

Annual Audit Letter

Great Yarmouth Borough Council

Audit 2008/09

December 2009



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Status of our reports

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.
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Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Audit Opinion and Financial Statements

- 1** I reported in my last audit letter a marked improvement in arrangements to produce the financial statements but also a need to ensure this improvement continued. In 2008/09, I have found that these improvements have been built upon and this has resulted in firstly an unqualified audit opinion and secondly the opinion being issued on the 29 September 2009, within the statutory deadlines and considerably earlier than in the previous year.
 - 2** This is a significant achievement, especially given the matters raised in my qualified audit opinions in 2006/07 and 2007/08 have now been cleared. There remains scope to improve arrangements further; in particular focus now needs to be given to the strengthening of the financial control environment and improving closedown procedures so that fewer amendments are required to the accounts as part of the audit process.
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Use of resources

- 3** I found the Council is performing adequately in managing its finances, its people and in how it governs the business as a whole.
 - 4** In 2008, the use of resources assessment identified that asset management arrangements were inadequate; therefore I was required to undertake additional work to consider how the Council had addressed the weaknesses identified from the previous review, to inform my value for money conclusion. I found that although the Council's arrangements to manage its asset base had improved they remained inadequate.
 - 5** I issued a qualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources except for the management of the asset base.
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Managing Performance

- 6** The Audit Commission also assesses how well the Council manages and improves its services and contributes to wider community outcomes. The assessment considers how successful the Council is in delivering its corporate priorities. The priorities have been drawn from what matters most to local people.
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- 7 The Council scored 2 out of 4 for managing its performance (same scoring mechanism as for Use of Resources above).
- 8 The Council is improving people's lives in the borough and the Great Yarmouth area is becoming a more attractive place in which to live, visit, work and set up business. Most services are improving, especially those that have direct contact with the public such as parks, benefits, customers' enquiries and planning. Residents recognise the streets are cleaner, and crime and access to health services are less of a problem. The overall rate of improvement is similar to that of other councils but is slower than the Council would like.

Overall Organisational Assessment

- 9 The Use of Resources and Managing Performance assessments are combined to give an overall organisational assessment judgement for the Council. The Audit Commission has determined that the organisational assessment judgement for Great Yarmouth Borough Council is that it performs adequately. Though the Council's money is managed adequately some services need to provide better value for money by improving quality or reducing costs.
- 10 The Council's Managing Performance and Organisational Assessment are being reported separately by the Audit Commission's Comprehensive Area Assessment Lead for Norfolk, Sue Jewkes.

Financial Standing

- 11 The last year has seen the country enter a significant economic recession on the back of a global economic crisis triggered by the collapse of a number of high profile international banks.
- 12 The consequence locally, is an increasing demand for public services and the likelihood of reduced levels of central government funding. Together, these will provide a significant challenge for local councils as they seek to continue to provide services to local residents, whilst maintaining a sound financial position.
- 13 Going forward the financial position of the Council is becoming increasingly challenging but the Council is responding to this. We will continue to monitor the Council's response and actions in this key area.

Local Government Review

- 14 During 2008/09, the Boundary Committee reviewed the structure of Local Government in Norfolk and announced that it was consulting on further draft proposals for new Unitary Local Government in Norfolk. This was stalled by a judicial review in another county area under review, challenging whether the consultation process was lawful. A recent Court ruling has found in favour of the Boundary Committee, leaving a way forward for the review to recommence.

Key messages

15 Dependent upon the final outcome of Local Government re-organisation in Norfolk, it will be key for the Council to manage risk in respect of its capacity to maintain both governance arrangements and services in a period of significant change. We will continue to monitor the outcome, impact and the Council's response in this key area.

Audit fees

16 The audit fees charged for the 2008/09 audit are shown in Appendix 1. The fee for the audit was higher than the agreed plan due to additional audit work undertaken to address the issues which arose in the previous year.

Independence

17 As the External Auditor appointed to audit the Council, I can confirm that this audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence. The Audit Commission granted me a one year extension and as such 2008/09 was my sixth year as your appointed auditor. I and the Audit Commission have satisfied ourselves that appropriate safeguards have been put in place to ensure there is no potential breach of independence or relevant ethical standards.

Recommendations

- 18** I have made a number of recommendations within my Annual Governance Report to further develop the arrangements in place at the Council.
- 19** The Council should monitor the implementation of these recommendations.

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.

