

# Annual Audit Letter

Tamworth Borough Council

Audit 2008/09

December 2009



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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
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# Key messages

**This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources as well as summary findings on your organisational assessment and managing performance from the Comprehensive Area Assessment Lead (CAAL).**

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## Overview

- 1 Tamworth Borough Council performs adequately overall. It has had some success in areas that are important for local people such as reducing crime, keeping the local environment clean and tidy and improving access to Council services. It is working well with its partners to improve housing conditions. Alongside this, there are targets that have not been met. This mixed picture is reflected in the relatively low level of satisfaction by local people with the way the Council runs things.
  - 2 A large increase in the number of claims meant that it took longer to deal with new benefit applications in 2008/09. The Council managed the increased workload well, however, without incurring significant extra cost.
  - 3 Appropriate financial management and reporting processes were in place during the 2008/09 financial year. However, there were an unexpectedly large number of significant errors in the accounts.
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## Financial statements

- 4 During the year you implemented a new asset management system to provide information for the fixed asset entries in the financial statements. The implementation of this system proved more difficult than anticipated and this delayed the preparation of the accounts. As a result the planned quality assurance review of the accounts prior to submission was not carried out. In my view this contributed towards an unexpectedly large number of errors and uncertainties in the Statement of Accounts presented for audit.
  - 5 Following considerable work by finance staff and the audit team an amended set of accounts was produced correcting the errors and I issued an unqualified opinion on your financial statements on 30 September 2009.
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## Value for money and use of resources

- 6 I am required to conclude on the value for money achieved by the Council in its use of resources. This is informed by our work on the scored Use of Resources judgement. I concluded that you had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.
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- 7 I scored Tamworth 2 out of 4 in relation to our Use of Resources judgement. The new use of resources judgment puts a much stronger emphasis on outcomes than under the previous arrangements. The Council has generally demonstrated that it has satisfactory arrangements in place but has been less effective in demonstrating the outcomes of its activities.
- 8 You have effective financial planning and monitoring arrangements. These ensure that spending is kept within available resources. You have processes and systems in place to help you understand your costs and have a good track record of making efficiency savings. However, the impact that financial investment decisions have on local people is not always monitored. Work is underway in a number of areas to improve services and reduce costs further.
- 9 The Council has responded well to the Audit Commission's data matching initiative. To date this has identified:
  - 50 instances where the Council needed to cancel single person discounts for council tax because the household was not entitled to the discount. This has resulted in additional income of over £25,000 per annum; and
  - nine instances where the Council has identified other frauds or errors in benefit payments.
- 10 You have arrangements to help you plan, organise and develop your staff, although you do not know whether these are working well and have not got a complete understanding of your future staffing needs. Sickness absence levels improved slightly from an average of 11.38 days in 2007/08 to 10.87 days in 2008/09. But this level is still high compared to similar councils. A continued focus on this in the first part of 2009/10 has led to a further reduction in days lost to sickness. The Council is making progress in addressing issues of equality and diversity by its process to assess the impact of its services on different groups of residents and has recently been awarded level 3 of the Local Government Equality Standard. However, the Council is not able to quantify the impact it has made as a result of its equality and diversity work.

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### Managing Performance and Organisational Assessment

- 11 The Audit Commission also assesses how well the Council manages and improves its services and contributes to wider community outcomes. The assessment considers how successful the Council is in delivering its corporate priorities. The priorities have been drawn from what matters most to local people. The Council scores 2 out of 4 for managing performance which is adequate.
- 12 You have a good understanding of local priorities, based on the results of Tamworth Listens – a consultation exercise on priorities for the borough, the results of which are used to inform the budget. You have had some success in areas that are important for local people such as reducing crime, keeping the local environment clean and tidy and improving access to Council services.

## Key messages

- 13 Reasonable progress has been made in meeting your targets for improving housing standards in the borough. Fewer households are now housed in temporary accommodation and there is less use of bed and breakfast. You have also helped to increase the number of new affordable homes built in the borough, although the numbers are still low. Other successes in your work to improve housing conditions include better processes to deal with disabled facility grants and a better approach to adapting Council homes. However, many of these applications still take a long time to process. The quality of your own housing stock is gradually improving, but there has been less success in returning non-Council owned empty properties back into use.
- 14 The Use of Resources and Managing Performance assessments are combined to give an overall organisational assessment judgement for the Council. The Audit Commission has determined that the organisational assessment judgement for Tamworth Borough Council is that it performs adequately overall.

