

Annual Audit Letter

Tendring District Council

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Contents

Key messages	2
Audit opinion and financial statements	2
Value for money	3
Current and future challenges	3
Financial statements and annual governance statement	4
Overall conclusion from the audit	4
Significant weaknesses in internal control	5
International Financial Reporting Standards	5
Value for money	7
2009/10 use of resources assessments	7
VFM conclusion	7
Risk-based performance reviews	9
Approach to local value for money work from 2010/11	10
Current and future challenges	11
Financial pressures	11
Future developments	12
Closing remarks	13
Appendix 1 Audit fees	14
Appendix 2 Glossary	15
Appendix 3 Action Plan	16

Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements (pages 4 to 6); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 7 to 10).**

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

Audit opinion and financial statements

1 The Council is required to prepare and approve its accounts by 30 June 2010. The Council met that deadline. The accounts were complete and were supported by a good set of working papers, which enabled me to complete my audit by the 30 September 2010 deadline.

2 My audit did find errors in the accounts, but none of these were material. The Council agreed to correct these errors. I was therefore able to conclude the accounts give a 'true and fair' view of the Council's financial position at 31 March 2010 and its income and expenditure for the year and issue an unqualified opinion.

3 The 2010/11 accounts will be based on International Financial Reporting Standards (IFRS) for the first time. The Council has made good progress and remains on track to deliver IFRS-compliant accounts within statutory timescales.

Value for money

4 I assess and conclude on whether the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources at its disposal to provide local services. This is known as the value for money (VFM) conclusion.

5 I concluded the Council met the required standards during 2009/10 for seven of the eight criteria assessed. For the remaining criteria I noted there is an inadequate ethical framework at the Council. I identified that both governance and behaviours are a concern to officers and members. This affected relationships between officers and members and members themselves and may have a wider implication with the Council being poorly thought of by the public.

6 Therefore I issued a qualified value for money conclusion stating the Council did not have adequate arrangements in place for promoting and demonstrating the principles and values of good governance.

7 In all other areas the Council continues to operate effectively. I also identified areas for improvement in key priority areas such as regeneration and addressing health inequalities within the district.

Current and future challenges

The Medium-Term Financial Position

8 The comprehensive spending review has identified significant cuts in funding for councils over the next four years. As a result all councils will need to reconsider their priorities and their capacity to fund these over this period and beyond.

9 Tendring has been financially stable over several years with a reasonable level of financial reserves for both earmarked and general use. In addition there is an austerity reserve of £1.2 million which will help in dealing with the funding cuts. Further clarification is required on the final funding to be allocated to the Council but there will be a likely fall in annual income from the government of between £3 million and £5 million. In response to this the Council has a continuing programme to identify savings which has taken out £1.1 million from budgets already in 2010/11.

10 A detailed medium term financial plan is in place for the 2011/12 period and the following five years. This reflects the priorities identified in the recently approved corporate plan although this will need to be reassessed because of the spending review.

11 Continuing sound financial management will be required to meet the challenges, preserve services for local residents, keep a sound financial position and continue to deliver value for money.

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.

I gave an unqualified opinion on the Council's 2009/10 financial statements on 27 September 2010, ahead of the statutory target date.

Overall conclusion from the audit

12 I issued an unqualified audit opinion on the Council's accounts on 27 September 2010, thereby meeting the 30 September deadline set by the Accounts and Audit Regulations 2003. In my opinion, the accounts give a true and fair' view of the Council's financial position at 31 March and its income and expenditure for the year then ended.

13 The quality of the working papers provided by the Council in support of the entries in the accounts has, as in previous years, been of a high standard. The finance team were able to resolve any remaining queries on a timely basis.

14 There were no material amendments to the financial statements. However, some non-trivial amendments were made to the accounts, the most significant of these relating to the treatment of capital commitments and capital accruals. The amounts committed to capital contracts were overstated by £881,000 while the amounts recognised as capital accruals £352,000 understated. The Council amended for both of these errors.