- 20** I reported in my last audit letter a marked improvement in arrangements to produce the financial statements but also a need to ensure this improvement continued. In 2008/09, I have found that these improvements have been built upon and this has resulted in firstly an unqualified audit opinion and secondly the opinion being issued on the 29 September 2009, within the statutory deadlines and considerably ahead of the timescale the previous year (whereby the 2007/08 opinion was issued in January 2009).
- 21** This is a significant achievement, especially as the matters raised in my qualified audit opinions in 2006/07 and 2007/08 have now been cleared. There remains scope to improve arrangements further; in particular focus now needs to be given to strengthening the financial control environment and improving closedown procedures so that fewer amendments are required to the accounts as part of the audit process.

Accounting issues

- 22** I presented my Annual Governance Report on 21 September 2009 to the Audit and Risk Committee which included full details of the issues arising from our audit of the accounts, the key items from which have been summarised below.
- 23** The audit identified one material error in the financial statements whereby the Major Repairs Allowance (MRA) should have been netted of against negative housing subsidy payable, an expenditure item, instead of being included as housing services income. This was adjusted for in the published set of financial statements. In addition, a number of amendments were made to ensure disclosures met the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2008.
- 24** I found a number of significant weaknesses in your internal control arrangements. These included issues in relation to payroll establishment checks; payroll, housing benefit and property maintenance reconciliations; a lack of evidence of controls over changing housing rent parameters for uplifting rent levels; an absence of controls around journal procedures and limited controls in relation to maintaining the asset register.

Financial statements and annual governance statement

25 I also identified a number of qualitative issues relating to accounting practice or financial reporting. These included a lack of formal instructions issued to the valuers of the Council's land and buildings; numerous inconsistencies between the explanatory foreword and the financial statements; a lack of detailed breakdown to support the housing rents debtor and creditor figures; the value of the Parkway scheme was understated; the split of assets between the Council and Norfolk County Council was not fully supported and the amount payable relating to East of England Development Agency in regard to Beacon park was not fully supported.

Certification of claims and returns

26 We certify the Council's claims and returns on the following basis.

- Claims below £100,000 are not subject to certification.
- Claims between £100,000 and £500,000 are subjected to a reduced, light-touch certification.
- Claims over £500,000 are subjected to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment leads to a reduced certification approach for these claims.

27 The Council's quality assurance arrangements for grant claims are variable, and this continues to have a fee implication as many claims require amendment prior to certification.

28 We found a number of errors in our sample testing of the 2008/09 housing benefits claim. The Department for Work and Pensions require additional testing to be carried out when such errors are detected so that they can reach a view regarding the financial implications. This additional testing has been completed and though we have therefore been unable to submit the certified claim by the 30 November 2009 deadline, we are aiming to do so during December.

29 Improvements to strengthen the Council's arrangements for the preparation of claims and returns will be agreed with officers.

International Financial Reporting Standards

30 The national timetable for the implementation of International Financial Reporting Standards (IFRS) means that these will be first applied in the 2010/11 financial year. However, comparative figures for the 2009/10 financial year will be required.

31 Applying IFRS will have significant implications for the way in which councils prepare their annual accounts. The Council has identified capacity as the key risk in this transition and have initiated a project plan and team to deliver to the timetable. There remains scope to build on this plan which includes; ascertaining the resource requirements for delivery, increasing engagement outside the finance team and establishing monitoring mechanisms by the Audit and Risk committee.

Value for money and use of resources

I considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 32** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 33** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 34** The Council's use of resources theme scores are shown in Table 1. The key findings and conclusions for the three themes, and the underlying KLOE, were summarised in our Annual Governance Report. A more detailed use of resources report was agreed with Council officers in December 2009.

Table 1 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	2
Governing the business	2
Managing resources	2

- 35** Overall, the Council is performing adequately in managing its finances, its people and in how it governs the business as a whole.

VFM Conclusion

- 36** I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body.
- 37** In 2008, the use of resources assessment identified that asset management arrangements were inadequate, which resulted in your value for money conclusion being qualified. Though asset management (KLOE 3.2) was not a specified criterion this year, I was required to undertake additional work to consider how the Council had addressed the weaknesses identified from the previous review, to inform the VFM conclusion.
- 38** I found that a capital strategy was not in place during 2008/09 (but a strategy covering 2009 to 2012 was approved by the Council in May 2009) and the asset management plan remains out of date. However, the corporate management asset group reviews maintenance programmes (which includes backlog maintenance) and is informed by surveying properties. Therefore although the Council's arrangements to manage its asset base had improved they remained inadequate,
- 39** I issued a qualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources except for the management of the asset base.