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## Financial Standing

- 15 The Council is currently spending more than it has budgeted and is predicting an overspend of £461,000 in 2009/10. Although you currently have reserves to fund this overspend, you can only use your reserves once. You need to monitor the action taken to balance the books.

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## Actions

- 16 We have summarised the key recommendations below.

Recommendations	
R1	Improve the arrangements for accounting for fixed assets.
R2	Ensure there is a robust quality assurance review of the accounts prior to submission for audit in future years.
R3	Monitor the outcomes achieved by the Council in its priority areas.
R4	Monitor the financial position and identify savings to meet any shortfall.

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# 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.**

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## Significant issues arising from the audit

- 17 The accounts were prepared within the closedown timescales laid down by the Accounts and Audit Regulations. The accounts presented for audit contained material errors and inconsistencies. These related to prior period adjustments and fixed asset valuations. In some cases, particularly in respect of valuation of property, the evidence submitted for audit was contradictory and a significant amount of time was spent in trying to resolve the contradictions and obtain explanations.
- 18 The introduction of a new fixed asset system created major challenges for the finance department in preparing the annual Statement of Accounts and supporting working papers. In my view this contributed towards an unexpectedly large number of errors and uncertainties in the Statement of Accounts presented for audit.
- 19 The amendments to the accounts lead to material changes in the Income and expenditure Account, the Balance Sheet, the Statement of Movement on General Fund Balance, the Statement of Recognised Gains and Losses and the associated notes to the accounts. The available General Fund Balance at 31 March 2009 remained unchanged at £5.1 million.
- 20 The underlying causes of the amendments were:
  - incorrect use of prior period adjustments;
  - incorrect amortisation of Government Grants deferred;
  - errors in depreciation calculations;
  - inconsistencies in fixed asset valuations; and
  - errors in disclosure notes.

The impact of the amendments was reported in detail to the audit committee on 30 September 2009.

### Material weaknesses in internal control

- 21 During the year I identified weaknesses in the housing repairs system where the required levels of inspection of work carried out were not being completed. I discussed this with the Corporate Director Resources and action was taken to ensure that this was addressed. In addition, with the assistance of internal audit, detailed testing was carried out which gave me sufficient evidence in relation to the payments made to support my audit opinion.

### Accounting Practice and financial reporting

- 22 I considered the qualitative aspects of your financial reporting. During the audit I noted that there were inconsistencies between some of the information produced by the valuer and the needs of the Finance Department in preparing the accounts. This made the preparation of the accounts and the audit process more complex and more time consuming. In particular:

- there was no reconciliation between the valuation report provided by the valuer and the figures in the accounts;
- the Council's Valuer did not initially provide any assurance relating to the asset lives or impairment;
- there were contradictory valuations in respect of council garages; and
- it was not initially clear whether the valuation basis of some of the assets was consistent with the definitions in the Statement of Recommended Practice which the accounts are required to comply with.

The co-ordination arrangements between the Council's Valuers and the Finance Department need to be strengthened to ensure that valuation information is sufficient to meet the needs of the Finance Department in preparing the accounts.

- 23 There were a number of errors in the Statement of Accounts that could have been avoided had there been a thorough quality assurance review of the statement of accounts and supporting working papers prior to submission for audit. In my view the significant problems the Council experienced in the implementation of its new fixed asset system caused delays in the preparing the accounts which prevented the normal thorough quality review from being carried out.

### Preparations for International Financial Reporting Standards

- 24 In 2010/11 you will have to make changes to your financial reporting to comply with the introduction of new International Financial Reporting Standards. You have a detailed project plan and clear timelines in place to implement the changes. A significant amount of extra work will be required to meet the changes and you need to monitor progress to ensure that this can be achieved. A key area will be ensuring that you have up to date valuations of assets in line with IFRS requirements.

