

Annual Audit Letter

Barrow in Furness Borough Council

Audit 2010/11



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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.**

I have included some recommendations in this report and the Council has accepted these as issues to address.

Key audit risk	Our findings
Unqualified audit opinion	
Proper arrangements to secure value for money	

Audit opinion and financial statements

I issued my audit report including an unqualified opinion on the Council's 2010/11 Financial Statements on 30 September 2011.

There were no material errors within the primary statements apart from the Cashflow Statement. These errors were found on non cash movements, investing and financing activities, comparators and omission of a financing activities supporting disclosure note.

The accounts were amended for all the significant errors I identified as part of my audit.

Value for money

On 30 September 2011 I issued an unqualified value for money conclusion stating the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources for 2010/11.

I noted that improvements had been made to the contracting and tendering processes following my recommendations from the previous audit year. There is scope for further improvement to ensure that contracts are properly set up and monitored.

Current and future challenges

Members will need to monitor the Budget Reduction Strategy and Medium Term Financial Plan closely to achieve the £5 million savings required by 2015/16.

As some income streams are not stable or are subject to national policy change it is important the Council maintains close budget to actual monitoring to manage income flows in the short to medium term.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are 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 2010/11 Financial Statements on 30 September 2011. There were no material errors within the primary statements apart from the Cash flow Statement. Officers amended the material and significant errors in the Statement of Accounts which I identified during the audit.

My detailed findings from the audit of the Statement of Accounts were reported to the Audit Committee in September 2011. My audit work identified missing 1 April 2009 and 2009/10 comparator information on various primary statements and disclosures notes.

Accounting practice & financial reporting

The Council's finance team had to deal with a large volume of changes to ensure compliance with the International Financial Reporting Standards (IFRS) code. However, a significant number of amendments were made to the accounts and related disclosure notes to ensure the Accounts gave a true and fair view and to comply with first year adoption of IFRS. The Council needs to ensure the disclosures in the accounts comply with the requirements of the CIPFA IFRS based Accounting Code of Practice.

Significant weaknesses in internal control

I identified scope to improve controls in the following areas:

- timely management action and reporting on agreed recommendations following Internal Audit work; and
- assurance gathering arrangements to support the Annual Governance Statement.

Internal Audit recommendations

The Council does not always act promptly on recommendations made by Internal Audit and agreed with management. It is important, as part of the Council's governance arrangements, that all internal audit control related recommendations are implemented in a timely manner and monitored by management and the Audit Committee.

Annual Governance Statement

I found the Council still does not have robust and ongoing assurance gathering arrangements in place to support the required disclosures in its Annual Governance Statement (AGS). The Council did draw on the requirements of the Good Governance Standard, but each Council department/division needs to have an assurance framework including annual declarations to support the Council's Annual Governance Statement.

Recommendations

Recommendations

- R1** Ensure that adequate time is built into the accounts closedown plan to undertake a thorough quality assurance review.
 - R2** Ensure that agreed audit recommendations are followed up and management should report progress against the recommendations to the Audit Committee at each meeting.
 - R3** Develop a robust departmental assurance gathering framework to support the Annual Governance Statement.
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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 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 as follows.

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 organisation has adequate systems and processes to manage financial risks effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p> <p>The Council had total usable reserves of £13.45 million at the end of 2010/11. This is made up of usable capital reserves of £2.7 million, Housing Revenue Account balance and reserves of £1.24 million, Committed reserves of £5.68 million and General Fund balance and reserves of £3.83 million. In the context of the comprehensive spending review it is vital that reserve levels are closely monitored to ensure that usable general reserve balances reflect the level of financial risks the Council faces.</p>

Criterion	Key messages
	<p>The Council needs to ensure that its earmarked reserves are still required for the purposes they were originally set aside and that there are robust plans to either spend them or release them into the general fund if no longer required.</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 is continuing to prioritise its resources within tighter overall funding. It is currently looking to reduce costs further through service reviews, a focus on back office savings, accommodation review, and increasing income.</p> <p>During these reviews I encourage the Council to continue to:</p> <ul style="list-style-type: none"> ■ make use of public consultation and use of appropriate information on local needs; ■ challenge service delivery with robust options appraisals; and ■ use comparative information to drive economy, efficiency and effectiveness.

