

# Annual Audit Letter

Maidstone 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 30 September 2011.
- The Council coped well with the first year of IFRS implementation and the financial statements were prepared to a reasonable standard.
- I made recommendations which were agreed with officers to improve some aspects of capital accounting and asset management.

## **Value for money**

- I gave an unqualified value for money conclusion on 30 September, stating that the Council has proper arrangements in place for securing economy, efficiency and effectiveness.
- The Council has a strong financial governance framework, and there are sound arrangements for financial control. Financial planning is effective and forward looking. 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.
- The Council has a strong record of achieving efficiency savings, and there is a clear focus on prioritising resources within a sustainable medium term planning framework.



# 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 gave an unqualified opinion on the Council's financial statements on 30 September 2011. The Council's coped well with the new requirements of International Financial Reporting Standards, and the accounts were prepared to a reasonable standard although a number of adjustments were required in respect of capital accounting. Good working paper trails were in place to support the accounts.

I reported on the detailed findings of my audit to the Audit Committee on 19 September 2011. I recommended that additional quality checks should be undertaken in respect of capital accounting entries, and that the Council should consider introducing an improved computerised asset management system. These recommendations have been accepted by officers.

## **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
<p><b>1. Financial resilience</b></p> <p><b>The organisation has proper arrangements in place to secure financial resilience.</b></p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to effectively manage 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 £9.9m. The Council has been able to make a contribution of £1.5m to the general revenue reserve in 2010/11 despite significant financial pressures, and achieved the £1.6m savings target. Whilst the Council's reserves as a percentage of revenue expenditure (11.7%) are low compared to the average for shire districts (36.7%), they are being maintained at sufficient levels to provide for contingencies and maintain the Council's policy of sustaining working balances at 10% of net revenue expenditure.</p> <p>The Council has a history of strong financial management. During 2010/11 it has again demonstrated a clear corporate focus on financial planning and early action to deal with financial pressures.</p>

Criterion	Key messages
<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 strong record of achieving efficiency savings, and there is a clear focus on prioritising resources within a sustainable medium term planning framework.</p> <p>A primary objective for the Council has been to progress development of the Local Strategic Partnership (LSP) as the main medium for achieving the targets of the Sustainable Community Strategy. A resource mapping exercise was undertaken to assist in integrating existing plans within the LSP. The economic downturn and consequent funding pressure has required the Council to ensure its risk assessment, corporate planning and budget setting processes remain fully aligned and “fit for purpose”.</p> <p>Despite the financial situation the Council has progressed a number of major capital projects whilst actively marketing assets surplus to requirements to help fund its capital programme.</p> <p>A key achievement of 2010/11 was the development of a revised Waste and Recycling Strategy which will be implemented over the next five years. A food waste collection service has been introduced and successfully rolled out across the authority.</p> <p>Good use is being made of COVALENT to record and track the Council’s objectives, and flag any risk areas promptly when key milestones are missed or performance targets slip. Each objective is allocated to a named officer, and progress can be tracked through the system updates and reports. A challenge going forward will be to ensure that data on the system is updated promptly, as this is not yet consistent across the authority</p>

# Future challenges

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**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 positioned itself well to ensure it is financially resilient, and the processes to support the medium term financial strategy (MTFS) are well-established. However, the Council has performed a further detailed review of the strategy during 2010/11, projecting budget requirements and spending levels over the period 2011/12 to 2014/15. A savings target of £4.3m was identified over the four years, with £1.9m required in 2011/12.

The Council is reasonably on track in achieving its 2011/12 savings target, although £150k is considered vulnerable at this stage due primarily to contract delays and cost pressures. Despite the difficult financial environment the Council is well-placed to address the potential funding gaps identified over the lifetime of the MTFS.

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#### Joint arrangements / shared services

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 successfully adopted a shared revenues and benefits service with Tunbridge Wells BC in 2011.

The Council is also developing services with partners in other areas, for example to reduce health inequalities (with the PCT) and improve educational attainment as part of the Mid Kent College Advisory Panel. Such arrangements will be particularly important as the Council aims to achieve its key priorities over the medium term, and working effectively with other members of the Local Strategic Partnership and Delivery Group as they move to a Locality Board will be crucial.

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#### Economic development and regeneration

Development of the Council's Core Strategy for the next 15 years has now progressed to the consultation stage. The importance of linking this with the Council's Economic Development Strategy, new Housing Strategy and key documents produced by partners (eg the Local Transport Plan and the Integrated Transport Strategy) is recognised by the Council, and will be vital in securing and sustaining the necessary support for the local economy.

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#### 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 buy 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.
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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.

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# Closing remarks

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I have discussed and agreed this letter with the Chief Executive, the Director of Change, Planning and the Environment and the Director of Regeneration and Communities on 2<sup>nd</sup> November 2011. I will present this letter at the Audit Committee on 28<sup>th</sup> November 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

Acting Engagement Lead

November 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	109,020	116,490	116,490	116,490
Inspection fee	9,152	9,152	0 <sup>i</sup>	0
<b>Total</b>	<b>118,172</b>	<b>125,642</b>	<b>116,490</b>	<b>116,490</b>

In addition the Audit Commission issued rebates to the Council of £7,357 in April 2010 in respect of the cost of first year audit work on IFRS and a further rebate of £1,839 in December 2010.

<sup>i</sup> Inspection activity cancelled following abolition of CAA

# 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;
- 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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