

# Annual Audit Letter

North Tyneside Council

Audit 2010/11



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# Key messages

**This report summarises the findings from my 2010/11 audit. My audit comprises two elements:**

- **the audit of the Council's financial statements; and**
- **my assessment of the arrangements to achieve value for money in the Council's use of resources.**

**I have included only significant recommendations in this report. The Council has accepted these recommendations.**

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 28 September 2011.

The financial statements presented for audit were of good quality, they complied with the new requirements of International Financial Reporting Standards (IFRS) but some amendments to the draft accounts had to be made. Officers responded well to the demands of the new accounting requirements and have once again been helpful in dealing with audit queries.

## **Value for money**

I concluded that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

In 2010/11 the Council reported a General Fund underspend of £2.5 million after receiving a pension capitalisation allocation. This increased the Strategic Reserve balance to £7.4 million. In addition, at 31 March 2011, the Council's general fund reserve which is available to meet unforeseen circumstances was £6.6 million and total usable reserves were £52.0 million.

The Council has prepared for the economic challenges facing public services through the introduction of a Change, Efficiency and Improvement (CEI) Programme. This is a 4 year strategy for delivering radical change, efficiency and improvements in public services in North Tyneside. The approach scrutinises current service delivery to identify areas of potential savings.

# Current and future challenges

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The Council, along with other public bodies, is facing increasing financial pressures following the economic downturn and is therefore facing several challenges both now and in the future. The Council is well placed to meet the challenges it faces and continues to identify sustainable efficiency savings. However, the pressures on public spending are so great that the Council will inevitably be faced with difficult choices about future services.

## **Economic downturn and pressure on the public sector**

A key challenge facing the public sector is the need to maintain effective services and meet strategic objectives with less money.

The Council's funding from central government reduced by over £11 million in 2011/12, this together with a commitment to freeze council tax meant that setting the 2011/12 budget presented a major challenge to the Council.

To respond to this the Council introduced a Change, Efficiency and Improvement (CEI) Programme (a 4 year strategy for delivering radical change, efficiency and improvements in public services in North Tyneside) which, together with other savings, identified over £24 million in 2011/12. This, and the planned use of £2.7 million of reserves, enabled the Council to balance its 2011/12 budget.

The Council is aware that it needs to closely monitor the CEI Programme in 2011/12 and take early action if budget savings are not being delivered. Failure to meet these targets would place significant pressure on finances and service delivery.

## **Changes to the Housing Revenue Account (HRA) funding regime**

The government has confirmed its intention to replace the HRA subsidy system from 2012/13 as part of its Localism Bill. This emphasises the importance of robust plans, budgets and financial plans, to reduce the risk of not breaking even under the self funding regime. Where councils take out new debt, they will also need to consider wider Treasury Management risks (see below).

The Council has already identified the potential implications for its HRA of these changes. It will result in the end of the current annual negative subsidy payments by the Council to Government. It will be replaced by a one off allocation of debt in the region of £120 million (based on current assumptions) and a move to a self-financing system where housing rents will be retained locally. It is likely that the one off debt will be funded by long term loans.

## **Treasury management**

All councils face challenges in how they manage debt and investments. These are magnified by reduced revenue funding from central government and a reduction in the availability of affordable long-term loans from the commercial market.

The Council has a good track record on treasury management and is aware of the need to manage these challenges effectively as part of its financial management arrangements but this needs to be an area of added focus.

# 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 it accounts for its stewardship of public funds.**

## **Overall conclusion from the audit**

The financial statements were approved by the Audit Committee on 28 September 2011 and I issued an unqualified audit opinion on that same day.

The financial statements presented for audit complied with the new requirements of International Financial Reporting Standards (IFRS); however they did contain 1 material error and a number of lesser issues. Amendments to the draft accounts were agreed with officers as a result of audit work. Officers have once again been very helpful in dealing with the audit and with our queries. I recommended that the Council continues to build on the quality assurance approach in place so that officers responsible for producing the financial statements are more assured that the statements presented for audit are materially correct.

In addition there were some misstatements that the Council decided not to correct and it set out the reasons for not doing so in a Letter of Representation at the conclusion of the audit.

The key audit adjustments are summarised below

- Goathland Primary school, with a net book value of £6,922k, was included in the draft Statement of Accounts despite being partially demolished before 31 March 2011.
- Operational land and buildings were understated by £2,328k as a result of a miscoding of capital expenditure. The expenditure was originally charged against Longbenton High School which has since become a Trust School.
- Battle Hill Library was included in the Council's asset register with a net book value of £204k despite being sold on 31 March 2010.
- Wallsend sports facility was incorrectly included in the draft accounts as a disposal, however, audit work identified that this should have been included as an operating lease. This led to an amendment of £716k.

As a result of the above issues, I recommended that the Council ensure that all fixed assets registers are complete and up to date in order that all assets are correctly recorded, valued and properly disclosed in the accounts

I considered aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. I recommended that the assets under construction accounting policy be amended to clearly meet the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom.

## **Internal control issues**

I identified two internal control issues.

- Work carried out on the Council's joint venture with Kier North Tyneside identified that, whilst improvements had been made in 2010/11, scope existed to further strengthen both contract controls and performance across the housing repairs service. I recommended that the Council continued to improve the timing, quality and accuracy of the data received from the Joint Venture Company.
- Audit testing of the Housing Benefit system highlighted that the control in place to ensure that quality checks of claims processed by each member of staff each week was carried out but was not operating for the whole year, due to a management decision to address the backlog of benefit claims. This decision resulted in one control not being in place for five working weeks. I recommended that the Council ensure that all Housing Benefit key controls are in place and working for the whole of the financial year.

