

# Annual Audit Letter

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**Stockton on Tees Borough 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 the Council's financial statements (pages 4 to 5); and**
- **my assessment of the Council's arrangements to achieve value for money in its use of resources (pages 6 to 9).**

## Audit opinion and financial statements

**1** I issued an unqualified opinion on the Council's financial statements on 27 September 2010.

**2** The Council prepared the financial statements in time for the statutory deadline of 30 June with comprehensive and accurate electronic working papers provided to support the accounts. I identified a number of errors in the accounts, most of which were amended by the Council.

## Value for money

**3** Based on my use of resources work and risk based work, I issued an unqualified value for money conclusion stating the Council has adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.

## Current and future challenges

**4** The Council has had to respond rapidly to reductions in capital and revenue for 2010/11 and beyond, for example the cancellation of the Building Schools for the Future programme has resulted in the loss of funding of £180 million. There are likely to be more reductions in funding over the next four years for revenue and capital grants. The Government has also set out its ambition to promote the radical devolution of power and greater financial autonomy to local government and community groups, including a review of local government finance in 2011, publishing its findings in 2012.

**5** Strengths in the Council's arrangements will help it to respond to these major operational and financial challenges in 2010/11 and beyond. The Council has a history of strong financial management and is in a good financial position. The Council has responded to in-year funding reductions and changes in the economic climate by revising the medium term financial plan and increasing the Efficiency, Improvement and Transformation programme.

6 The Council's approach to improving value for money is supported by strong procurement, risk management, internal control and governance arrangements. This provides the framework for the organisation as a whole to review services provided and take decisions about future changes as part of a structured approach.

# 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 27 September 2010, within the statutory target date.**

## Overall conclusion from the audit

**7** I issued my audit report including an unqualified opinion on the financial statements on 27 September 2010. As in previous years, the draft financial statements were prepared to a good standard supported by comprehensive and accurate electronic working papers.

**8** However, my audit identified a number of errors and uncertainties in the draft financial statements presented for audit. I found three material errors relating to tangible fixed assets, government grants deferred and long term borrowing in the balance sheet and the accounts were amended to correct the errors.

## Weaknesses in internal control

**9** My audit work has not identified any material weaknesses in internal control. However my work on general IT controls concluded that overall arrangements are in place but could be strengthened. This includes the need to carry out full disaster recovery testing.

## Accounting practice and financial reporting

**10** The accounts had a number of material and minor errors this year and areas where disclosures and notes to the accounts needed to be changed or developed. Good internal quality review before approval of the accounts can identify and address such errors. This will be particularly important given the 2010/11 accounts will be prepared under International Financial Reporting Standards (IFRS), which will be a significant challenge to all local authorities.

## International financial reporting standards

**11** The Council will prepare its financial statements under IFRS for the first time in 2010/11. IFRS principally affects the accounting treatment for:

- non-current assets;

- leases;
- employee benefits; and
- group accounts.

**12** We have reviewed the Council's preparations for introducing IFRS including monitoring progress against their agreed action plan. The key action is to restate the 2009/10 accounts under the new rules by 31 December 2010. The Council is making progress in collecting the information needed to meet this deadline, including:

- accountancy and valuation staff are looking at non-current asset valuations;
- departments have supplied details of leases in place;
- arrangements are in place to identify bodies to be included in group accounts; and
- accountancy staff are collating the information needed to calculate accrued employee benefits for inclusion in the financial statements.

# Value for money

**I considered whether the Council is managing and using its money, time and people to deliver value for money.**

**I assessed the Council's 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

**13** At the end of May 2010, the Commission wrote to all chief executives to inform them that following the Government's announcement, work on comprehensive area assessment would stop with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

**14** However, I am still required by the Code of Audit Practice to issue a VFM conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May 2010 to inform my 2009/10 conclusion.

**15** The significant findings from the work I have carried out to support the VFM conclusion are reported below.

## VFM conclusion

**16** 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 Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

**17** I issued an unqualified conclusion stating the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources. My findings are summarised below.



Criteria	Adequate arrangements?
<b>Managing finances</b>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
<b>Governing the business</b>	
Commissioning and procurement	Yes
Use of information	Yes
Risk management and internal control	Yes
<b>Managing resources</b>	
Natural Resources	Yes
Strategic asset management	Yes
Workforce	Yes

**18** The Council continues to deliver high quality, low cost services and is working hard to improve further despite challenging economic and financial conditions. Local people are involved in financial and service planning and commissioning services and they express high levels of satisfaction with the Council's services.

**19** The Council is seeking and improving VFM through a number of means including:

- the ongoing Efficiency, Improvement and Transformation review programme is being used to challenge how services are delivered and presenting Councillors with options for improvements. Savings of over £2 million have been identified through the 2009/10 reviews which have concluded to date;
- the Council is rationalising assets, taking a strategic approach to ensure the Council only uses and keeps assets it needs to deliver services, disposing of unnecessary accommodation. Flexible working arrangements, service integration and partnership working are helping to make savings and reduce the resources needed to deliver services;
- working with partners to make affordable improvements, such as the new street lighting PFI with a neighbouring Council, which will allow service improvements which may not otherwise have been affordable;
- business improvement processes are being focused on high cost or low performing services; and

- innovative procurement practice. In particular, the model developed for procuring services from the Communities Fund, encourages innovation through a flexible approach to commissioning services to help and support disadvantaged people into employment. This is focusing on a key area for improvement in the local area.