# Value for money and use of resources

I considered how well Tamworth Borough Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Tamworth Borough Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

The comprehensive Area Assessment Lead (CAAL) reviews the capability of the organisation to achieve positive change in its community both now and in the future, this is called Managing Performance. An overall Organisational Assessment based on the use of resources and managing performance reviews is then made.

## Use of resources judgements

- 25 The Use of Resources assessment methodology has been changed for 2008/09 and is now more broadly based with a greater emphasis on outcomes than in previous years. This has made it a much harder test and means that it is not possible to make a direct comparison with scores achieved in previous years
- 26 In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 27 I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 28 The Council's use of resources theme scores are shown in Table 1.

**Table 1 Use of resources theme scores**

Use of resources theme	Scored judgement
Managing finances How effectively does the organisation manage its finances to deliver value for money?	2
Governing the business How well does the organisation govern itself and commission services that provide value for money and deliver better outcomes for local people?	2

## Value for money and use of resources

Use of resources theme	Scored judgement
Managing resources How well does the organisation manage its natural resources, physical assets, and people to meet current and future needs and deliver value for money?	2

### Description of scores:

1. An organisation that does not meet minimum requirements, Performs Poorly
2. An organisation that meets only minimum requirements, Performs Adequately
3. An organisation that exceeds minimum requirements, Performs Well
4. An organisation that significantly exceeds minimum requirements, Performs Excellently

### Managing Finances (performing adequately)

- 29** The budget is approved by the Council prior to the start of the financial year. There is engagement with the local community around financial planning and budget allocation. At a high level the 'Tamworth Listens' consultation exercise is a useful and effective way of engaging with local people but you have not assessed the impact that your engagement with local people around financial planning has had. You are piloting an approach to devolving budgets. There is a medium term financial strategy covering 5 years which is regularly updated.
- 30** There is an up to date capital strategy linked to the Medium Term Financial Strategy (MTFS) and corporate objectives. There is evidence of understanding of costs and how they link to performance levels. The corporate performance reports have separate sections on performance and finance, with no assessment of their relationship. There is a good approach to using cost and performance data to make decisions on service improvement. There are examples of use of data as part of service reviews to develop new delivery mechanisms and ways of working. There are processes for making efficiencies and you have a good record of achieving planned efficiencies. The focus of these exercises has been on cost savings, the improvements to outcomes and value for money from the efficiencies achieved have not been quantified.
- 31** Problems with the implementation of the new fixed assets system meant that the accounts were produced 2 weeks later than planned and were only just available as the audit began on site. The accounts contained material errors. There were significant and late changes made to the accounts as a result of the audit, and additional audit work was required to obtain assurance on your financial statements. We reported the details of the audit of the accounts to the Audit Committee in September.
- 32** The Council was late in completing the required submission for Whole of Government Accounts, which was due to be audited by 1 October 2009. This delay was a result of problems experienced with the annual accounts reported above.

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**Governing the business (performing adequately)**

- 33** The Council recognises that it may not be best placed to be the provider of all services and is developing its approach to commissioning services from the voluntary and community sector. There is no process for linking corporate priorities to high-level decisions around commissioning services to meet those priorities, and then down to specific challenges over the way in which services are provided to the public.
- 34** There are arrangements to improve the customer experience and value for money of services by making effective use of IT. The key example is the development of the integrated contact management centre. Customers are able to access the Council's services more quickly and effectively and service departments are able to assess their performance and put in place improvements.
- 35** You have arrangements to ensure that the security of data and have achieved British Standards for data quality and security. There are policies covering the Data Protection Act, Information Security, Internet and email use, freedom of information and communications.
- 36** Regular performance reports are produced which identify trends against targets and officers provide commentary on under-performance. The reporting framework does not adequately link resources and performance. The integration of risk and data quality is not well developed and there is a limited engagement with partners over their data flows.
- 37** You have adequate arrangements to manage your risks. There is a risk management strategy and linked policy. Staff are provided with risk management training and all cabinet reports contain a statement about risk implications.
- 38** During 2008/09 we identified failures of controls in key systems. You have taken prompt action to address these.

