

# Annual Audit Letter

## Shildon Town Council

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<b>Reference:</b>	SH072 Annual Audit Letter
<b>Date:</b>	December 2004

## Key messages

For the areas subject to audit we found that the council has appropriate arrangements in place. They are less formalised than at larger authorities, but appear generally appropriate given the size and nature of the council.

The council has maintained levels of internal control during a period of major change in members and then the retirement of the town clerk. Internal audit arrangements have been introduced to ensure compliance with the accounts and audit regulations.

The changes in members and key staff have resulted in limited progress being made on:

- Quality town council status;
- Best value review action plans and the process of continuous improvement; and
- previously agreed recommendations.

The introduction of the new financial management system in 2003/04 caused problems. The council could not produce budgetary control information and bank reconciliations were delayed. These problems have been resolved for 2004/05. Budgetary control information has been reviewed to make it more meaningful to the members and is presented to members monthly.

## Best value

An unqualified opinion has been given on the 2004/05 best value performance plan (BVPP) and the council complied with all major statutory requirements of the best value regime.

## Accounts

We have also given an unqualified opinion on the statement of accounts.

## The purpose of this letter

This annual audit letter to members summarises the conclusions from our 2003/04 audit. It also reports for members the significant issues arising from our audit, together with our comments on other current issues.

More detail on the specific aspects of our work can be found in the separate reports and letters we have issued during the year. Details of these are listed at Appendix 1 for information.

The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.

## Background to our audit

The council has to comply with the requirements of best value legislation. This requires the publication of a BVPP as well as undertaking best value reviews.

The council also has to produce a statement of accounts that complies with the same accounting standards as a principal authority, including CIPFA's statement of recommended practice.

For the 2003/04 financial year, the statements were approved by members in May 2004 well before the 31 August 2004 deadline. In future years, the council will have to produce financial statements earlier, however the timetable achieved in 2003/04 already meets these earlier deadlines.

## Objectives of our audit

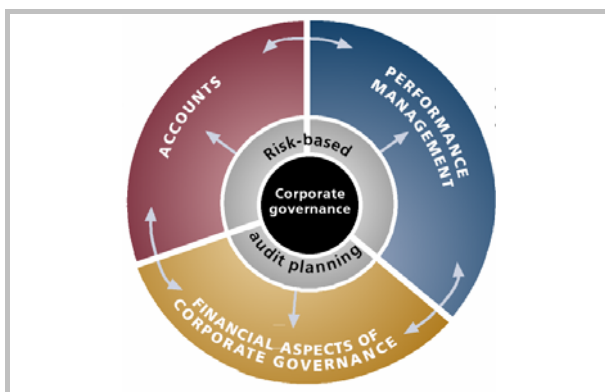
### Audit

Our main objective as appointed auditor is to plan and carry out an audit that meets the requirements of the code of audit practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on significant financial and operational risks that are relevant to our audit responsibilities.

Central to our audit are the council's corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the code and shown in exhibit 1.

#### EXHIBIT 1

#### The three main elements of our audit objectives



#### Accounts

- Opinion.

#### Financial aspects of corporate governance

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct and the prevention and detection of fraud and corruption.
- Legality of transactions.

#### Performance management

- Use of resources.
- Performance information.
- Best value performance plan (BVPP).

## Performance management

### Best value

*An unqualified opinion has been given on the BVPP and there have been no statutory recommendations or referrals.*

We reported the findings from our audit of the 2003/04 BVPP in last year's annual audit letter. We have recently completed our audit of the 2004/05 BVPP and have incorporated the findings within this letter.

Our audit opinion and statutory BVPP report are attached at Appendix 2 for information.

The requirements for information to be included in the BVPP have been relaxed and the council changed the format of the BVPP to reflect this. The published BVPP complied in all significant respects with legislation and statutory guidance.

### Performance information

*A limited number of performance indicators are included in the plan. If the council is to use performance information to manage performance it needs to ensure that information is relevant, regularly monitored and reported to members.*

Although there are no statutory performance indicators for town councils, a limited number of local corporate health indicators are included in the best value performance plan. Work is planned to develop relevant service specific performance indicators.

Details of performance against targets is not routinely monitored or reported to members.

If the council is to use indicators to help it to manage performance it needs to make sure that information is relevant to the services it provides and is monitored to allow it to take action to meet its targets. Where performance is below target, members should ensure that measures are put in place so that targets are met.

We recognise the efforts that have been made by the group of 41 best value town councils to produce comparative data on performance, and we expect that the quality of the comparative information will be improved as arrangements are developed further in future years.

### Best value reviews

*The council did not plan to carry out any formal best value reviews in the year, however specific improvements have been secured on an ongoing basis.*

No best value reviews were carried out in the year as the council chose to concentrate on progress towards quality status. Specific improvements have been secured on an ongoing basis and progress has been made on recommendations from previous reviews. For example, the major capital scheme to redevelop Hackworth Park has been completed.

Actions to progress some previously agreed recommendations to review the best value review programme and supporting processes (detailed below) have been delayed due to the retirement of the previous town clerk.

