

Annual Audit Letter

December 2005



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Shildon Town Council

Audit 2004-2005

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Key messages

Council performance

- 1 The Council has given priority to progressing towards quality status and developing a parish plan. As a result progress on best value reviews, previously agreed recommendations and the development of performance information has been limited.

The accounts

- 2 An unqualified opinion was given on the Council's accounts on 27 October 2005, the accounts submitted for audit were produced to a good standard and supported by comprehensive working papers.

Financial position

- 3 The level of revenue and capital balances has risen due to underspending on budgets. The level of balances will be considered by the Council as part of the development of medium-term financial planning.

Other accounts and governance issues

- 4 The Council has made progress addressing the issues raised in previous years in relation to future planning with the development of the parish plan. There are some areas where arrangements should be formalised and policies and procedures introduced and updated. For example, to address risk.

Action needed by the Council

- 5 The Council should develop:
 - € a medium-term financial strategy and plan linked to the parish plan;
 - € a treasury management strategy;
 - € formal risk management arrangements;
 - € an asset management plan;
 - € an anti-fraud and corruption policy, including whistleblowing procedures; and
 - € internal audit arrangements to include an Annual Audit Plan approved by members in advance of the audit year.

Performance

The Council is improving its arrangements for measuring and monitoring performance through the development of the parish plan including priorities which will inform the review of the Council's overall aims and objectives.

The Council produced a best value performance plan which complied in all significant respects with relevant legislation and statutory guidance.

Progress on best value reviews, previously agreed recommendations and the development of performance information has been limited due to priority being given to making progress towards quality status and the development of a parish plan.

Best value performance plan

- 6 The Council continues to produce a BVPP which complies with the statutory requirements set out by the ODPM.
- 7 The Council did not complete any best value reviews in the year as priority has been given to attaining quality status and developing a parish plan. Progress on previously agreed recommendations has continued and is reported in the BVPP. The preparation of a three-year business plan for the Civic Hall and a review of allotment provision are planned for 2005/06.

Performance information

- 8 A limited number of local performance indicators are included in the BVPP. Details of performance against targets is not linked to performance indicators in the BVPP or routinely monitored and reported to members. Comparison with other similar councils has historically been difficult.
- 9 We recognise that the Council is developing a parish plan which will more clearly define priorities which will inform the review of the Council's objectives and how these are to be measured. The Council is also engaging with the best value town council group with a view to developing better comparative information.

Accounts and governance

We have issued an unqualified audit opinion on the Council's accounts for 2004/05

Overall corporate governance arrangements are satisfactory in most key areas. However, there is scope to further strengthen arrangements with the development of more formal arrangements, policies and procedures.

Audit of 2004/05 accounts

- 10 We gave an unqualified opinion on the Council's accounts on 27 October 2005.

Report to those with responsibility for governance in the Council

- 11 We are required by professional standards to report, if appropriate, to those charged with governance (in this case to the Finance Committee) certain matters before we give an opinion on the financial statements.
- 12 Our work on the financial statements has not identified any issues of sufficient significance to require a formal report. I have written to the members of the Finance Committee to this effect.

Financial standing

- 13 The level of reserves available to fund future revenue and capital expenditure has risen again due to underspending on the budget. The development of medium-term financial planning will include consideration of the level of balances.

General fund spending and balances

- 14 The balance on the revenue account stood at £315,000 at 31 March 2005 with a further £143,000 in unapplied capital receipts and earmarked reserves.

Systems of internal financial control

- 15 We have not identified any significant weaknesses in the overall control framework. However, there are some areas where arrangements should be formalised and policies and procedures introduced and updated.
- € Develop a medium-term financial strategy and a medium-term financial plan linked to the parish plan.
 - € Introduce a treasury management strategy.

- € Develop formal risk management arrangements.
- € Introduce an asset management plan.

Internal Audit

- 16 The internal audit work for 2004/05 included a check on the Council's key controls and a report six-monthly to the Town Clerk. The work programme was carried out and results reported to members. However, there should be an audit plan determined in advance of the start of the year and approved by members.

Standards of financial conduct and the prevention and detection of fraud and corruption

- 17 We have not identified any significant weaknesses in the Council's arrangements to prevent and detect fraud and corruption, but we have suggested introducing a formal fraud and corruption policy including whistleblowing procedures.

Legality of transactions

- 18 We have not identified any significant weaknesses in the framework established by the Council for ensuring the legality of its significant financial transactions.

Looking forwards

Future audit and inspection work

- 19 We have an agreed plan for 2005/06 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2005/06 accounts, will be reported in next year's Annual Letter.
- 20 We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the Council. We will continue with this approach when planning our programme of work for 2006/07. We will seek to reconsider, with you, your improvement priorities and your own analysis, and develop an agreed programme by 31 March 2006.

Revision to the Code of Audit Practice

- 21 The statutory requirements governing our audit work, are contained in:
 - € the Audit Commission Act 1998; and
 - € the Code of Audit Practice (the Code).
- 22 The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan which has been agreed with Council in April 2005. The key changes include:
 - € the requirement to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
 - € a clearer focus on overall financial and performance management arrangements.

Closing remarks

- 23 This letter has been discussed and agreed with the Town Clerk. A copy of the letter will be presented at full Council on 19 December 2005.
- 24 The Council has taken a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the Council's assistance and co-operation.

Availability of this letter

- 25 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

Steve Nicklin
District Auditor
December 2005

Appendix 1 – Background to this letter

The purpose of this letter

- 1 This is our Annual Audit Letter for members for 2004/05, which is presented by the Council's District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit of the Council.
- 2 We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 2 for information.
- 3 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.
- 4 Appendix 3 provides information about the fee charged for our audit.

Audit objectives

- 5 Our main objective as your 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 your significant financial and operational risks that are relevant to our audit responsibilities.
- 6 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Figure 1.

Figure 1 Code of Audit Practice

Code of practice responsibilities



- 7 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as shown below.

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.

Appendix 2 – Audit reports issued

Table 1

Report title	Date issued
Audit Plan	March 2005
Interim Audit Report	October 2005
Report on the 2004/05 Financial Statements to Those Charged with Governance (SAS 610)	October 2005
Best Value Letter	October 2005
Auditors Report on the Best Value Performance Plan	October 2005

Appendix 3 – Audit fee

Table 2 Audit fee update

Audit area	Plan 2004/05 (£)	Actual 2004/05 (£)
Accounts	3,980	3,980
Financial aspects of corporate governance	1,705	1,705
Performance	5,000	5,000
Total Code of Audit Practice fee	10,685	10,685