

Annual Audit Letter

Stockton on Tees 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:

- **my 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	Findings
Unqualified audit opinion	Yes
Proper arrangements to secure value for money	Yes

Audit opinion and financial statements

I issued an audit report including an unqualified opinion on the financial statements on 29 September.

This was an exceptional and challenging year for the Council. This year's financial statements were the first prepared under International Financial Reporting Standards (IFRS) which made major changes to accounting requirements, involving significant additional work. The Council also transferred its housing stock to a new registered social landlord in December 2010, requiring a series of complex accounting transactions.

The Council prepared well for the introduction of IFRS and produced the draft financial statements in time for the statutory deadline of 30 June.

There were a large number of errors and inconsistencies in the statements, mainly because of IFRS adoption and stock transfer, including some material errors.

Value for money

I issued an unqualified VFM conclusion, reporting that:

- the Council has maintained arrangements to secure financial resilience despite ongoing reductions in grant funding; and
- the Council has maintained arrangements to secure economy, efficiency and effectiveness through its ongoing review of all services.

Current and future challenges

The current economic climate is resulting in pressure on services and the Council's financial position.

The Council is facing emerging pressures in 2011/12 particularly around children's social care spending and income from planning and development applications, and these are being closely monitored as part of ongoing budgetary control.

In addition there are several other issues and developments that may impact on council budgets going forward, including:

- localisation of business rates;
- devolving responsibility for Council Tax Benefit to councils;
- capital and revenue school funding, including distribution of revenue funding to academies; and
- transfer of public health budgets from primary care trusts to councils.

The Council took prompt and effective action to achieve the £2.7 million revenue savings required in 2010/11 arising from cuts in funding in year. Further ongoing reductions of £3.8 million in 2011/12 increasing to £11.3 million in 2013/14 onwards have been built into the medium term financial plan and the ongoing efficiency, improvement and transformation programme sets out how the Council will review services and deliver more savings in the future.

The Council has a history of strong financial management and is in a relatively strong position financially, with substantial reserves. It has earmarked almost £13 million in a transformation and implementation reserve to allow the impact of changes to be dealt with in a managed way. Finding further savings will become increasingly difficult. The Council needs to continue to monitor delivery of planned savings, taking forward planned reviews of services for further opportunities to reduce expenditure and increase income.

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 issued an audit report including an unqualified opinion on the financial statements on 29 September.

This was an exceptional and challenging year for the Council. This year's financial statements were the first prepared under IFRS, which made significant changes to accounting requirements and involved a lot of extra work. The Council also transferred its housing stock to a new registered social landlord in December 2010, requiring a series of complex transactions. The quality of the accounts and supporting working papers fell below the high standard of previous years with a large number of errors and inconsistencies, mostly because of IFRS adoption and stock transfer, including some material errors.

The net impact of correcting the errors:

- reduced the usable reserves by £2.6 million;
- increased total expenditure by £22.5 million; and
- reduced net assets by £22.5 million.

I considered aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. The level of errors and inconsistencies in the financial statements indicates a need to ensure there is sufficient capacity to produce the accounts and complete an effective internal review process before the accounts are presented for audit.

Recommendation

R1 The Council should ensure there is sufficient capacity to produce the accounts and complete an effective internal review process before the accounts are presented for audit.

Internal control

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

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.

I assessed the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources against two criteria specified by the Audit Commission. My overall conclusion is the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My findings on each of the two areas are 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 leadership team has a good understanding of the current economic climate and has developed a robust medium term financial plan that demonstrates a secure financial position going forward. This is supported by the Efficiency, Improvement and Transformation programme which reviews services to deliver savings and position itself well for future challenges.</p> <p>The Council has a good track record of managing within its budget. Cabinet receives regular quarterly finance and performance reports, which are clearly presented and help effective scrutiny. The Council realises that clarity and promptness of financial reporting, aligned to monitoring the delivery of required savings is increasingly important given the financial pressures facing councils.</p>

Criterion	Key messages
	<p>Overall, the Council has managed the significant financial challenges it has faced well, managing within budget and successfully delivering planned savings and efficiencies.</p> <p>At 31 March 2011, the Council had substantial reserves, with earmarked reserves of £92 million and General Fund balances of £10 million (excluding schools balances). The Council closely monitors levels of reserves throughout the year as part of the medium term financial plan.</p>
<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 took prompt action to achieve the in-year savings of £2.7 million needed for 2010/11 and £6 million for 2011/12.</p> <p>The Council's overarching Efficiency, Improvement and Transformation (EIT) programme sets out how it will review services and deliver savings. The programme includes challenging current ways of working and has resulted in £4.4 million savings in 2010/11 with a further £3.8 million identified in 2011/12, £8.6 million in 2012/13 and £11.3 million in 2013/14. The Council has an estimated £6.2 million budget gap for 2014/15 and is actively looking for ways to address this.</p> <p>Building on the existing EIT programme, the Council is looking again at ongoing service reviews and potentially more radical changes to achieving the savings required.</p> <p>The Council is generally low cost compared to similar authorities but is aware that it is high cost in areas such as transport and economic development. Historically this has reflected Council priorities but all services are now being subjected to challenge and review.</p> <p>The Council is taking difficult decisions to safeguard its future financial strength and capacity to deliver services. As well as continuing to analyse costs, it is important that progress in achieving the planned savings for 2011/12 onwards is closely monitored. Keeping a focus on good governance arrangements and regular reporting of progress against the savings programme will be crucial to maintaining good performance.</p>

Closing remarks

I have discussed and agreed this letter with the Chief Executive and the Corporate Director of Resources. I will present this letter at the Audit Committee on 5 December 2011, to Cabinet on 12 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
2010/11 Audit Fee Letter	April 2010
Audit Plan	January 2011
Annual Governance Report	September 2011
Audit Opinion on the Financial Statements and the VFM conclusion	September 2011
External Audit Progress Report and Briefing	To each Audit Committee meeting

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.

Lynne Snowball
District Auditor

October 2011

Appendix 1 - Fees

	Actual	Proposed	Variance
Audit fees (opinion on the financial statements and VFM conclusion)	311,000*	311,000	Nil
Non-audit work	Nil	Nil	Nil
Total	311,000	311,000	Nil

* subject to a 6 per cent (£18,660) rebate for additional work relating to IFRS and further 3.5 per cent (£10,885) rebate to reflect changes in the approach to value for money 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 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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