

# Annual Audit Letter

Pendle 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 issued an unqualified opinion on the financial statements on 29 September 2011.

- The Council produced financial statements for audit by the deadline of 30 June 2011.
- The statements presented for audit complied with the requirements of International Financial reporting standards

## Value for money

I issued an unqualified opinion on the value for money conclusion on 29 September 2011. I concluded that the Council has appropriate

arrangements in place for managing its use of resources against the criteria specified by the Audit Commission:

- financial resilience; and
- securing economy, efficiency and effectiveness.

My key findings were that:

- The Council has set a balanced budget for 2011/12, including identifying savings to be delivered.
- The Council is aware of longer term challenges to the financial position, the Medium Term Financial Strategy reflects these.
- Beyond 2011/12 further savings will be required.



# Current and future challenges

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Economic downturn and pressure on the public sector

Local government faces one of its toughest ever periods financially. The Council has set a balanced budget for 2011/12 and work continues to identify efficiencies in the medium term.

Over the medium term the Council will need to continue to develop robust arrangements to:

- Ensure the Medium Term Financial Strategy is deliverable;
- Deliver efficiencies;
- Review income streams;
- Consider the way that services are delivered; and
- Respond to changes in demand and priorities.

IFRS

The transition to IFRS has proved challenging in local government where the 2010/11 financial statements had to be prepared in line with IFRS for the first time.

Many local authorities found that significant work was required to comply with the requirements of IFRS, to restate the comparatives for 2008/09 and 2009/10 and to include all the additional disclosure notes required.

The Council had a project plan in place. This plan did slip, but the IFRS compliant financial statements were available for audit by the 30 June 2011.

Overall the financial statements presented for audit were of good quality with some amendments made to the disclosure notes during the audit.

# Financial statements and annual governance statement

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**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 unqualified opinion on the financial statements on the 29 September 2011. The Council produced financial statements complying with IFRS. Following the audit some material amendments were made to the Cash Flow statement. These were reported to the Accounts and Audit Committee on 28 September 2011 in my Annual Governance Report.

## **Significant weaknesses in internal control**

I did not identify any significant weaknesses in your internal control arrangements.

# Value for money

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**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.

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## Value for money criteria and key messages

Criterion	Key messages
<b>1. Financial resilience</b> <b>The organisation has proper arrangements in place to secure financial resilience.</b> Focus for 2010/11: 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>The leadership team understands the significant and rapidly changing financial management challenges facing the organisation. Action is being taken in respect of this, through setting a balanced budget and keeping the medium term financial strategy up to date. The Council has a good track record of delivering within budget.</p> <p>The Council has set a balanced budget for 2011/12, including identifying savings to be delivered. As in previous years the budget setting was supported by detailed papers to aid members in budget setting.</p> <p>Progress against savings has been monitored throughout the year and savings are largely on track.</p> <p>The Medium Term Financial Strategy is kept up to date, and the Council has a robust level of reserves. The key risks to the Council from changes in central government funding are clearly communicated to members.</p>

Criterion	Key messages
	<p>An Accounts and Audit Committee is in place, responsible for reviewing internal audit as well as more general issues around internal control. Detailed financial information is included in the strategic monitoring reports to the executive, which project the outturn position. Key risks are reported to the executive.</p> <p>The annual budget setting process links to the strategic priorities of the Council.</p> <p>The Council is aware of longer term challenges to the financial position, the Medium Term Financial Strategy (MTFS) identifies the potential shortfall up until 2014/15 and sets out the use of reserves required by the Council and the savings gap from cuts to grants.</p> <p>The Council has an approved level of reserves and balances.</p>
<p><b>2. Securing economy efficiency and effectiveness</b></p> <p><b>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</b></p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>The Council has a well established leadership team which is aware of the need for spending reductions ahead. Historically efficiency targets have been met.</p> <p>Good quality finance and performance information is reported to members regularly.</p> <p>The Council has already considered the way in which it delivers services, via outsourcing or joint working.</p> <p>The Council has undertaken a restructuring exercise, with involvement from members and identified other savings in order to set a balanced budget for 2011/12. As well as the saving from the restructure, savings have been identified in other areas which were agreed as part of the budget setting. Currently the Council is on track to deliver the balanced budget for 2011/12.</p> <p>Beyond 2011/12 further savings will be required. The Council still has to identify a significant amount of these. However, the updated MTFS sets out the savings required over the longer term, and includes a planned use of reserves. The Council has a relatively high level of reserves, and has a plan in place to use them to support the budget position. However, longer term savings will also be required to balance the budget in future years.</p>

# Closing remarks

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I have discussed and agreed this letter with the Chief Executive and the Head of Central Services. As I am leaving the Audit Commission at the end of November my successor will present this letter at the Executive 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
Fee Letter	April 2010
Audit Plan	January 2011
Annual Governance Report	September 2011
Audit Opinion and VFM	September 2011

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.

Clive Portman

District Auditor

October 2011



# Appendix 1 – Fees

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	Actual	Proposed	Variance
Scale fee	£84,878	£93,462	£8,584
Non-audit work	0	0	0
<b>Total</b>	<b>£84,878</b>	<b>£93,462</b>	<b>£8,584</b>

The variance between the planned and actual fee reflects rebates issued to the Council from the Audit Commission.

# Appendix 2 – Glossary

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## **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.

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