practice to issue a value for money (VFM) conclusion. I have therefore used the results of the work completed on the use of resources assessment to inform my 2009/10 conclusion.

13 I report below the significant findings from the work I have carried out to support the VFM conclusion.

VFM conclusion

14 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which criteria are the relevant criteria for the VFM conclusion at each type of audited body.

15 I issued an unqualified conclusion stating the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.

16 This is a summary of my findings.

| Criteria | Adequate arrangements? |
|--|-------------------------|
| Managing finances | |
| Planning for financial health | Yes |
| Understanding costs and achieving efficiencies | Yes |
| Financial Reporting | Yes |
| Governing the business | |
| Commissioning and procurement | Yes |
| Use of information | Yes |
| Good governance | Yes |
| Risk management and internal control | Yes |
| Managing resources | |
| Natural Resources | Yes |
| Strategic asset management | Not assessed in 2009/10 |
| Workforce | Yes |

Progress in 2009/10

17 Efficiency savings of £869,000 were delivered in 2009/10; however, the scope for making on-going savings will become more challenging in future years. The monthly business reports continue to focus on performance and costs and are used effectively to manage the overall performance of the Council. The reports are comprehensive and provide effective tracking of financial performance, for revenue expenditure, income, reserves and capital; as well as performance against key performance indicators.

18 In the same way it did for its other previous successful developments at Appledore and Caddsdawn, the Council is working with partners to achieve integrated social, economic and environmental outcomes. Addressing issues such as rural isolation, low skills base and sustainable development.

19 The Council is strengthening its links with local businesses and training establishments, for example, the Council led a project called "Harvesting for the future" that will provide a rural advocate to link training needs of farmers and residents with training providers. This will develop links and build relationships with a wide variety of agencies delivering services to rural businesses.

20 Governance arrangements are in place for managing the significant partnerships the Council is involved with. It knows the financial, reputational and operational risks of working with partners and actively manages those

risks. Partnership objectives focus on achieving better outcomes for local people.

21 An audit committee was established in June 2010. This will help the Council to improve its focus on governance arrangements such as internal control, risk management and the prevention of fraud and error.

22 The Council manages its use of natural resources effectively. A Councillor leads the strategic approach to carbon management with support from management at a strategic and project level. A carbon management programme and action plan were approved in late 2009 and realistic targets are set to reduce carbon emissions.

23 Data is collected on energy and water consumption and benchmarked with other councils. This data is used to manage the reduction of natural resources. The Council has also reduced waste taken to landfill sites by two-thirds since 2005 because of improved recycling.

24 A green travel plan is in place which includes widespread changes to car leasing and vehicle efficiency, as well as encouraging staff to act in sustainable ways like cycling to work, telephone and video-conferencing.

Approach to local value for money work from 2010/11

25 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

26 I will set my work using a reduced number of reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

27 I will set a local programme of VFM audit work based on my audit risk assessment, my statutory responsibilities and led by these criteria I will no longer provide an annual scored judgement for my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

Impact of the recession

28 In common with the entire public sector, the Council's management of its financial position will be challenging in the coming years. The October 2010 comprehensive spending review means the Council will see a reduction in central funding of 28 per cent over the next four years. There will also be a freeze in council tax income for several years.

29 Ahead of the comprehensive spending review the Council's service planning for 2010/11 required heads of service to identify and quantify the impact of up to twenty percent reduction in budget over the next four years. The Council has undertaken a fundamental review of all services to identify achievable savings. Management are working through the impact of this, and assessing how easily these savings can be achieved and what the impact on services would be for the community.

30 The Council will need to rely on significant efficiency savings and service redesign to balance its annual budgets. The Council set a net revenue budget for 2010/11 of £9.9 million but is projecting an under-spend of £0.4 million. For the 2011/12 financial year the Council has set a savings target of £1.07 million (10.8 per cent) and has so far identified £463,000 leaving a further £607,000 to be identified..

31 The global recession and banking crisis has had, and will continue to have, a fundamental impact on the Council's financial position. Many of the Council's income streams such as, investment income, harbour income, planning fees and building control fees, have reduced since the onset of the recession. The Council has also experienced an increased demand for services such as housing and benefits.

