

Annual Audit Letter

Dover District Council

Audit 2010/11



Contents



- Key messages.....3**
 - Audit opinion and financial statements.....3
 - Value for money3
- Financial statements and annual governance statement.....4**
 - Overall conclusion from the audit.....4
 - Significant weaknesses in internal control.....4
- Value for money.....5**
- Future challenges7**
- Closing remarks8**
- Appendix 1 - Fees.....9**
- Appendix 2 - Glossary.....10**

Traffic light explanation
Red  Amber  Green 

Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises:

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

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

Audit opinion and financial statements

I issued an unqualified opinion on the Council's financial statements on 30 September 2011.

The Council prepared its financial statements to a sound standard. The Council dealt successfully with the implementation of International Financial Reporting Standards (IFRS) in the financial statements in 2010/11, despite capacity being stretched throughout the year.

Value for money

I issued an unqualified value for money conclusion on 30 September 2011.

The Council continues to have an effective financial planning framework, good financial governance and satisfactory arrangements for financial control. The Council is fully aware of the significant financial pressures it faces from the economic downturn and decreases in grant funding. It takes a strategic approach to setting priorities and achievement of cost reductions through improved efficiency and productivity.

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 unqualified opinion on the Council's financial statements on 30 September 2011. The Council prepared its financial statements to a sound standard and they were supported by comprehensive working papers, which provided a good audit trail for testing. The Council made some amendments to the financial statements, post audit, before I gave my opinion. These changes had no impact on the reported value of usable reserves at 31 March 2011.

The 2010/11 financial statements were the first to be prepared under International Financial Reporting Standards (IFRS). Under IFRS the Council has been required to:

- review transactions and identify the appropriate accounting treatment under IFRS;
- restate the Council's balance sheet at 1 April 2009 and 1 April 2010; and
- produce several new disclosure notes.

The Council's early consideration of IFRS was limited by availability of staff experienced in this area. Several restatements were not finalised by the Council until the production of the accounts. This could have led to my identification of an increased number of amendments during the audit. However, I am pleased to report that I identified only a limited number of amendments relating to IFRS implementation.

Significant weaknesses in internal control

I did not identify any significant weaknesses in the design or operations of internal control arrangements that might result in a material error in the financial statements. However, I identified weaknesses in the key controls at the Council's outsourced payroll provider which lessen the effectiveness of the Council's control environment for payroll transactions. I reported these weaknesses to the Council in my interim audit memorandum. The Council was already aware of the issues that had arisen during the transition to the new payroll provider and is continuing to work with the provider in their resolution. The Council, in conjunction with other service partners, is monitoring progress through the Strategic HR Board.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed performance against the criteria specified by the Audit Commission and have reported the outcome as my value for money (VFM) conclusion.

I assess 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 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
<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 Council has good financial governance, an effective financial planning framework and satisfactory arrangements for financial control. It is fully aware of the financial pressures it faces over the medium term.</p> <p>The Council has a good understanding of its financial position. Management Team and Cabinet oversee the financial position and are responsible for approval of budgets and medium term financial planning. There is effective scrutiny and challenge by Members.</p> <p>The Council refreshed its corporate priorities and long-term plans in 2010/11 in its 'Delivering Effective Services' review. It has reviewed and updated its medium term financial plan to reflect these priorities and the impact of the current economic climate.</p>

Criterion	Key messages
<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 decreases and by improving efficiency and productivity.</p>	<p>Financial monitoring and forecasting is fit for purpose and accruals based. The Council's out-turn in 2010/11 was in balance and in line with its forecast position. It achieved a £27,000 surplus despite significant budget pressures and a small planned deficit. At 31 March 2011 the Council had general fund balances and reserves of £5,256,000, which represents a tight but manageable position.</p> <p>The Council takes a strategic approach to setting priorities of and achievement of cost reductions through improved efficiency and productivity.</p> <p>Over the past year the Council has re-assessed its spending priorities as well as the management structure which underpins them. The Council based its 2011/12 budget decisions on appropriate information on local needs and delivery costs. The Council has reviewed its medium term financial plan and identified strategies to manage the financial position and the current economic pressures. Medium term service priorities have been clarified and changes have been made to management structures.</p> <p>The Council has a low council tax compared to neighbouring authorities. The Council's medium term financial plan clearly considers the implications of reduced spending and the longer term actions required to preserve the underlying financial position, for example service delivery changes, increased use of shared services and restructuring.</p> <p>The Council continues to explore opportunities for service efficiencies, for example through shared services arrangements with the other East Kent Councils. Several joint projects have been agreed and those that have been in place throughout 2010/11 (the East Kent Human Resources Partnership) have made efficiency savings while preserving service delivery standards.</p>

Future challenges

Economic downturn and pressure on the public sector

The national economic environment continues to be challenging for public organisations. The Council is experiencing financial pressures from reduced income from grants and investments and lower economic activity. To manage these pressures the Council is focusing on regeneration, value for money services and enabling others through partnerships in its Interim Corporate Plan 2010-2013. The Council is responding to the financial challenges it faces by increased joint working with neighbouring authorities to produce cost savings; for example shared waste services with Shepway District Council and shared benefits services with Thanet District Council. These new shared service arrangements have led to more innovative ways of working, decreases in unit costs of waste collection and overall reductions in staff numbers.

Impact of new legislation.

The government has announced some wide-ranging reforms to the public sector since taking office in May 2010. Many are contained in the Localism Bill, key aspects of which include:

- introducing a general power of competence for local authorities;
- introducing the right for communities to bid for local assets threatened with closure, challenge the way services are provided and initiate referendums; and
- significant reforms to the planning system.

The government is proposing the current method of financing the Housing Revenue Account (HRA) will change from 2012/13, to a self-funding system. Under the new system authorities will take control of their housing rental income and a share of the national £28 billion housing debt. The debt settlement will be based on a valuation of the authority's housing stock. From 2012/13 HRA debt will be ring-fenced and authorities will no longer receive housing subsidy or major repairs allowance income and will be expected to fund all HRA revenue and capital expenditure from existing resources.

The Welfare Reform Bill contains proposals which will affect benefits administration. Some proposals are still the subject of consultation, for example those relating to the local retention of business rates and the introduction of new localised schemes to replace council tax benefit.

The Council will need to consider the implications of this new legislation. Some proposals may involve changes to workloads or more coordination with other local authorities. The Council will also need to consider the implications for their medium term financial plans of changes to funding arrangements or to the overall level of central government support.

Closing remarks

I have discussed and agreed this letter with the Chief Executive, Director of Governance and Director of Finance. I will present the letter to the December 2011 Governance Committee. A copy of the letter will also be circulated to all Members.

More detailed findings, conclusions and recommendations in the areas covered by my audit are included in the reports I issued to the Council during the year.

Report	Date issued
Audit and inspection fee letter	April 2010
Audit plan	February 2011
Interim Audit Memorandum	June 2011
Annual Governance Report	September 2011

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

Andy Mack
District Auditor

November 2011

Appendix 1 - Fees

	Actual 2009/10	2010/11 Initial Estimate (April 2010)	2010/11 Revised Estimate (April 2011)	Actual 2010/11
Audit fee	122,700	124,000	124,000	124,000
Inspection Fee	9,152	9,152	0 ⁱ	0
Total	131,852	133,152	124,000	124,000

In addition the Audit Commission issued rebates for the 2010/11 audit fee as follows.

April 2010 rebate for the costs associated with the first year implementation of IFRS	(7,456)
December 2010 rebate to reflect the new approach to VFM work in 2010/11	(1,864)

ⁱ Inspection activity cancelled following the abolition of CAA.

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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