15 Before giving my opinion, I reported to those charged with governance (in this case the Audit Committee) on the issues arising from the 2009/10 audit. My report included the full details of the issues arising from my audit, including the adjusted and unadjusted errors. I presented this report on 23 September 2010.

Significant weaknesses in internal control

16 The Council's annual governance statement was consistent with the Head of Internal Audit opinion and my understanding of the Council.

17 In my interim report, which I presented to the Audit Committee on 23 September 2010, I identified some weaknesses within the Council's financial systems. As a result, I was unable to get as much assurance from controls as I would expect for the housing benefits and housing rents systems. I recommended actions in my interim report to improve controls within these systems. If the issues are addressed the Council would both improve its own internal controls and enable me to place greater reliance on these controls.

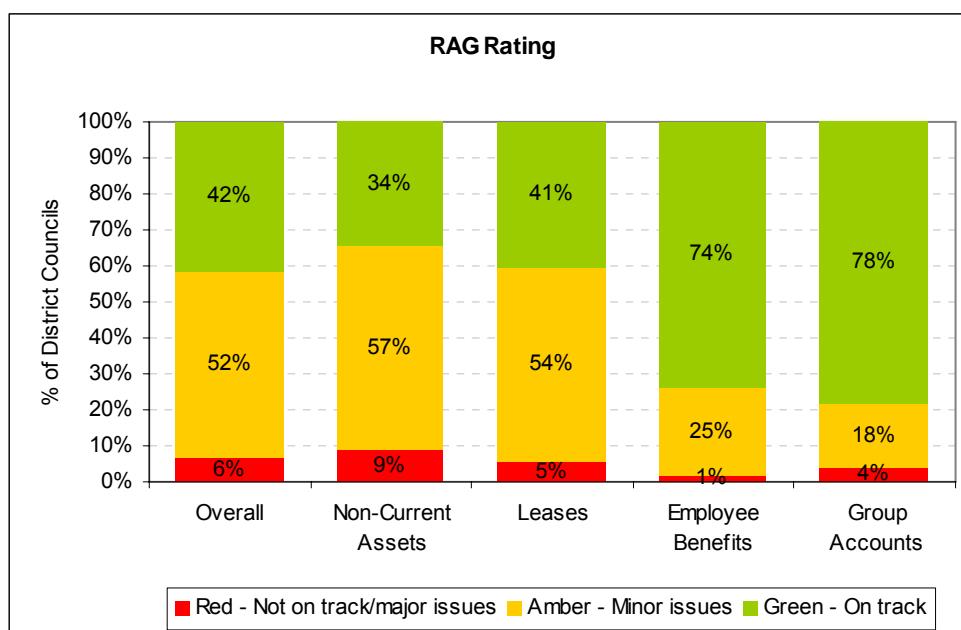
International Financial Reporting Standards

18 Local authorities have to produce their accounts under International Financial Reporting Standards (IFRS) for 2010/11. The Council has a plan for this work and has reported progress to the Audit Committee. The Committee has challenged officers over the progress made.

19 The Audit Commission undertook a survey of auditors of all local authorities in summer 2010 to assess local authority readiness for IFRS. As part of this survey I rated Tendring as being on track to deliver good quality IFRS-compliant accounts on all areas assessed.

Figure 1: **Overall readiness for IFRS**

Compared with other district authorities, Tendring is at on track with some minor issues.



Source: Auditor survey summer 2010

20 The Council plans to restate the opening balance sheet at 1 April 2009 and the 2009/10 financial statements and produce a skeleton set of 2010/11 IFRS-compliant accounts by 31 March 2011. This timescale will allow sufficient time for external audit review of the work undertaken before the beginning of the final accounts audit.

Recommendation

R1 Deliver the agreed plan for producing IFRS-compliant accounts within the timescales the Council has set.

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.

