

Annual Audit Letter

Sevenoaks 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**
- Current and future challenges7**
- Closing remarks9**
- Appendix 1 - Fees.....10**
- Appendix 2 - Glossary.....11**

Traffic light explanation

Red  Amber  Green 

Key messages

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

- 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 am pleased to report that I gave an unqualified opinion on the Council's financial statements on 27 September. The financial statements were prepared for the first time under the requirements of International Financial Reporting Standards (IFRS). This required a significant effort from officers and my team to ensure the financial statements adopted by members complied with the new reporting requirements.

Value for money

I gave an unqualified value for money conclusion on 27 September, stating that the Council has proper arrangements in place for securing economy, efficiency and effectiveness.

- The Council continues to have strong governance, a highly effective financial planning framework and very good financial management. It took early action to address financial pressures and has strong arrangements in place to secure financial resilience.
- The Council takes a strategic approach to prioritisation of resources and achievement of cost reductions through improved efficiency and productivity. It has embraced partnership working and moves rapidly to adopt new joint arrangements working with staff and empowering decision making.

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 gave an unqualified conclusion on the Council's financial statements on 27 September following their approval by members at the Performance and Governance Committee. I discussed a number of key risk areas that I had identified in planning my audit and confirmed to members in my Annual Governance report that satisfactory assurance had been obtained against each risk. The first time adoption of IFRS was the key issue and preparing IFRS based accounts involved a significant amount of work for the Council's finance team, including:

- review of transactions to identify the appropriate accounting treatment under the new framework;
- restatement of the Council's balance sheets at 1 April 2009 and 1 April 2010; and
- work to produce a number of new disclosure notes.

I worked closely with your officers during this transition period and am satisfied that the first year IFRS accounts presented for approval were prepared to a high standard.

Significant weaknesses in 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 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 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>Sevenoaks District Council has strong financial governance. Financial planning is robust and forward looking. With these sound arrangements for financial control it is well-placed to maintain a secure and stable financial position.</p> <p>The Council has an established financial planning process with a ten year budget. This allowed it to identify the budget gap and conduct early modelling over a range of scenarios. The Council's 2011/12 budget was the earliest within Kent.</p> <p>The Council's financial systems and processes are effective. The financial position is monitored closely, variances are investigated and action is taken where necessary. The Council's overall financial out turn for 2010/11 was a net surplus of £419,000. Service expenditure was managed within budget, there was a small under spend of £146,000 on a net service expenditure budget of £16,724,000.</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 reductions and by improving efficiency and productivity.</p>	<p>This is less than 1 per cent. Given the challenging economic environment and the impact on fluctuations on the Council's income and service pressures this is an impressive result. The Council has reviewed the level of reserves it holds, £14 million is earmarked for future spending including £2.3 million to provide budget stabilisation by managing future spending and income fluctuations. The general fund balance continues to be in line with plans at £3.7 million.</p> <hr/> <p>The Council takes a strategic approach to prioritising resources, improving efficiency and productivity. It challenges how services are provided and secures new ways of doing things.</p> <p>The Council has a strong track record of delivering high quality, efficient, value for money services. Services are constantly challenged on an ongoing basis to improve. It has a strong culture where officers at all levels are empowered to take ownership of decisions that shape service delivery. A culture which emphasises transformation by embracing change, staff empowerment and continuous improvement has been developed. The Council is also not afraid to take difficult decisions where necessary, for example the transfer of the minibus service to the voluntary sector.</p> <p>Efficiencies are also being gained by sharing services with neighbouring authorities; a partnership with Dartford BC has been quickly formed to provide a joint Revenues and Benefits service with anticipated annual savings approaching £250,000 for Sevenoaks. Other partnerships exist for Licensing, Internal Audit and Anti Fraud and more are planned.</p>

Current and future challenges

The Council has coped well in meeting the immediate pressures of the credit crunch. Demands on the public sector to manage within ever more constrained resources look set to continue. The Council has positioned itself well, but will need to continue to focus on its priorities.

Economic downturn and pressure on the public sector	<p>The economic forecast for the UK and western developed economies remains gloomy. Since taking office in May 2010 the Coalition government has focused its attention on deficit reduction measures and the public sector has faced an unprecedented squeeze on its funding. The UK recovery continues to remain weak and there is considerable volatility in financial markets as Europe struggles to deal with the sovereign debt crisis affecting Greece and other countries in the euro zone.</p> <p>The Council has positioned itself well to ensure it is financially resilient, having adopted a ten-year budget it is able to predict and model future spending and savings plans. It has maintained an adequate level of reserves to smooth the impact of spending and income fluctuations. It has un-earmarked general fund reserves of £3.7million. At the mid point in the year, the Council's income from fees and charges is falling behind budgeted levels and the year end forecast is that it will be 4 per cent below the £4 million budgeted level. Performance in collecting Council tax and business rates has been maintained to date, but the Council recognises that the risk that collection may suffer.</p> <p>The Council is delivering savings, it has reduced its budget by 28 per cent from 2004/05 and continues to challenge spending, recently agreeing a series of changes to staff terms and conditions of pay.</p>
Joint arrangements/shared services	<p>The Council has taken a strategic decision to investigate shared services as the primary tool for identifying cost reductions going forwards. It has been quick to establish a collaboration partnership with Dartford BC covering the revenues and benefits service and internal audit service.</p>
Treasury management	<p>The UK recovery remains weak and there is much volatility in financial markets as Europe struggles to deal with the sovereign debt crisis affecting Greece and other countries in the Euro zone. The current stresses are impacting on the stability of the European banking system, with a major European bank requiring government support.</p>

	<p>Following exposure to the 2008 banking crisis the Council continues to closely monitor its treasury management activities and risk associated with investments.</p>
Planned changes to legislation	<p>The Coalition government have announced a significant number of wide ranging reforms to the public sector since taking office in May 2010. The Localism Bill is advanced in its parliamentary progress and if enacted will have a significant impact on Local Government. Key aspects of the Bill are:</p> <ul style="list-style-type: none">■ the abolition of the Standards Board regime;■ introducing a general power of competence for local authorities;■ introducing rights for communities to buy local assets threatened with closure and challenge the way services are provided;■ substantial reforms of the planning system; and■ other changes to local government finance including business rates. <p>In addition other government reforms are planned to the welfare system, which will impact on the Council's future work in administering Housing and Council tax Benefits.</p>

Closing remarks

I have discussed and agreed this letter with the Chief Executive, Deputy Chief Executive and Director of Resources. I will present this letter at the Performance and Governance Committee on 10 January 2012 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 issued to the Council during the year.

Report	Date issued
Audit Plan 2010/11	March 2011
Annual Governance Report	September 2011
Annual Audit Letter	November 2011

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.

Andy Mack
District Auditor

November 2011

Appendix 1 - Fees

	Actual 2009/10	2010/11 initial estimate (April 2010)	2010/11 revised estimate (January 2011)	2010/11 final
Fee for Audit	92,250	104,600	104,600	104,600
Inspection Fee	9,152	9,152	0 ⁱ	0
Total	101,402	113,752	104,600	104,600

In addition the Audit Commission issued rebates in respect of the 2010/11 audit fee as follows.

	Audit Commission rebates 2010/11
Audit fee 2010/11	104,600
Rebate for the costs associated with the first year implementation of IFRS	(6,630)
Rebate to reflect the new approach to VFM work in 2010/11	(1,645)
	96,325

ⁱ Inspection activity cancelled following 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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