Area	Recommendation
Performance information	The council should continue to seek ways to compare its performance with similar town councils.
Best value reviews	The council should introduce a system of post implementation review to assess the impact of completed reviews, and provide details of it within the BVPP.
	The council would benefit from producing a standard methodology document for conducting the best value review process.

Area	Recommendation
	The council should ensure that it produces action plans with clear measures for its best value reviews and reviews them formally on at least a six monthly basis.

### Financial aspects of corporate governance

*The council generally has less formal arrangements in place than would be found in a larger authority. However, these arrangements meet the council's needs.*

*The introduction of the new financial management system in 2003/04 caused problems. The council was unable to produce budgetary control information and bank reconciliations were delayed. This has been resolved for 2004/05.*

*The council introduced internal audit arrangements, as required by the accounts and audit regulations, during 2003/04.*

### Financial standing

The council normally has procedures in place for budget setting and control, with regular monitoring by officers and members. However, the introduction of the new financial management system in 2003/04 prevented the council from producing budgetary control information and delayed the bank reconciliation process. Extensive work was carried out using external support to input the information required to reinstate financial reporting and produce the bank reconciliation.

Budgetary control information has been reviewed and revised to ensure it is understandable and meaningful and is reported to members monthly.

Previously we recommended that procedure notes for budget monitoring should be prepared.

This is important because staff change from time to time and new starters need to become familiar with proper procedures to ensure that controls operate effectively. We will follow this up in future audit work.

### Medium term financial planning

Forward financial planning is an important tool that allows organisations to manage their business with greater certainty. Many local authorities have recognised the benefits of such a process and have developed medium term financial plans to supplement their detailed annual budgets. Typically these provide a strategic overview for the next three years. The council has an annual revenue budget and capital programme and has built up reasonable levels of reserves (£134,000 useable capital receipts and £236,000 revenue balances). The council should consider developing a medium term financial plan to ensure future expenditure is planned to meet the council's aims and objectives.

### Systems of internal financial control

The accounts and audit regulations require local councils to '*maintain an adequate and effective system of internal audit of their accounting records and control systems*'.

The council appointed a local accountancy firm early in 2004 to provide internal audit coverage for 2003/04 and future years. Internal audits of some key systems have taken place, including work on the procedures in place centrally at the civic offices and the civic hall.

### New Code of Practice for Internal Audit

A new CIPFA code of practice for internal audit is in place for 2004/05 and applies to the town council. Most of the council's current arrangements are in line with the code but one key change is a requirement for internal audit to produce an annual report that gives its opinion on the council's internal control framework.

### Statement on Internal Control

The council produces a statement on internal control in its financial statements.

The council should consider how it wishes to carry out the annual review of its systems of internal control required by the Accounts and Audit Regulations 2003. This should include documentation of procedures as previously recommended.

### Risk management

The council informally assesses risk as part of day-to-day management of the organisation. However, a formal risk management process is increasingly seen as an essential element of the corporate governance framework, and is central to CIPFA's guidance on producing the statement on internal control mentioned above. Indeed, the council's statement recognises risk management as an area for development.

We would suggest the following key tasks:

- production of a risk management strategy;
- identification of the council's current risks, the likelihood and potential impact of occurrence, actions being taken to address the risks and any further action that is now considered necessary; and
- monitoring of risks and ensuring that risk is addressed when the council considers any new proposals.

These steps should be proportionate to the council's operations.

### Standards of financial conduct & prevention and detection of fraud and corruption

The council must have arrangements to prevent and detect fraud and corruption. The system of internal control and the service provided by internal audit helps to reinforce these arrangements.

During the year the council introduced a member and officer protocol and financial regulations and updated standing orders.

### Legality of transactions

The council seeks to ensure the legality of its actions, and recognises that when it is faced with unusual situations, appropriate advice should be sought from external sources.

## Accounts

*We issued an unqualified opinion in November 2004.*

The statements were completed in a timely manner and well within the statutory deadline. The supporting working papers were well presented and easy to follow.

The council's accounts are prepared externally by a local firm of accountants. This arrangement continues to work well and only relatively minor errors were found, enabling the draft statements to be amended without delay.

### Reporting to the Council

Statement of Auditing Standard (SAS) 610 'reporting to those charged with governance' requires us to consider the need to report issues arising from our audit to members, before we give our audit opinion on the financial statements.

We did not have any matters to report under SAS610 and a letter to this effect was sent to Finance Committee members representing 'those charged with governance'.

## Audit fees

The proposed fee for the 2002/04 audit was set out in our audit plan agreed at the start of the audit. There are no variances in the fee that has been charged.

Members should note that in order to bring the Audit Commission financial year in line with the local authorities, the plan covered the period from November 2002 to March 2004. In this time we have delivered two statutory audits and two audit letters.