2009/10 use of resources assessments

21 At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on Comprehensive Area Assessment (CAA) would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

22 However, I am still required by the Code of Audit Practice to issue a value for money (VFM) conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

23 I report the significant findings from the work I have carried out to support the vfm conclusion.

VFM conclusion

24 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

25 My findings are summarised in the following table.

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	No
Risk management and internal control	Yes
Managing resources	
Natural Resources	Yes

26 I issued a qualified conclusion stating that the Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources, except for promoting and demonstrating the principles and values of good governance.

27 The main reason for my qualification being that there is an inadequate ethical framework at the Council. Both governance and behaviours are a concern to officers and members. This has affected relationships between officers and members and members themselves and may have a wider implication in terms of the Council being poorly perceived by the public.

28 In addition, many members feel that attempts are made to use the Standards regime inappropriately. For example, some feel that not all referrals are driven by alleged breaches of standards.

29 In all other areas previously assessed, the Council continues to operate effectively and I reported my key messages from this work in my annual governance report.

Risk-based performance reviews

30 To support my review of the criteria I undertook the following studies.

- Ethical governance diagnostic.
- Regeneration review.
- Health inequalities follow-up (Essex-wide review).

31 I have reported my detailed findings to the Council in separate reports and have summarised the main findings below.

Ethical governance diagnostic

32 There are issues at the Council about governance processes and the behaviour of both members and officers. These issues impacted on the delivery of services and outcomes in the district over the last three years.

33 The systems in place require review to ensure member and officer responsibilities are clear. They also need to ensure that politically motivated actions do not hinder the Council's delivery of services.

Regeneration review

34 Regeneration activity within Tendring District Council is in constant flux and political differences are inhibiting both the development of strategy and the delivery of regeneration objectives. There is agreement between the political parties about the challenges facing the district and the problems which must be addressed. However, there is less consensus on how these problems should be addressed and what structures and alliances should be used to achieve desired regeneration goals.

35 The Council has only recently adopted a coherent strategic approach to regeneration activity within the district. More importantly it does not yet have an associated delivery plan with a clear timeline, allocated funding and SMART targets. This is now being agreed.

36 There has been some progress on regeneration projects with investment in Clacton Town Centre which has led to a number of developments. The Haven Gateway Partnership Board has secured significant funding to facilitate regeneration and improvement in the district. The Council has also been an active partner with the County Council and others in the Jaywick Interaction Partnership. However, it is likely that more could have been achieved had there been greater consensus, focus and clarity.

37 This lack of clear direction and political consensus has impacted both on staff internally and local partners. There has been a sense of frustration about the Council's inability to agree on an overall strategic direction, and the delivery vehicles to complete successful projects.

Health inequalities

38 The purpose of this follow up review was to assess the arrangements now in place across Essex to reduce health inequalities, to assess progress against our original recommendations and to identify what outcomes have been achieved.

39 Overall, Essex public sector organisations have made good progress against our recommendations. In particular, improvements have been made in consolidating strategic approaches to deal with health inequalities, working together to develop operational arrangements to deliver the strategies and improving member awareness. Some issues require further attention, particularly in delivery, target setting and local performance monitoring. Work on health inequalities in Essex has led to mixed outcomes. However, there are many examples of innovative and targeted action to reduce health inequalities.

40 Specific review of Tendring Local Strategic Partnership (LSP) concluded arrangements for tackling health inequalities have been significantly strengthened since our original review in 2007/08. Further improvements are needed, but there is already a much stronger base for delivery and impact on health inequalities in the future. Good progress has been made against our original recommendations and outcomes achieved. There is a very holistic approach in Tendring to tackling health inequalities, with many services and initiatives contributing and we also identified a number of examples of notable practice, including the 'ReachOut' project.

Approach to local value for money work from 2010/11

41 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work for 2010/11.

42 My future work will be based on a reduced number of reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

43 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

Financial pressures

44 There are some significant risks to the Council's future financial resilience which will need to be addressed over the coming months.

45 The government has made clear its priority to tackle the UK's deficit. On 24 May 2010, the Chancellor of the Exchequer and Chief Secretary to the Treasury announced the first step in tackling the deficit, setting out how the government intends to save over £6 billion from spending in 2010/11.

