

# Annual Audit Letter

Tonbridge and Malling Borough Council

Audit 2010/11



# Contents

---

- Key messages.....3**
  - Audit opinion and financial statements.....3
  - Value for money .....3
- Financial statements and annual governance statement.....4**
  - Overall conclusion from the audit.....4
  - Significant weaknesses in internal control.....4
- Value for money.....5**
- Future challenges .....7**
- Closing remarks .....8**
- Appendix 1 - Fees.....9**
- Appendix 2 - Glossary.....10**

**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 Council's financial statements on 8 September 2011.

The Council's 2010/11 accounts were prepared to a high standard and supported by clear working paper trails. The Council put in place a very effective framework for completing the additional work associated with the first year implementation of International Financial Reporting Standards (IFRS).

## **Value for money**

I issued an unqualified value for money conclusion on 8 September 2011.

The Council's underlying financial position is strong. It continues to have an effective framework for financial planning and budgetary control. The Council faces significant financial pressures from the economic downturn and reductions in grant funding. However, its focus on working to a sustainable medium term financial plan means it is well-positioned to meet these challenges.



# 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 unqualified opinion on the Council's financial statements on 8 September 2011. The accounts were prepared to a very high standard and supported by clear working paper trails. A small number of amendments were agreed before giving my opinion.

The 2010/11 local authority accounts were the first to be prepared under International Financial Reporting Standards (IFRS). Under IFRS the Council has been required to:

- review transactions and identify the appropriate accounting treatment under IFRS;
- restate the Council's balance sheet at 1 April 2009 and 1 April 2010; and
- produce a number of new disclosure notes.

This work was managed very effectively. By completing this work at an early date the Council established a sound basis for preparing the 2010/11 accounts.

## Significant weaknesses in internal control

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

# 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.**

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.

---

## 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 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>	<p>The Council has a history of strong financial management. During 2010/11 it again demonstrated a clear corporate focus on financial planning and early action to deal with financial pressures.</p> <p>The processes to support the medium term financial strategy (MTFS) are well-established. A further detailed review of the strategy was performed during 2010/11, using an extended ten-year planning framework. Modelling assumptions supporting the strategy are kept under review. The strategy seeks to ensure that the Council operates within a sustainable financial framework, so that at the end of the ten-year strategy period the annual revenue budget does not require support from reserves and minimum balances of £2 million are held in the Council's general revenue reserve.</p> <p>The Council's underlying financial position at 31 March 2011 was strong. General fund balances and general revenue reserves totalled £8,015,000, after a further contribution of £481,000 during 2010/11.</p>

Criterion	Key messages
	<p>The Council has continued to maintain a strong framework of financial control during 2011/12. Budget monitoring at 31 August 2011 indicates the Council may be able to reduce its planned contribution from reserves to support 2011/12 revenue expenditure, with the drawdown potentially reducing from £1,586,600 to £685,000. This is largely due to the receipt of New Homes Bonus funding of £648,400. However, a number of in-year pressures remain, particularly around the performance of the Leisure Services Business Unit, where the trading deficit for the year to date is higher than originally projected.</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 strong record of achieving efficiency savings. During 2010/11 it has again demonstrated a strong understanding of its cost base and a culture of cost challenge. It continues to investigate opportunities for service efficiencies, for example through shared services arrangements with Gravesham BC. There is a clear focus on prioritising resources within a sustainable medium term planning framework.</p>

# Future challenges

---

Economic downturn and pressure on the public sector

The national economic environment continues to be extremely challenging for public sector organisations. Modelling by the Council in 2011/12 to support its medium term financial strategy suggests that the future outlook for inflation, interest rates and economic activity will have an adverse impact on its financial position over and above that previously projected. The Council has already moved to make further savings of £300,000 in 2012/13. The potential remaining funding gap of £2.9 million over the ten-year financial strategy period is being addressed through the MTFS.

The Council therefore faces significant challenges to delivering its financial objectives. However, its underlying financial position and strong framework for financial planning and budgetary control mean it is well-positioned to meet these challenges.

Impact of new legislation.

The government has announced a number of wide ranging reforms to the public sector since taking office in May 2010. Many are contained in the Localism Bill, key aspects of which include:

- introducing a general power of competence for local authorities;
- introducing the right for communities to bid for local assets threatened with closure, challenge the way services are provided and initiate referenda; and
- significant reforms to the planning system.

The Welfare Reform Bill contains proposals which will affect benefits administration. Some proposals are still the subject of consultation, for example those relating to the local retention of business rates and the introduction of new localised schemes to replace council tax benefit.

The Council will need to consider the implications of this new legislation. Some proposals may involve changes to workloads or additional co-ordination with other local authorities. The Council will also need to consider the implications for the MTFS of changes to funding arrangements or to the overall level of central government support.

# Closing remarks

---

I have discussed and agreed this letter with the Leader of the Council, the Chief Executive and the Director of Finance. I will present the letter to the January 2012 Audit Committee. A copy of the letter will also be circulated to all Members.

Further detailed findings, conclusions and recommendations in the areas covered by my audit are included in the reports I issued to the Council during the year.

Report	Date issued
Audit fee letter	April 2010
Audit plan	March 2011
Annual Governance Report	September 2011

The Council has taken a positive and constructive approach to the audit. I wish to thank the Council's staff for their support and co-operation during the audit.

Andy Mack  
District Auditor

October 2011



# Appendix 1 - Fees

	Actual 2009/10	2010/11 Initial Estimate (April 2010)	2010/11 Revised Estimate (April 2011)	Actual 2010/11
Audit fee	96,600	105,500	105,500	105,500
Inspection Fee	9,152	9,152	0 <sup>i</sup>	0
<b>Total</b>	<b>105,752</b>	<b>114,652</b>	<b>105,500</b>	<b>105,500</b>

In addition the Audit Commission issued rebates in respect of the 2010/11 audit fee as follows.

	Audit Commission rebates 2010/11
Audit fee 2010/11	105,500
Rebate for the costs associated with the first year implementation of IFRS	(6812)
Rebate to reflect the new approach to VFM work in 2010/11	(1760)
	<b>96,928</b>

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

# 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, 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.

If you require a copy of this document in an alternative format or in a language other than English, please call:  
**0844 798 7070**

© Audit Commission 2011.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

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.

