

# Annual Audit Letter

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**Thanet District 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 your financial statements (page 3 and 4); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 5 to 8).**

## **Audit opinion and financial statements**

**1** I issued an unqualified opinion on the financial statements on 29 September 2010. In the course of my audit I identified two material accounting misstatements, as well as some non-material accounting and disclosure errors. These were corrected by management and did not impact on the Council's overall reported financial balance.

## **Value for money**

**2** I issued an unqualified value for money conclusion stating that the Council has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources during the year ending 31 March 2010. The Council has made good progress in terms of its governance and use of natural resources. It has also demonstrated good financial management, delivering budget savings and efficiencies in difficult external circumstances.

## **Future prospects**

**3** The Council is currently revisiting its medium term financial strategy in the light of the Chancellor's recent comprehensive spending review. The scale of savings required is unprecedented in recent memory and difficult choices will be required regarding future service delivery. The success of this will be critical to the future of the Council.

# 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 29 September 2010.**

## **Overall conclusion from the accounts audit**

**4** Officers worked hard to present a comprehensive set of accounts and working papers for audit. I am pleased to report that working papers showed an improvement on previous years and officers were responsive and helpful in dealing with queries from my team. There is still scope for greater consistency in working paper preparation across departments.

**5** The quality of the statements was broadly consistent with last year. The draft accounts submitted for audit contained two material misstatements which officers subsequently corrected. They also contained a number of other non material misstatements or disclosure errors.

**6** The misstatements identified during my audit did not impact on the Council's year-end balance and I am satisfied that the Council has a good understanding of its financial position. Reducing the number of errors, resulting in amendments required to the statements, will free up capacity to deal with complex accounting treatments. Addressing this will be particularly important in view of the introduction of International Financial Reporting Standards (IFRS) in 2010/11.

## **Other recommendations from the accounts audit**

**7** In addition to requiring amendments to the draft statements, I also made two recommendations to the Governance and Audit Committee in my Annual Governance Report. These related to:

- the need for more timely completion of Related Party Transaction returns by Members; and
- the need to review and determine the required accounting treatment for East Kent Opportunities LLP, particularly in preparation for IFRS.

**8** The Council is taking appropriate action to address both my recommendations.

## **Preparing for IFRS**

**9** The Audit Commission carried out a national survey during 2010 to assess the Council's preparation for implementing IFRS with effect from 2010/11. This is a complex new area which will require significant input from staff in finance and across the Council over the next year. Key areas will include the accounting for leases, staff benefits and fixed assets.

**10** As part of this survey I have assessed the Council's performance as 'Amber'. The Council has a comprehensive implementation plan for IFRS and – whilst there have been some delays to the original timetable – is on track for final production of draft statements in June 2011. I will continue to work with Council over the coming months as it finalises its restated accounts.

# 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**

**11** At the end of May 2010, the Audit Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

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

**13** I report the significant findings from the work I have carried out to support the vfm conclusion.

## **VFM conclusion**

**14** 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.

**15** I concluded that the Council has adequate arrangements in all the areas I assessed. This is shown in the following table.

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
Good governance	Yes
Risk management and internal control	Yes
<b>Managing resources</b>	
Natural Resources	Yes

**16** I issued an unqualified conclusion stating that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

**17** Key findings from my review are set out below.

### **Managing Finances**

**18** During 2009/10 the Council revisited its priorities and used these to update its Medium Term Financial Strategy (MTFS). The Council achieved a balanced budget for 2009/10 and as at 31 March 2010 had general reserves of £2.1 million, housing revenue reserve of £8 million and specific revenue reserves of £8 million. This provides contingency against difficult financial circumstances ahead.

**19** The Council engages well and has a good understanding of the needs of its local community. It uses this to identify corporate priorities and invest in priority services. The Council has a good track record on delivering efficiencies. There is clear ownership at political and managerial level for the efficiency agenda and efficiency savings for 2009/10 exceeded £750,000.

## **Governing the Business**

**20** The Council uses data effectively to aid decision making. Data security is robust – for example the Council is connected to the Government Secure Extranet – and appropriate information is provided for Members.

**21** Internal audit identified and reported on some weaknesses in governance arrangements at departmental level during 2009/10. Senior management have dealt with this swiftly, taking appropriate action resulting in improved compliance.

**22** Risk management arrangements have been significantly strengthened over the last year and Members take an active role in risk management. This has resulted in improved CPR compliance and more effective insurance arrangements.

## **Managing Resources**

**23** The council's environment policy and strategy is included within the Corporate Plan and sets out clearly the environmental impacts of its use of resources. It has a green strategy, action group and issues are incorporated into staff appraisals. Comprehensive actions range from changing the culture and attitudes among staff and residents, to the larger, longer-term and high impact projects, such as the accommodation strategy.

**24** The authority's approach to managing its improvement to the environment is strong, underpinned by sound information. Action plans are monitored. Partnership work with a number of other agencies on the successful Gateway Plus has reduced the use of floor space between agencies and the need for customers to make multiple journeys. The Accommodation Review is ahead of schedule and the council has achieved its target of getting 70 per cent of office based staff into the offices in 2009/10. There have been clear reductions in gas, electricity, water and printing. This comprehensive approach is cutting costs and reducing environmental impact

## **Approach to local value for money work from 2010/11**

**25** Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has reviewed its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission will introduce a new, more targeted and better value approach to our local VFM audit work.

**26** Our work will be based on a reduced number of reporting criteria, specified by the Commission, concentrating on:

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

**27** For your audit, 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

## Future challenges

**28** During 2009/10 the Council has demonstrated good financial management in difficult circumstances. However, in common with the rest of the public sector, it is facing significant financial challenges ahead. The scale of the financial savings required by the government's Comprehensive Spending Review are unprecedented. This is exacerbated by the fact that demand for some services, notably benefits, is increasing and the income from fees and charges may reduce. Efficiency savings alone will therefore not be sufficient to balance the books.

**29** Both Members and officers realise that difficult decisions will be required regarding spending priorities. My audit team and I will work with you over the coming months, sharing good practice where appropriate and providing support as a 'critical friend' where we can.

## Closing remarks

**30** I have discussed and agreed this letter with the Chief Executive and the Director of Finance and Corporate Services. I will provide copies to all members by 30 November 2010 and present this letter at the Governance and Audit Committee on 13 January 2011 and Cabinet on 10 February 2011.

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

Report	Date issued
Audit Fee Letter	June 2009
Opinion Audit Plan	June 2010
Annual Governance Report	September 2010

**32** The Council has taken a positive and helpful approach to my audit. I wish to thank the Council staff for their support and cooperation during the last year.

Andy Mack  
District Auditor  
November 2010

# Appendix 1 Audit fees

	Actual	Original Proposed	Variance
Financial statements and annual governance statement	106,000	106,000	0
Value for money	37,200	37,200	0
Whole of Government Accounts	1,800	1,800	0
<b>Total</b>	<b>145,000</b>	<b>145,000</b>	<b>0</b>

## 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 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; and
- whether they have been prepared properly, following the relevant accounting rules.

### **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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Audit Commission

1st Floor  
Millbank Tower  
Millbank  
London  
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946