46 The Comprehensive Spending Review reported on 20 October 2010 set spending limits for every government department for the period 2011/12 to 2014/15. This included annual funding reductions of 7.1 per cent for four years for local authorities (totalling approximately 28 per cent over the four years). The Council will need to build the outcome of the spending review into its financial plans and revisit the assumptions contained in its Medium Term Financial Strategy (MTFS).

47 The Council's latest MTFS, as reported to full Council on 4 August 2010 anticipated the impact of the reduced funding and identified a potential shortfall of up to £5 million. Hence, the announcement of reducing funding through the spending review is largely anticipated by the Council.

48 Plans are already in place to address the 2011/12 funding gap with the establishment of an austerity reserve as well as identifying ongoing savings throughout the Council. Uncommitted revenue balances at 31 March 2010 stand at £3.9 million including an approved minimum balance of £1.6 million. The Council also maintains a number of earmarked reserves which allows it to plan for future expenditure. However, the next four years will present ongoing challenges as the cumulative impact of cuts to funding is felt.

49 A more accurate assessment of the impact of the Comprehensive Spending Review will not be possible until the provisional financial settlement is announced in December 2010. It is therefore a time of uncertainty, but the cumulative effect of the savings required will be significant. It is therefore crucial that the Council identifies the areas where the significant savings will be required, and that the necessary tough decisions are made to deliver these savings.

Recommendation

R2 Continue to monitor the financial position closely and make the necessary tough decisions about services to balance the budget and respond to the government's comprehensive spending review.

Future developments

New Senior Management Team

50 A successor senior management team is being identified and a new chief executive appointed from January 2011.

51 This new team needs to integrate effectively with existing staff and members. This will enable approaches to be agreed to the challenges facing the Council, including those identified in this letter, and ensure an effective response to the reduced financial funding.

52 The successor team can draw on significant experience of the Council and the local government sector making them well-placed to face the upcoming challenges.

Regeneration of the District

53 Regeneration of the district remains a key priority for the Council. However, over the last three years, this has been hindered by a combination of governance issues and a lack of political agreement over the best way to deliver all the changes required.

54 A new regeneration strategy, approved in May 2010 is now in place for 2010-2016, a delivery plan to support this is almost complete.

55 It is important that work on the key projects is supported by members. This will ensure the best outcomes are delivered for the district as a whole, in accordance with the strategy and delivery plan in place.

Closing remarks

56 I have discussed and agreed this letter with the Chief Executive and the Head of Financial Services. I will present this letter at the Audit Committee on 16 December 2010 and will provide copies to all Council Members by the end of November 2010.

57 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit Fee letter	April 2009
Audit opinion plan	March 2010
Interim audit report	September 2010
Health inequalities report	September 2010
Regeneration report	September 2010
Annual governance report	September 2010
Opinion on the financial statements	September 2010
Ethical governance report	November 2010
Annual Audit Letter	November 2010

58 The Council has taken a positive and helpful approach to our audit. I wish to thank the Tendring District Council staff for their support and cooperation during the audit.

Christine Connolly
Appointed Auditor
November 2010

Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	74,675	74,675	0
Value for money	49,675	49,675	0
Total audit fees	124,350	124,350	0

The audit has been delivered and concluded within the planned fee.

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 accounts, auditors must give their 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;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

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 money, people and time.

Appendix 3 Action Plan

Recommendations

Recommendation 1

Deliver the agreed plan for producing IFRS-compliant accounts within the timescales the Council has set.

Responsibility	Head of Financial Services
-----------------------	----------------------------

Priority	High
-----------------	------

Date	March 2011
-------------	------------

Comments	Work remains in progress
-----------------	--------------------------

Recommendation 2

Continue to monitor the financial position closely and make the necessary tough decisions about services to balance the budget and respond to the government's comprehensive spending review.

Responsibility	Head of Financial Services
-----------------------	----------------------------

Priority	High
-----------------	------

Date	Ongoing
-------------	---------

Comments	Work remains ongoing within the overall financial strategy framework.
-----------------	---

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 2010.

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.



Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946