**20** The Council has a good track record of managing change. It has a planned approach to workforce development linked to Council priorities and future needs. It has also successfully reduced sickness levels from 10.1 days in 2008/09 to 9.1 days in 2009/10, with further reductions noted in the first quarter of 2010/11. This is helping the Council to ensure it has the capacity within its workforce to identify and deliver more improvements.

**21** The Council manages its finances and performance well. It has a good understanding of costs and of how the challenging economic conditions impact on the area and need for services. Budget processes are sound. Most data to support decision making and manage performance is good because of effective processes. Data is shared with partners to help effectively target collective resources and this is being extended. Some issues were identified with data for services for vulnerable children and limited progress has been made on the review of the data quality policy and strategy.

**22** Financial monitoring and reporting is timely and reliable, although there were material errors in the draft accounts (reported above).

**23** The Council has maintained its high standards of governance. The Council has an ethos and culture of high standards supported by good member support and development, strong governance and anti-fraud and corruption arrangements. Member and officer working relationships have remained strong and focused. Scrutiny is challenging and effective. Continued good governance in partnership arrangements is assured through a rolling review programme.

**24** The Council's approach to risk management and internal control is strong and effective. Effective risk management has helped deliver progressive plans and developments, with benchmarking showing best practice. Well established Audit Committee with comprehensive terms of reference and mix of experienced and newer members who are objective, independent and knowledgeable. Internal Audit arrangements compare well to CIPFA standards with an annual peer review of arrangements reported to Audit Committee.

## Good governance review

**25** To support my review of the criteria I carried out a good governance survey. The survey aims to provide the basis for helping public services to set good governance standards under the six principles of the Good Governance Standard:

- Focusing on the organisation's purpose and on outcomes for citizens and users (leadership, objectivity, selflessness).
- Performing effectively in clearly defined functions and roles (accountability, openness, honesty).
- Promoting values for the whole organisation and demonstrating the values of good governance through behaviour (leadership, integrity).
- Taking informed, transparent decisions and managing risk (accountability, objectivity).
- Developing the capacity and capability of the governing body to be effective (openness, accountability).
- Engaging stakeholders, including staff, and making accountability real (all the above).

**26** We surveyed members and officers using a national questionnaire. The survey was issued to members and officers of the Council and was completed in March and April 2010. Returns were received from 9 members (out of 59) and 23 officers (out of 31) giving response rates of 15 per cent and 74 per cent respectively. The response rate from members was low and was not statistically valid for reporting purposes.

**27** Overall, officers were overwhelmingly positive in their responses to most questions, suggesting that good governance arrangements are in place.

## **Approach to local VFM work from 2010/11**

**28** 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 VFM audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

**29** From 2010/11, my work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

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

**30** I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to 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

## Current challenges

**31** Local government is facing major operational and financial challenges. The Treasury announced £6.2 billion of in-year savings from Government spending on 24 May 2010. The Communities and Local Government department will make the biggest proportionate contribution of 12.5 per cent (£780 million), with local government contributing 6.5 per cent (£405 million).

**32** Grants to local authorities have been reduced by £1.165 billion in 2010/11. The main impact on revenue grants for Stockton in 2010/11 is a reduction in grant of £2.5 million in area based grant.

**33** The Government has also announced reductions in capital expenditure following a fundamental review of capital spending plans. The main impact on Stockton of capital expenditure cuts is the cancellation of the building schools for the future programme. The Council was expecting funding of £180 million.

**34** The Council has continued to review the medium term financial plan in response to funding reductions and the impact of the economic climate. Monthly reports to Cabinet provide analysis of the impact of the economic climate. Quarterly finance and performance reports show how the Council is responding to reductions in grant funding.

## Future developments

**35** The Government's spending review due to be published on 20 October 2010, is expected to set out revenue and capital spending plans for each government department from 2011/12 to 2014/15. This will include funding available to local government for that period.

**36** The Government has also set out its ambition to promote the radical devolution of power and greater financial autonomy to local government and community groups which would include a review of local government finance. The review of local government finance will start in summer 2011 with findings due to be published in 2012. This review could, therefore, potentially inform local government finance settlements from 2013/14.

**37** The Council's strengths in financial management, procurement, risk management, internal control and governance should provide the organisational framework to review services and identify further cost reductions.

## Closing remarks

**38** I discussed and agreed this letter with the Chief Executive, the Corporate Director of Resources and the Head of Policy, Performance and Partnerships on 14 October 2010. I will provide copies to all Council members and will present this letter at the Audit Committee on 6 December 2010 and Cabinet on 16 December 2010.

**39** Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Opinion audit plan	April 2010
Good governance	May 2010
Annual governance report	September 2010
Opinion on the financial statements	September 2010
Value for money conclusion	September 2010
Annual audit letter	October 2010

**40** The Council has taken a positive and helpful approach to our audit. I wish to thank the Stockton on Tees Borough Council staff for their support and co-operation during the audit.

Lynne Snowball  
District Auditor

14 October 2010

# Appendix 1 – 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.

## **Qualified**

The auditor has some reservations or concerns.

## **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.

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