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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.

<table>
<thead>
<tr>
<th>Key audit risk</th>
<th>Our findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unqualified audit opinion</td>
<td>Yes</td>
</tr>
<tr>
<td>Proper arrangements to secure value for money</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Audit opinion and financial statements

I issued an unqualified opinion on the financial statements on 29 July 2011 and the council was able to publish the first set of audited financial statements in the country.

This was an exceptionally challenging year for the Council. The financial statements were prepared for the first time under International Financial Reporting Standards (IFRS) requiring significant additional work. The Council also transferred its housing stock to a new registered social landlord in February 2011, requiring a series of complex accounting transactions.

The Council produced the draft financial statement several weeks before the statutory deadline of 30 June 2011.

A small number of material amendments were required due to new information relating to the valuation and transfer of council houses and also clarification of guidance from CIPFA. There were also a number of amendments to disclosures in the statements, mainly arising from the implementation of International Financial Reporting Standards (IFRS) in 2010/11.

Value for money conclusion

I issued an unqualified conclusion stating that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources on 29 July 2011.

- The Council has arrangements in place to maintain financial resilience, responding quickly and effectively to changes in Government funding and other financial pressures.
- The Council has effective arrangements for challenging how it secures economy, efficiency and effectiveness.
The current economic climate is resulting in increasing demand for Council services and reducing income, against a background of changes in Government funding. Other developments that may impact on council budgets going forward include:

- localisation of business rates;
- devolving responsibility for Council Tax Benefit to councils;
- capital and revenue school funding, including distribution of revenue funding to academies; and
- transfer of public health budgets from primary care trusts to councils.

The Council took prompt and effective action to fully address the £11 million budget gap in 2010/11, with the most significant savings arising out of Service Efficiency Savings and also Service Redesign. Substantial further reductions have been built into the Council’s medium term financial plan. These are the following.

<table>
<thead>
<tr>
<th>Financial year</th>
<th>Savings target £million</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011/12</td>
<td>39.6</td>
</tr>
<tr>
<td>2012/13</td>
<td>24.5</td>
</tr>
<tr>
<td>2013/14</td>
<td>16.4</td>
</tr>
<tr>
<td>2014/15</td>
<td>14.1</td>
</tr>
<tr>
<td>TOTAL</td>
<td>94.6</td>
</tr>
</tbody>
</table>

To address these new resource constraints, the Council is considering how services can be delivered with reduced resources. This may include significant changes to current arrangements, and new and innovative service delivery models. These in turn may give rise to challenges and risks but also the opportunity for the level of the transformation that the current economic climate requires.
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 issued an audit report including an unqualified opinion on the financial statements on 29 July 2011.

This was an exceptional and challenging year for the Council. This year's financial statements were the first prepared under International Financial Reporting Standards (IFRS) which made major changes to accounting requirements, involving significant additional work. The Council also transferred its housing stock to a new registered social landlord in February 2011, requiring a series of complex accounting transactions. Despite these challenges the Council produced the draft financial statements on 18 May 2011, several weeks before the statutory deadline of 30 June 2011.

Following the audit of the financial statements a small number of material amendments were required due to new information relating to the valuation and transfer of council houses and also clarification of guidance from CIPFA. These amendments had no impact on the overall financial performance of the Council. There were also a number of amendments to disclosures in the statements, mainly arising from the implementation of International Financial Reporting Standards (IFRS) in 2010/11.

The quality of supporting working papers was generally satisfactory, although two areas caused particular problems in obtaining the necessary evidence to meet audit obligations these were:

- adequacy of fixed asset register audit trail; and
- number of material year end journals and quality of journal recording.

A supplementary fee has been charged for the additional work carried out (see Appendix 1)

Significant weakness in internal control

In February 2011 the Council's payroll function was transferred to its strategic partner. Following the transfer a specific weakness in the segregation of duties was identified by Internal Audit. Internal Audit continues to carry out additional testing of payroll transactions for any indication of error or manipulation occurring as a result of this weakness.
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.

My conclusion on each of the two areas is set out below.

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Key messages</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Financial resilience</td>
<td>The organisation has proper arrangements in place to secure financial resilience. The Council has proper arrangements in place to ensure its financial resilience. Financial governance arrangements at the Council are good. The senior officers have a strong awareness of the financial risks facing the Council and members are made aware of any emerging issues promptly. The Council has a good understanding of the current economic climate and has developed a Medium Term Financial Strategy (MTFS) for 2011/12 – 2014/15 which addresses the most significant savings, £39.6 million in 2011/12, reducing to £14.1 million in 2014/15 The Council is monitoring its progress in delivering the required efficiencies and savings against specific milestones. This is key, as clarity and promptness of financial reporting, aligned to monitoring the delivery of required savings is increasingly important given the financial pressures facing councils. Overall, the Council has managed the significant financial challenges it has faced well, managing within budget and successfully delivering planned savings and efficiencies.</td>
</tr>
</tbody>
</table>

The organisation has proper arrangements in place 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.
<table>
<thead>
<tr>
<th>Criterion</th>
<th>Key messages</th>
</tr>
</thead>
</table>
| **2. Securing economy efficiency and effectiveness**  
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. | The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The Council needs to continue to closely monitor its budget, in particular progress against the savings identified.  
Political and corporate leaders are clear about the Council's priorities and how these are to be safeguarded, even in the current economic climate.  
The extent of the savings required by the Council, and the approach to delivering these, is clearly understood by leaders and senior managers.  
The Council has a good approach to the use of comparative data and information, which underpins its review of service effectiveness; this approach forms the basis of its value for money reviews.  
Risk management continues to develop - improvements include a new approach to partnership risk assessment, and a planned updating of the risk management strategy and risk register.  
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. |
Closing remarks

The contents of this letter have been agreed with the Chief Executive and the Borough Treasurer. I will present this letter at the Audit Committee on 8 December 2011 and will provide copies to all board 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.

<table>
<thead>
<tr>
<th>Report</th>
<th>Date issued</th>
</tr>
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<tbody>
<tr>
<td>Fee Letter</td>
<td>April 2010</td>
</tr>
<tr>
<td>2009/10 Certification of claims and returns – Annual Report</td>
<td>February 2011</td>
</tr>
<tr>
<td>Opinion audit plan</td>
<td>March 2011</td>
</tr>
<tr>
<td>Annual Governance Report</td>
<td>29 July 2011</td>
</tr>
<tr>
<td>Auditors report and certificate on the Councils financial statements and vfm conclusion</td>
<td>29 July 2011</td>
</tr>
<tr>
<td>Annual Audit Letter</td>
<td>November 2011</td>
</tr>
</tbody>
</table>

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.

Mark Heap
District Auditor
November 2011
# Appendix 1 - Fees

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Proposed</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Fee</td>
<td>365,081</td>
<td>355,000</td>
<td>10,081</td>
</tr>
<tr>
<td>Non-audit work</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>365,081</strong></td>
<td><strong>355,000</strong></td>
<td><strong>10,081</strong></td>
</tr>
</tbody>
</table>

The audit fee of £355,000 reported to the Council in my audit plan was based on the risks identified at the time. There were a number of issues that required me to carry out some additional work in order to meet my audit obligations. As a result an additional fee of £10,081 has been levied.

Note: these figures do not reflect the fee rebate paid to the Council following savings made by the Audit Commission and rebated to audited bodies on a national basis.
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.
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.