# 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 performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.**

I assess the Council's arrangements to secure economy, efficiency and effectiveness in its 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. I issued an unqualified value for money conclusion on 28 September 2011.

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 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><b>Criterion met.</b></p> <p>In 2010, the Government signalled its intention to address the national budget deficit with significant reductions in public spending. An Emergency Budget resulted in the Council being required to manage over £3.5 million of grant reductions during 2010/11. Actions to manage these reductions were identified and built into the Council's base budget as ongoing savings.</p> <p>In 2010/11 the Council reported a General Fund underspend of £2.5 million after receiving a pension capitalisation allocation. This increased the Strategic Reserve balance to £7.4 million. In addition, at 31 March 2011, the Council's general fund reserve which is available to meet unforeseen circumstances was £6.6 million and total usable reserves were £52.0 million. Although the majority of these are earmarked for specific purposes, they do provide the Council with some flexibility to manage its financial position in the current difficult economic environment.</p>

Criterion	Key messages
	<p>The 2011/12 budget presented a major challenge to the Council. The outcome of the comprehensive spending review in the autumn of 2010 was that there would be significant cuts in central government funding, an initial reduction of £11 million, with further cuts to follow in 2012/13.</p> <p>To respond to this the Council has introduced a Change, Efficiency and Improvement (CEI) Programme (a 4 year strategy for delivering radical change, efficiency and improvements in public services in North Tyneside) which, together with other savings, identified savings of over £24 million in 2011/12. This, and the planned use of £2.7 million of reserves, enabled the Council to balance its 2011/12 budget.</p> <p>Audit work identified that the controls and procedures in place for budget monitoring were generally operating effectively with only a number of low priority recommendations being made. In addition, procedures in place to report the results of budget monitoring procedures to senior management and members were also shown to be operating effectively.</p> <p>The key challenges for the Council are to:</p> <ul style="list-style-type: none"> <li>■ Closely monitor the CEI Programme and take early action if budget savings are not being delivered.</li> <li>■ Monitor service delivery and governance arrangements to ensure that standards are maintained during a period of significant change.</li> </ul>
<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><b>Criterion met.</b></p> <p>The Council identified a number of areas where savings could be made during the 2010/11 budget process and these were subject to VFM business cases. These business cases were scrutinised before being approved and included in the approved 2010/11 budget. As a result of this approach, the Council made £9.4 million VFM savings in 2010/11. These efficiencies were built into the base budgets for 2011/12 to ensure that the savings were sustainable.</p> <p>Audit work identified that the Council had satisfactory arrangements in place to identify, challenge and sustain VFM savings. However, scope exists to strengthen these arrangements, especially in relation to the consistency of the contents of VFM business cases. The Council addressed this issue by introducing for the 2011/12 budget setting process a series of Challenge Meetings which scrutinised in detail the current service delivery and areas of potential savings.</p> <p>Our Ethical Governance work was reported to Members in late 2010. An appropriate Action Plan was agreed and progress against these actions is being made.</p>



## Criterion

## Key messages

The Council has strengthened Workforce Planning arrangements during the year with the introduction of the new Managing Change Toolkit and Workforce Strategy. Updated Workforce Planning guidance for managers has also been produced during 2010/11.

Our financial statements work identified that, although improvements had been made in relation to the financial aspects of the Kier contract, further improvements were required. However, audit work carried out in relation to the governance aspects of the contract highlighted that robust arrangements designed to ensure that the Council's interests are properly protected and safeguarded were in place.

The key challenges for the Council are to:

- Ensure that CEI Programme savings are achieved. Failure to meet these targets would place significant pressure on the Council's finances to balance its budget and maintain the current levels of service delivery.
  - Ensure that the newly implemented Workforce Planning arrangements are fit for purpose.
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# Closing remarks

I have discussed and agreed this letter with the Chief Executive and the Strategic Director of Finance and Resources. The letter will be presented to Council on 26 January 2012 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
Good Governance Report	September 2010
Progress Report	November 2010, April 2011
Opinion Audit Plan	March 2011
Certification of claims and returns – Annual Report	March 2011
Annual Governance Report	September 2011
Opinion on the financial statements	September 2011
Value for Money conclusion	September 2011
Annual Audit Letter	October 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.

Steve Nicklin  
District Auditor  
October 2011

# Appendix 1 - Fees

	Actual	Proposed	Variance
Scale fee	£332,500 <sup>(1)</sup>	£332,500	Nil
Grant claims and returns	£57,050 <sup>(2)</sup>	£57,050	Nil
Non-audit work	£5,885	£0	£5,885 <sup>(3)</sup>
<b>Total</b>	<b>£395,435</b>	<b>£389,550</b>	<b>£5,885</b>

1. These figures do not reflect the fee rebates that have been paid back to the Council, following savings made by the Audit Commission, and rebated to audited bodies on a national basis.

2. This remains our best estimate for grant claims and returns. This work is not likely to be completed until the end of December 2011.

3. The fee for non-audit work consists of work carried out on an Ethical Governance study and also providing a Cultural Services Challenge for the Council.

# 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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