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**National fraud initiative**

- 39** The national fraud initiative data returns have been submitted in line with expected timescales and the quality of the data submitted was consistent with, or better than, the national average. Significant risk areas have been investigated and to date this has identified:
- 50 instances where the Council needed to cancel single person discounts for council tax because the household was not entitled to the discount. This has resulted in additional income of over £25,000 per annum; and
  - nine instances where the Council has identified other frauds or errors in benefit payments.

### Managing resources (performing adequately)

- 40 You have adequate arrangements to ensure that you have a productive and skilled workforce. There is a training policy and a number of specific, focused training programmes for staff and managers. The content of these programmes is informed from the outputs of the Personal Development Review (PDR) process. There is no longer-term impact assessment carried out on the results of the training programme. There is a policy designed to reduce sickness absence. Although sickness levels have reduced the reduction has not been sufficient to meet 2008/09 target and levels of sickness absence are still relatively high.
- 41 The approach to workforce planning was assessed as adequate. There is a high-level corporate approach, which cascades into requirements for every department to consider its workforce needs in the medium term. Although there are some examples of this being done, it is inconsistent, which means that there is not a comprehensive picture of future workforce needs.
- 42 There are policies in place to support diversity and good people management. The overarching document is the HR strategy which addresses such issues as leadership capacity, governance and improving value for money. There is a clear and well implemented Personal Development Review (PDR) process which has resulted in an increase in completed PDRs. The approach to diversity and equality is covered in a single equality scheme along with a policy on equality impact assessments (EIAs), resulting in a large number of EIAs being carried out. Despite these good arrangements, you have not carried out assessments of the impact that these policies are having.

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### VFM Conclusion

- 43 I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body.
- 44 I issued an unqualified conclusion stating that the Tamworth Borough Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

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### Managing Performance and Overall Organisational Assessment

- 45 The Audit Commission also assesses how well the Council manages and improves its services and contributes to wider community outcomes. The assessment considers how successful the Council is in delivering its corporate priorities. The priorities have been drawn from what matters most to local people.
- 46 The Council scores 2 out of 4 for managing its performance (applying the same 1 to 4 scale as the Use of Resources judgement).

- 47 The Use of Resources and Managing Performance assessments are combined to give an overall organisational assessment judgement for the Council. The Audit Commission has determined that the organisational assessment judgement for Tamworth Borough Council is that it performs adequately.
- 48 The Council's Managing Performance and Organisational Assessment are being reported separately by John Cottrill, the Audit Commission's Comprehensive Area Assessment Lead for Staffordshire. I have summarised the conclusions below.
- 49 Tamworth scores 2 out of 4 for managing performance. It has a good understanding of local priorities, based on the results of Tamworth Listens – a consultation exercise on priorities for the borough, the results of which are used to inform the Council's budget. The Council has had some success in areas that are important for local people such as reducing crime, keeping the local environment clean and tidy and improving access to Council services.
- 50 The Council has made reasonable progress in meeting its targets for improving housing standards in the borough. Fewer households are now housed in temporary accommodation and there is less use of bed and breakfast. The Council has also helped to increase the number of new affordable homes built in the borough, although the numbers are still low. Other successes in its work to improve housing conditions include better processes to deal with disabled facility grants and a better approach to adapting Council homes. However, many of these applications still take a long time to process. The quality of the Council's own housing stock is gradually improving, but there has been less success in returning non-Council owned empty properties back into use.
- 51 The Council has had mixed success in improving the delivery of its planning service to local people and businesses. There was a good improvement in the time taken to deal with minor planning applications but it took longer to process major and other planning applications.

### Key areas of focus in 2010

- 52 Following this year's area assessment for Staffordshire, in the coming year the inspectorate bodies are likely to be focussing particularly on how the issue of inequalities within the county are being tackled. This work will focus particularly on addressing the health inequalities across Staffordshire.
- 53 We will also continue to closely monitor how the changing housing needs across the county are being met, particularly in the light of the forecasted increase in the elderly population.

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### Financial standing and the economic downturn

- 54 The Council reported net operating expenditure for 2008/09 of £9.053 million representing an underspend of £269,000 against budget. The underspend was due to a combination of savings in a number of areas and increases in income, the most significant being an additional £103,000 from sale of recycled materials.