32 The Council started 2010/11 with a general fund balance of £1.01 million and earmarked revenue reserves of £1.96 million and plans to reduce reserves by £0.3 million in 2010/11. The Council's reserve balances are above the minimum levels set by members.

International financial reporting standards

33 In 2010/11, local government accounts need to comply with International Financial Reporting Standards (IFRS). The finance team has undertaken preparatory work since CIPFA published the IFRS Code in December 2009.

34 Management have a project plan in place to manage the transition. Actions such as the review of Council assets and current leasing arrangements are underway. The audit committee has received progress reports on the implications of moving to IFRS compliant accounts, these

have highlighted the extra resource and budgetary implications associated with the transition.

35 However, there is still much work the Council will need to do to produce financial statements in line with IFRS in 2011, such as restating the 2009/10 audited financial statements under IFRS ahead of the year-end. The move to IFRS could also have an impact on the Council's financial position and the format of its budget and internal financial monitoring reports.

36 It is important that the finance team devotes sufficient time and resources, to the task, for the rest of the financial year. The Audit Committee should also seek regular assurance that the Council is on track against the project plan.

Pension Fund deficit

37 The Council's overall pension liability increased in 2009/10 and now stands at £33.1 million. The government announced a change in calculation of future pension increases from the retail price index (RPI) to the consumer price index (CPI). The Council's actuary estimates the change will decrease the pension fund liability, at 31 March 2010, by an estimated £2.9 million.

38 The Council faces a difficult task in closing the shortfall in the coming years. The next full revaluation of the pension fund is at 31 March 2010 and the outcome is due later in the year. This will be used to set future contribution rates into the scheme.

Future developments

39 The Council is developing opportunities for joint working with Teignbridge and North Devon district councils. The potential cost sharing will have a favourable impact on the Council's future budgets.

Arrangements already in place include:

- appointing a new Chief Executive shared with Teignbridge District Council;
- seconding two officers from the Planning and Development Service of North Devon District Council for one day a week for a trial period of three months; and
- working with North Devon District Council to prepare a joint Core Strategy that will provide a consistent approach to planning into the future across the whole of Northern Devon.

40 The Core Strategy will address locally important issues at a strategic level and provide the means of delivery for the Northern Devon Sustainable Community Strategy. The Core Strategy will establish a vision for how Northern Devon should develop in the future and it will outline the Council's approach to matters including:

- affordable housing;
- infrastructure;
- renewable energy;
- the natural and built environment;
- employment; and

- regeneration.

41 It will also set out the broad scale and distribution of development to meet strategic needs such as housing and employment for the period up to 2026.

Recommendation

- R1** The Council will need to ensure that arrangements are in place to:
- specify the level of service provision from joint working arrangements; and
 - monitor the financial and non-financial performance of joint working arrangements.
-

Closing remarks

42 I have discussed and agreed this letter with the Chief Executive and the Strategic Director (Resources). I will present this letter at the Audit Committee on 30 November 2010 and will provide copies to all members.

43 I set out detailed findings, conclusions and recommendations in the areas covered by our audit in the reports I issued to the Council during the year.

| Report | Date issued |
|---|----------------|
| 2009/10 Fee letter | April 2009 |
| 2009/10 Additional fee letter | December 2009 |
| Certification of claims and returns - annual report (2008/09) | February 2010 |
| 2009/10 Audit Opinion Plan | February 2010 |
| Annual Governance Report | September 2010 |

44 The Council has taken a positive and helpful approach to our audit. I wish to thank the Council's staff for their support and cooperation during the audit.

Wayne Rickard
District Auditor

30 November 2010

Appendix 1 – Audit fees

2009/10 Audit fee

| | Actual | Proposed | Variance |
|--|---------------|----------------|----------|
| Financial statements and annual governance statement | 68,564 | 68,564 | 0 |
| Value for money | 26,392 | 26,392 | 0 |
| Total audit fees | 94,956 | 94,956 | 0 |
| Certification of claims and returns | i | 19,500 | |
| Total | | 114,456 | |

i This work is in progress. I will notify the Council of the final fee on completion of the work.

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 accounts, auditors must give their 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;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Financial statements

The annual accounts and accompanying notes.

Unqualified

The auditor does not have any reservations.

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 money, people and time.