Financial Standing

40 The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. The impact on treasury management strategies has been immediate, but there are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams. There are further challenges for policy priorities where patterns of demand for services are changing.

Financial Position

41 I have reflected on the wider environment, specific issues and risks and the Council's response. The financial position of the Council is becoming increasingly challenging, in particular:

- during 2008/09:
 - investment balances reduced to zero at year-end;
 - the current asset ratio (measuring the extent of current assets compared to current liabilities) reduced from 1.23 to 0.79;
 - level of borrowing increased by 30 per cent to £39 million, with £5 million of it due to be repaid before the end of 2009/10. The majority of this increase was expected due to significant capital programme commitments and overall borrowing is still within prudential code limits; and
 - revenue reserves are continuing to reduce but remain within agreed reserve ranges;
- for 2009/10 onwards:
 - significant ongoing capital programme commitments will add a further £6.2 million of borrowings up to March 2012 (all costed within prudential code limits);
 - revenue reserves will continue to be utilised bringing present reserves down from nearly £6.5 million to under £3 million, towards the lower end of agreed reserve ranges; and
 - medium term financial planning has identified significant funding gaps of nearly £2 million in both 2010/11 and 2011/12.

42 The Council is responding to this challenge; the latest medium term financial strategy actively considers the impact of the economic downturn and therefore contributes to the funding shortfalls identified. The implications of this are understood and the challenges faced are being acknowledged by the Council as a whole. Presently a four strand approach is being implemented to address the funding gaps.

Financial Standing

- 43** Though the economic downturn is presenting specific issues and risks to the Council, I am satisfied that it is taking appropriate steps to respond to this. However, this is an area we will continue to consider closely when assessing how the Council makes effective use of resources during our 2009/10 audit.

Treasury Management

- 44** I reported in my last audit letter that the Council had £2 million invested in the Icelandic Heritable bank which went into administration in October 2008. The 2008/09 financial statements showed that the Council expected to recover £1.4 million based on information available at the time the financial statements were published in September 2009. An impairment loss of £0.6 million was recognised in the Income and Expenditure Account.
- 45** The Council had taken advantage of the Capital Finance Regulations to defer the impact of the impairment on the General Fund until 2010/11, and a sum of £0.5 million has been transferred to the Financial Instruments Adjustment Account. The balance of £0.1 million relates to the loss of interest which has been borne in full by the General Fund.
- 46** However, to date the Council has received repayments of £0.3 million and expects to recover £1.6 million (assuming default interest is included) in total. This would limit the loss to £0.4 million on the original investments based on local authorities being granted preferential creditor status.
- 47** I am satisfied that the Icelandic deposit was made in accordance with approved policy and that there is clear evidence of review and learning from the events of October 2008. This included a review of the Treasury management framework which resulted in strengthening counterparty and investment placement arrangements.

Closing remarks

- 48** I have agreed this letter with the Managing Director and Executive Director (Resources). We will present this letter at the Audit and Risk Committee early in 2010 and will provide copies to all committee members.
- 49** 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.

Table 2

Report	Date issued
Opinion audit plan	February 2009
Annual Governance Report (plus addendum)	September 2009
Auditor's report giving an opinion on the financial statements and value for money conclusion	September 2009
Use of Resources report	December 2009
Final Accounts memorandum	December 2009
Annual Audit Letter	December 2009

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- 50** 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.

Andy Perrin
 District Auditor
 December 2009

Appendix 1 – Audit Fees

51 The audit fees charged for the 2008/09 audit are shown in Table 3. The fee for the audit was higher than the agreed plan. We notified the Executive Director (Customers and Resources) and Head of Financial Services in February 2009 that an additional fee of £9,380 was required in respect of additional audit work to be undertaken in 2008/09 to address the issues which arose from the 2007/08 audit. These issues with the corresponding findings were detailed in our Annual Governance Report.

Table 3 Audit Fees

	Actual	Proposed
Financial Statements	110,353	100,973
Use of Resources	23,249	23,249
Data Quality	13,161	13,161
Whole of Government Accounts	2,278	2,278
Total audit fee	149,041	139,661

The Audit Commission

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.

Copies of this report

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