Current and future challenges

Challenge	Action
<p>Economic downturn and pressure on the public sector</p> <p>The economic downturn is placing increasing pressure on the public sector as a whole. Following the Comprehensive Spending Review settlement the Council currently faces a budget gap of £5 million by the end of 2015/16.</p>	<p>The Council's Executive Committee approved new priorities and a new Budget Strategy in October 2011 and the Council also approved the priorities in October 2011.</p> <p>The £5 million reduction is to be achieved through a combination of senior management restructuring, voluntary redundancies and other staff cost savings, increased income, and annual use of available reserves, service reductions and efficiencies.</p> <p>Members will need to monitor the Budget Reduction Strategy and Medium Term Financial Plan closely to achieve the £5 million savings required by 2015/16.</p> <p>Some of the savings are as a result of reducing the numbers of senior managers. This presents a further risk for the Council to manage given the loss of knowledge and experience and pressure on future management capacity.</p>
<p>Income streams and policy changes</p> <p>The Council's income streams are under pressure because of both national policy and local issues, including:</p> <ul style="list-style-type: none">■ localisation of non-domestic business rates and the risk of lower future related revenue;■ the proposed national freeze on council tax has only one year of subsidy grant which has implications for medium term plans in terms of any future potential council tax rises■ impact of proposed changes in second and vacant homes discounts;	<p>£1.5 million (30 per cent) of the Budget Strategy to increase discretionary income includes increases to service charges. It is critical that members and officers closely monitor performance against the budgeted increases given price and demand sensitivities that currently exist in the economy.</p> <p>Some income streams are not stable and or are subject to policy change it is important the Council maintains close budget to actual monitoring to manage income flows in the short to medium term.</p>

Challenge

- future building control and planning services demand; and
- reduced car park income as a result of reduced demand and any changes to on-street parking enforcement arrangements;

I acknowledge the Council is facing further policy changes and subsequent financial pressures on self financing of its Housing Revenue Account (HRA) and proposed changes to the Council Tax Benefit scheme.

Action

The Council will need to continue to monitor the financial impact of the HRA and any Council Tax Benefits policy changes.

Closing remarks

I have discussed and agreed this letter with the Chief Executive and the Borough Treasurer. I will present this letter at the Audit Committee on 15 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 and opinions issued to the Council during the year.

Report	Date issued
Audit Plan	February 2011
IFRS Restatement and review of financial systems	June 2011
Annual Governance Report	September 2011
Auditor's report giving an opinion on the financial statements	30 September 2011
Value for money conclusion	30 September 2011
Certification of completion of the audit	30 September 2011
Auditor's assurance statement on whole of government accounts (WGA)	30 September 2011

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

Gina Martlew
Appointed Auditor
November 2011

Appendix 1 – Fees

	Planned Fee	Actual Fee	Variance
Scale fee for the audit	£118,000	£122,000	£4,000
Responding to taxpayer questions and potential objections	n/a	£1,250	£1,250
Rebated fees – see below	n/a	(£8,059)	(£8,059)
Total	£118,000	£115,191	(£2,809)

The Audit Committee, Chief Executive and Borough Treasurer agreed the additional audit fee of £4,000 in September 2011. The additional fee was to cover extra audit work carried out to ensure the Statement of Accounts were compliant with the new IFRS Code.

The £1,250 fee covers additional work I undertook to address and respond to questions received from a Barrow in Furness Borough taxpayer.

The Audit Commission has paid rebates to you of:

- £6,422 in respect of additional costs of ensuring correct introduction of International Financial Reporting Standards; and
- £1,637 in respect of reduced audit requirements for reviewing the Council's use of resources.

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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