

# Annual Audit Letter

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Tamworth Borough 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.**

# Contents

<b>Key messages</b> .....	<b>2</b>
Overview .....	2
Audit opinion and financial statements .....	2
Value for money .....	3
Current and future challenges .....	3
<b>Financial statements and annual governance statement</b> .....	<b>4</b>
Overall conclusion from the audit .....	4
Weaknesses in internal control .....	4
Certification of returns .....	5
<b>Value for money</b> .....	<b>6</b>
2009/10 use of resources assessments .....	6
VFM conclusion .....	6
Managing Finances .....	7
Governing the business .....	8
Managing resources .....	9
Approach to local value for money work from 2010/11 .....	9
<b>Current and future challenges</b> .....	<b>11</b>
Economic downturn and pressure on the public sector .....	11
<b>Closing remarks</b> .....	<b>14</b>
<b>Appendix 1 – Audit fees</b> .....	<b>15</b>
<b>Appendix 2 – Glossary</b> .....	<b>16</b>

# Key messages

**This report summarises my findings from the 2009/10 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 only significant recommendations in this report. The Council has accepted these recommendations.**

## Overview

**1** You have made significant progress in improving value for money. The joint refuse collection service with Lichfield District Council is particularly notable step and should achieve significant financial savings. Service improvements have also been made in respect of housing repairs, housing benefits, and the finance function.

**2** However, there are challenging times ahead. Unprecedented Government funding cuts will mean that councils and other public services will need to work both harder and smarter. This is a significant challenge but you have already carried out detailed financial analysis work to assess the potential financial implications, and you will need to revisit this as more details emerge.

**3** There will undoubtedly be uncertainties for staff and the public during this period. Both members and senior management will play a key role in communicating and managing the changes and ensuring high quality services are maintained. I will continue to work closely with you over this period.

## Audit opinion and financial statements

**4** I was able to give an unqualified opinion on the financial statements on 30 September 2010.

**5** From next year the Council will prepare its financial statements for the first time under International Financial Reporting Standards (IFRS). You are currently finalising the work to re-state the 2009/10 financial statements under IFRS and anticipate that you will meet the required deadlines. It is important that you continue to monitor progress over the next few months.

## Value for money

**6** As well as issuing an opinion on the financial statements, I am required to issue a Value for Money (VFM) Conclusion. The Value for Money (VFM) Conclusion comprises 12 Key Lines of Enquiry (KLOE). Where any KLOE is assessed as being below minimum requirements that KLOE is qualified for the VFM Conclusion.

**7** I have also given an unqualified value for money conclusion as you have adequate processes in place to manage and use your resources to deliver value for money.

## Current and future challenges

### Economic downturn and pressure on the public sector

**8** Across the country, the public sector is facing severe and long-term social and financial challenges over the next few years. The recent comprehensive spending review confirmed a 28 per cent reduction in government grant funding over the next four years. The deepest cuts shall be made during the first two years of the review period.

**9** You already have a five-year financial strategy in place. You use financial modelling to assess the impact of different scenarios, and have been prudent in your assumptions. You will need to ensure that the implications of announcements to be made by the coalition government over the coming weeks are built into the financial strategy.

### Partnerships

**10** The Council entered into a joint waste and recycling service with Lichfield DC from July 2010. Good partnership working was used to ensure the service was introduced on time. This meant that projected savings from the joint service have been built into the five year financial strategy. It is important that governance in the partnership is strong in order to achieve the savings; and also to improve waste and recycling services to the residents.

**11** I have noted the proposed introduction of Local Enterprise Partnerships (LEP), the new bodies replacing Regional Development Agencies. The Council will be working with partners on developing a Local Enterprise Partnership to promote local economic development. The Council is part of the Birmingham and Solihull LEP, along with East Staffordshire and Lichfield councils. This is in the first wave of 24 of such LEPs to be announced by the Department for Communities and Local Government.

**12** This is obviously a significant change, and offers both an opportunity as well as new risks. Members and officers will have a key role in ensuring the new partnership arrangements deliver the anticipated economic benefits for the local area, particularly during the period of economic austerity.

# 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 the statutory target date of 30 September 2010.**

## Overall conclusion from the audit

**13** My detailed findings from my audit of the Council's 2009/10 financial statements are included in my Annual Governance Report which I have discussed with the Audit and Governance Committee.