### EXHIBIT 2

#### Audit fee update

Audit area	Plan 2002/04	Anticipated actual 2002/04
TOTAL CODE OF AUDIT PRACTICE AUDIT FEE	£8,500 (excl VAT)	£8,500 (excl Vat)

*Fees charged were as set out in the agreed audit plan.*

## Future audit work

Our audit programme for 2004/05 has been agreed by the council. The key areas of audit work to be completed in 2004/05 are:

- accounts;
- financial aspects of corporate governance; and
- best value.

We will discuss the timetable for planning the 2005/06 audit with officers early in 2005.

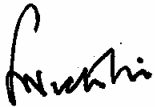
## Status of our annual audit letter

Our annual audit letter is prepared in the context of the statement of responsibilities of auditors and audited bodies issued by the Audit Commission. Annual audit letters are prepared by appointed auditors and addressed to officers and members. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any officer or member in their individual capacity, or to any third party.

## Closing remarks

This letter has been discussed and agreed with the town clerk. A copy of the letter has been provided to all members.

Finally, I would like to take this opportunity to express my appreciation for the assistance and co-operation provided during the course of the work. Our aim is to deliver a high standard of audit which makes a positive and practical contribution which supports the council's own agenda. We recognise the value of the council's co-operation and support.



**Steven Nicklin**  
**District Auditor**  
**November 2004**

## Status of our reports to the Council

Our annual audit and inspection letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Annual audit and inspection letters are prepared by relationship managers and appointed auditors and addressed to members and officers. They are prepared for the sole use of the audited and inspected body, and no responsibility is taken by the Audit Commission or its appointed auditors to any member or officer in their individual capacity, or to any third party.

## Reports issued during the 2003/04 audit

Reports issued	Date
Audit plan	February 2003
Best value letter (2004/2005 audit)	November 2004
Final accounts memorandum	November 2004
SAS610 letter	November 2004
Audit opinion and certificate	November 2004

## Auditor's Statutory Report on the Best Value Performance Plan

### Auditor's Report to Shildon Town Council on its Best Value Performance Plan for 2004/05

#### Certificate

I certify that I have audited Shildon Town Council's best value performance plan in accordance with section 7 of the Local Government Act 1999 (the Act) and the Audit Commission's Code of Audit Practice. I also had regard to supplementary guidance issued by the Audit Commission.

#### Respective Responsibilities of the Council and the Auditor

Under the Act the Council is required to prepare and publish a best value performance plan summarising the Council's assessments of its performance and position in relation to its statutory duty to make arrangements to secure continuous improvement to the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The Council is responsible for the preparation of the plan and for the information and assessments set out within it. The Council is also responsible for establishing appropriate performance management and internal control systems from which the information and assessments in its plan are derived. The form and content of the best value performance plan are prescribed in section 6 of the Act and statutory guidance issued by the Government.

As the Council's auditor, I am required under section 7 of the Act to carry out an audit of the best value performance plan, to certify that I have done so, and:

- to report whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Act and statutory guidance and, where appropriate, recommending how the plan should be amended so as to accord with statutory requirements;
- to recommend:
  - where appropriate, procedures to be followed in relation to the plan;
  - whether the Audit Commission should carry out a best value inspection of the Council under section 10 of the Act; and
  - whether the Secretary of State should give a direction under section 15 of the Act.

#### Opinion

##### Basis of this opinion

For the purpose of forming my opinion whether the plan was prepared and published in accordance with the legislation and with regard to statutory guidance, I conducted my audit in accordance with the Audit Commission's Code of Audit Practice. In carrying out my audit work, I also had regard to supplementary guidance issued by the Audit Commission.

I planned and performed my work so as to obtain all the information and explanations, which I considered necessary in order to provide an opinion on whether the plan has been prepared and published in accordance with statutory requirements.

In giving my opinion I am not required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by the Council. My work therefore comprised a review and assessment of the plan and, where appropriate, examination on a test basis of relevant evidence, sufficient to satisfy me that the plan includes those matters prescribed in legislation and statutory guidance and that the arrangements for publishing the plan complied with the requirements of the legislation and statutory guidance.

Where I have qualified my audit opinion on the plan I am required to recommend how the plan should be amended so as to comply in all significant respects with the legislation and statutory guidance.

## **Opinion**

### **Unqualified opinion**

In my opinion, Shildon Town Council has prepared and published its best value performance plan in all significant respects in accordance with section 6 of the Act and statutory guidance issued by the Government.

### **Recommendations on procedures followed in relation to the plan**

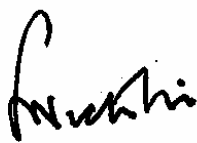
Where appropriate, I am required to recommend the procedures to be followed by the Council in relation to the plan.

### **Recommendations on referral to the Audit Commission/Secretary of State**

I am required each year to recommend whether, on the basis of my audit work, the Audit Commission should carry out a best value inspection of the Council or whether the Secretary of State should give a direction.

### **On the basis of my work:**

- I do not recommend that the Audit Commission should carry out a best value inspection of Shildon Town Council under section 10 of the Act
- I do not recommend that the Secretary of State should give a direction under section 15 of the Act.



**Steven Nixon, District Auditor**

**Date December 2004**