

Annual Audit Letter

Swale 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.**

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

Audit opinion and financial statements

- I gave an unqualified audit opinion on the Council's financial statements on 20 September 2011.
- The Council coped well with the first year of IFRS implementation and the financial statements were prepared to a high standard.
- I made recommendations which were agreed with officers to undertake a full IT disaster recovery test as soon as practicable, and to complete bank reconciliations more frequently.

Value for money

- I gave an unqualified value for money conclusion on 20 September 2011, stating that the Council has proper arrangements in place for securing economy, efficiency and effectiveness.

- The Council has a robust financial governance framework, and there are sound arrangements for financial control. The Council's reserves are being maintained at sufficient levels to provide for contingencies and to address the financial pressures it faces over the medium term.
- Procedures for tracking and monitoring performance have continued to improve.
- Procurement of services was an area where the Council recognised that it needed to strengthen its in-house capability. Excellent progress has been made during 2010/11.
- In recent years the Council has had a strong record of achieving efficiency savings. During 2010/11 the Council has again demonstrated a good understanding of its cost base and a culture of cost challenge. There is a clear focus on prioritising resources within a sustainable medium term planning framework.

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 opinion on the Council's financial statements on 20 September 2011. The Council's coped well with the new requirements of International Financial Reporting Standards, and the accounts were prepared to a high standard, with only a small number of adjustments required and improved working paper trails to support the accounts.

I reported on the detailed findings of my audit to the Audit Committee on 19 September 2011.

Significant weaknesses in internal control

I identified the following weaknesses in your internal control arrangements:

- The Council's monthly bank reconciliations for 2011/12 were not up to date; and
- As part of my IT risk assessment I identified that the Council had not completed a full disaster recovery test during 2010/11.

I made recommendations to correct the weaknesses, and these have been accepted by officers and an action plan agreed with the Audit Committee.

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>The Council's underlying financial position is sound. At 31 March 2011 general fund balances and general revenue reserves totalled £5,805,000, with a further £4,585,000 of usable reserves earmarked to support corporate priorities such as Learning and Skills, Climate Change and Carbon Management. The Council has been able to make a contribution of £575,000 to the general balance in 2010/11 despite significant financial pressures.</p> <p>The Council has a sound financial management framework. For the last few years the joint Executive/senior officer Budget Task Force has set savings target to address medium term projected revenue deficits (e.g. including from the economic downturn). During 2010/11 it has demonstrated a clear corporate focus on financial planning and early action to deal with financial pressures.</p> <p>A prioritisation matrix was used during the 2010/11 budget setting process to rank services</p>

Criterion

Key messages

against priorities identified in the Corporate Plan and this was further enhanced during 2011/12. The impact of the matrix and the fully integrated fees and charges policy has been to ensure resources follow priorities.

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

In recent years the Council has had a strong record of achieving efficiency savings. During 2010/11 the Council has again demonstrated a good understanding of its cost base and a culture of cost challenge. The budget process for 2011/12 identified cost reductions of £1.5m to reflect the loss of specific grant funding in those service areas. The Council achieved its savings target for 2010/11, and is on target to achieve its overall savings target of £2.6m for 2011/12 of which £1.4m relates to efficiency savings. There is a clear focus on prioritising resources within a sustainable medium term planning framework

The Council continues to investigate opportunities for service efficiencies, for example through shared services arrangements with other members of the Mid Kent Improvement Partnership. A number of joint projects have been agreed and those that have been in place throughout 2010/11 have made efficiency savings whilst maintaining service delivery standards. However progress has been slow in some areas, for example finalising the legal partnership with Maidstone and Tunbridge Wells.

Procedures for tracking and monitoring performance have continued to improve, and the Council is making more consistent use of Covalent across all service areas to ensure early identification of any slippage in meeting performance targets

Procurement of services was an area where the Council recognised that it needed to strengthen its in-house capability. Excellent progress has been made during 2010/11, and the Council has completed a VFM Procurement Support Project, resulting in improved Contract Standing Orders, training and support to staff in procurement, standardised documents & guidance via the intranet, a new procurement strategy and identification of areas for cost savings.

Future challenges

The Council has coped well in meeting the immediate pressures of the economic downturn. 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 key priorities and strategic risks.

Economic downturn and pressure on the public sector

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.

The Council has reviewed and updated its medium term financial strategy for the period 2011/12 to 2013/14 in light of the current economic climate. Financial assumptions are pragmatic, and no growth has been assumed for the three year period of the plan.

The key challenges facing the Council are in developing a four year financial strategy, and in achieving the additional savings target of £1.5m for 2012/13 whilst minimising the impact on frontline services.

One challenge facing the Council going forward is negotiating cost savings in its major long term service contracts, although good progress is being made.

The Council's major regeneration project for Sittingbourne Town Centre is now progressing to the development agreement stage, and this will inevitably place significant financial pressures on the Council's future budgets in the

Joint arrangements / shared services

medium term.

The Council has a good track record of working with other partners in the public and voluntary sectors to identify and develop opportunities for joint arrangements and shared services. The Council remains a key member of MKIP, and is continuing to develop and extend services with partners in other areas, for example the very successful crime reduction partnership with Kent Police. Such arrangements will be particularly important as the Council aims to achieve its key priorities over the medium term, and working effectively with other partners within the newly created Locality Board will be crucial.

Economic development and regeneration

The regeneration of Swale remains a key objective, and the Council is progressing projects across the borough. In addition to projects in Queenborough and Rushenden, the large scale regeneration of Sittingbourne Town Centre is moving to the next phase now that a preferred development partner has been selected. This will be a major challenge for the Council, and detailed negotiations are underway with the Spirit of Sittingbourne consortium of fund managers, property consultants and developers.

The encouragement of job creation in areas of low employment will continue to be a key priority, and initiatives such as the “Shop Local” scheme in Sheerness and Sittingbourne and the encouragement of local employers to create apprenticeships will remain vital in the current economic climate.

Planned changes to legislation

The Coalition government has 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:

- The abolition of the Standards Board regime;
- introducing a general power of competence for local authorities;
- introducing rights for communities to bid for 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.

In addition, government reforms are planned to the welfare system which will impact on the Council's future work in administering Housing and Council tax Benefits.

Closing remarks

I have discussed and agreed this letter with the Chief Executive and the Interim Head of Finance on 26 October 2011. I will present this letter at the Audit Committee on 14 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 issued to the Council during the year.

Report	Date issued
Certification of Claims & Returns	January 2011
Audit Plan 2010/11 audit	March 2011
External Audit Progress Report	June 2011
Annual Governance Report	September 2011

The Council has taken a positive and constructive approach to our audit, and I wish to thank the Council staff for their continued support and co-operation.

Andy Mack

District Auditor

October 2011

Appendix 1 - Fees

	Actual 2009/10	2010/11 Initial Estimate (April 2010)	2010/11 Revised Estimate (Jan 2011)	2010/11 Final
Fee for audit	141,765	140,500	140,500	140,500
Inspection fee	29,871	9,152	0 ⁱ	0
Total	171,636	149,652	140,500	140,500

In addition the Audit Commission issued rebates to the Council of £7,428 in April 2010 in respect of the cost of first year audit work on IFRS and a further rebate of £1,889 in December 2010.

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;
- I cannot confirm that the statements give a true and fair view; or
- I find that some spending or income was irregular.

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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