**14** Your officers worked hard to improve the quality of the financial statements and accompanying working papers. The accounts were prepared to a good standard within the closedown timescales laid down by the Accounts and Audit Regulations. During the audit, I agreed a small number of amendments to the Statement of Accounts with your accounting team. These related to accounting disclosures notes and did not affect the end of year balance on the General Fund or Housing Revenue Account.

**15** I issued an unqualified opinion on your Whole of Government Accounts return on 1 October 2010. This met the statutory deadline and is a reflection of the improved arrangements in place for the preparation of your financial statements.

## Weaknesses in internal control

**16** During the year, I tested a number of system controls. During that work, I identified areas where these controls could be strengthened in respect of:

- Checking payroll to establishment records held by Human Resources (HR).
- Checking service managers can account for the assets held on the asset register.

**17** Officers have agreed actions to address these issues and this has been reported to the Audit and Governance Committee.

## Certification of returns

**18** I have certified all the Council's returns within the statutory deadlines. No amendments were required as a result of the audit work. The Housing Benefits return was finalised with a qualification letter arising from a very minor reconciliation difference between the Council's system and the claim.

**19** The returns were all supported by good working papers and officers responded promptly to the audit queries raised. This helped ensure the early completion of this programme of work.

# 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.**

## **2009/10 use of resources assessments**

**20** At the end of May 2010, the 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.

**21** 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.

## **VFM conclusion**

**22** 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. This is a summary of my findings.

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

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

**24** I found that you continue to have adequate arrangements in place to achieve VFM and noted a range of improvements that the Council had introduced in the year to strengthen the arrangements.

**25** I reported my detailed findings in my report to the Audit and Governance Committee in October 2010. The main issues are highlighted below.

## Managing Finances

**26** The management of finances at Tamworth BC is strong. The Council integrates financial planning with strategic and service planning processes on a medium- to long-term basis and has a sound approach to financial planning. You have a detailed five year medium term financial strategy (MTFS) and this has been informed through a sound approach to consultation with local people over budget setting.

**27** There is an up to date capital strategy linked to the MTFS and corporate objectives. The Corporate plan is linked to the MTFS. Key objectives from the Corporate Plan are set out and the impact of these shown in the budget and MTFS and projected over 5 years.

**28** The Council has a good understanding of costs and performance and there are many examples where the Council has used data as part of service reviews to put in place new delivery mechanisms and ways of working. Particular successes include:

- Identifying that the costs of the Homelink service were higher than elsewhere and reducing costs through a tendering exercise.
- Improving the time taken to process new benefit applications from 15.2 days in April 2009 to 7.3 days in January 2010, while handling a 17 per cent increase in caseload without significantly increasing costs.
- Reducing housing repairs costs from an average of £172 in 2008/09 to £160 in 2009/10, whilst increasing tenant satisfaction with the repairs from 71 per cent to 80 per cent.

**29** As a result of the good approach to achieving efficiencies, savings of over £2m were made in the three year period to 31 March 2010. Further savings are planned for coming years from the joint waste service with Lichfield DC and from a review of senior management numbers for 2010/11.

**30** The Council has a sound approach to developing joint services with its partners. Examples include building control, economic development and health and safety services with Lichfield DC. You should assess whether there are further opportunities to share staff costs and expertise with neighbouring Councils to achieve further efficiencies.

## Governing the business

**31** The Council has a good approach to basing its commissioning and procurement decisions on local need. This has included working closely with partners and other councils. Examples of this include:

- Developing Project Turnaround with partners. This has contributed to a reduction in the number of those not in education, employment or training (NEETs) from 11.2 per cent in 2008 to 6.3 per cent in 2009. This represents an increase of 61 young people in training and education and 1000 fewer incidents of anti social behaviour.
- Developing a joint refuse collection service with Lichfield District Council (LDC), at a significantly lower cost than the previous service.
- Agreeing a number of other joint service arrangements with LDC including building control, economic development and health and safety.

**32** You have a track record of redesigning services to deliver improved performance. Changes to bins have increased recycling levels and reduced littering. Improvements to processes and communication in the benefits service have led to improved customer satisfaction. The successful application for the Quality Badge for Tamworth Castle has helped to improve children's learning experience.

**33** The Council has a good approach to data quality and data security. The Corporate Information Security Manager is involved in data sharing protocols with external partners. As a result of strengthening its own arrangements the Council has been able to secure a contract to provide the IT help-desk for Bromsgrove District Council. This brings in extra income for the Council at no extra cost.