## Value for money and use of resources

- 55 The last year has seen the country enter a significant economic recession. The consequence locally is an increasing demand for public services and the likelihood of reduced levels of central government funding. Together, these provide a significant challenge for councils as they seek to continue to provide services to local residents, whilst maintaining a sound financial position.
- 56 You are experiencing budget pressures and the quarterly report for the period ended 30 September identified a potential shortfall of £461,000 as a result of falling income and some areas of overspending. Action is being taken to address the risk of a deficit.
- 57 The Council has recognised the current economic pressures in its medium term financial strategy which is now forecast for the next 3 years. You have been particularly affected by the Icelandic Banking situation which introduces a number of uncertainties into the financial strategy but you have taken a prudent approach to the expected recovery of the investments in your forecasts. Given the changing economic climate and predicted reduction in government funding, you need to continue to monitor your financial position and identify savings to meet any shortfall.

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## Certification of grant claims and returns

- 58 We have certified six grant claims and returns for the financial year 2008/09. All claims were submitted for audit before the specified deadlines. The claims were supported by good working papers. Although there was a need to undertake additional testing on the Housing Benefits claim, this claim was finalised with an unqualified audit certificate.

# Closing remarks

- 59 I have discussed and agreed this letter with the Chief Executive and the Corporate Director Resources. I will present this letter at the Audit Committee on 2 February 2010 and a copy should be provided to all members.
- 60 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.

**Table 2**

Report	Date issued
Audit Plan	June 2008
Annual Governance Report	September 2009
Opinion on the Financial Statements	September 2009
Use of Resources Report	October 2009
Annual Audit Letter	December 2009

- 61 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.

## Audit fees

- 62 The audit fee was initially agreed with the audit committee on 5 June 2008. As a result of the additional work required to complete the audit of the financial statements we agreed an additional fee of £7,000.

**Table 3     Audit fees**

	Actual £	Proposed £	Variance £
Financial statements and annual governance statement	79,995	72,995	7,000
Value for money and Use of Resources	17,757	17,757	0
Data Quality	8,335	8335	0

## Closing remarks

	<b>Actual £</b>	<b>Proposed £</b>	<b>Variance £</b>
<b>Total audit fees</b>	106,087	99,087	7,000
Comprehensive Area Assessment	5,972	5,972	0
<b>Total</b>	112,059	105,059	7,000

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## Independence

- 63 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

James Cook  
Engagement Lead  
December 2009

# Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Annual Audit Letter 2008/09 Recommendations</b>						
5	R1 Improve the arrangements for accounting for fixed assets	2	Valuer / Chief Accountant / AD Corporate Finance / CD Resources	Yes	A regular review / reconciliation will be carried out as part of the quality control / monitoring process. This will be incorporated in the Accounts production process.	Ongoing Regular Review  May 2010
5	R2 Ensure there is a robust quality assurance review of the accounts prior to submission for audit in future years.	3	Assistant Director Corporate Finance / CD Resources	Yes	Quality assurance is normally included within the planning process however, due to asset system problems in 2008/09 resources had to be diverted to the production of draft accounts to statutory deadline in 2008/09. This will be included within the closedown process for 2009/10 together with, to aid timely completion of the process, the requirement for a final list of audit	May / June 2010  12/07/10

## Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
					amendments / issues is to be received from Auditor within 1 week of on-site audit completion.	06/08/10
5	R3 Monitor the outcomes achieved by the Council in its priority areas.	3	CMT / Cabinet	Yes	Priorities will have specific, measurable outcomes attached to them with progress reports to CMT (monthly) & Cabinet (Quarterly) identifying relevant outcomes or appropriate action plans.	Monthly / Quarterly
5	R4 Monitor the financial position and identify savings to meet any shortfall.	3	CMT/Cabinet	Yes	Monthly financial healthcheck reports are presented to CMT & quarterly to Cabinet. These identify an ongoing rolling monthly forecast of actual to date and projected outturn for the year including the projected impact on balances and an action plan where appropriate.	Monthly / Quarterly

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# The Audit Commission

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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