**34** Robust governance arrangements are in place. You have adopted, and you are regularly reviewing the expected elements of good governance including the constitution, Member-Officer protocol, whistle blowing policy, and counter fraud strategy. You have been proactive in playing a leading role in raising the profile of governance issues across region by arranging and hosting a governance workshop attended by leading Members from across the Midlands.

**35** Your approach to risk management is sound. All managers have been provided with training on risk management, including the new process of recording management of risks on the corporate software system.

**36** The Council has robust anti-fraud and corruption arrangements. Successful benefit fraud prosecutions are publicised on the Council's website to provide a deterrent. In 2009/10 there were 14 prosecutions and money recovered as a result.

## Managing resources

**37** You have a sound approach to understanding and quantifying the use of natural resources. You monitor gas, electricity and water consumption at your offices, but this data is not broken down into specific areas or parts of the buildings. CO2 emissions are measured using 2008/09 as the baseline year and air quality is measured across the borough.

**38** Your strategic approach to reducing the Council's impact on the natural environment is still developing, although a number of initiatives are underway to reduce energy usage and CO2 emissions within the Council. The Council is not yet able to quantify the impact of these activities.

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

**39** Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing 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 aims to introduce a new, more targeted and better value approach to our local VFM audit work. My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

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

**40** 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

**This is an unprecedented period of reductions in public sector spending which poses significant challenges for Councils. I have assessed the potential impact of these on the Council below.**

### **Economic downturn and pressure on the public sector**

**41** The Council has been actively planning for potential cuts in government funding, before the Comprehensive Spending Review (CSR) was announced. The CSR includes a 28 per cent reduction in government grant funding over the next four years. Officers have already carried out detailed analysis work to look at the implications of a range of alternative levels of future funding, so you are well placed to be able to meet the financial challenges ahead.

**42** Your budget monitoring tools and medium term financial strategy are key tools that enable you to assess the impact of the changing financial climate on your reserves and balances. When you set the budget, you planned to use some of your reserves during the year, and you anticipated that these will fall further in future years. You need to revise these plans in the light of recent government announcements and continue to keep these under review.

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### Levels of un-earmarked reserves

Reserves are expected to fall

Balances at	General Fund (£M)	Housing Revenue Account (£M)
31 March 2009	5.106	3.830
31 March 2010	4.715	4.664
31 March 2011 (budgeted)	2.934	4.726
31 March 2011 (revised forecast)	3.216	4.888
31 March 2012 (revised forecast)	2.820	4.747
31 March 2013 (revised forecast)	2.379	3.558
31 March 2014 (revised forecast)	1.735	2.075
31 March 2015 (revised forecast)	0.785	0.413

*Source: Audit Commission analysis of the Financial Healthcheck report - period 6 and the Medium Term Financial Strategy*

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**43** The half-yearly report on the financial position to the Council's Cabinet has identified significant pressures, particularly in respect of income, which, has been less than budgeted. You should review the assumptions on these future income streams to ensure that they remain valid.

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### Areas of Falling Income

Income is less than budget in a range of areas

Income area	Projected shortfall against annual budget (£'000s)
Car parking	129
Planning delivery grant	100
Investments	87
Land charges	46
Assembly rooms	27
Development control	25

*Source: Financial Healthcheck report - Period 6*

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**44** Moving forward, you need to continue to be alert for any future opportunities for joint procurement and shared services, to build on the success of the shared refuse collection service with Lichfield District Council.

### Recommendations:

**R1** Keep the medium term financial strategy under continuous review to ensure it addresses the changing economic circumstances.

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**R2** Assess the opportunities for closer working with neighbouring councils, including shared staff and services where appropriate.

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## Closing remarks

**45** I have discussed and agreed this letter with the Chief Executive and the Corporate Director - Resources. I will present this letter at the Audit and Governance Committee in January 2011 and will provide copies to all council members.

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

Report	Date issued
Audit Fee Letter	July 2009
Audit opinion plan	May 2010
Annual Governance Report	September 2010
Auditors report on the financial statements	September 2010
Update report to the Audit and Governance Committee	October 2010
Value for money conclusion	September 2010

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

James Cook  
Engagement Lead  
November 2010

# Appendix 1 – Audit fees

2009/10 audit work	Actual	Proposed	Variance
Financial statements and annual governance statement	73,425	73,425	0
Value for money	29,036	29,036	0
Total audit fees*	102,461	102,461	0

*\*excludes fees for grant claim inspection work*

## 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. This includes 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;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

### **Financial statements**

The annual accounts and accompanying notes.

### **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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