

# Annual Audit Letter

West Lindsey District Council

Audit 2010/11



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**Traffic light explanation**  
Red  Amber  Green 

# Key messages

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

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

Key audit risk	Our findings
Unqualified audit opinion	
Proper arrangements to secure value for money	

## Value for money

I have assessed your arrangements to secure economy, efficiency and effectiveness against the VFM conclusion criteria specified by the Audit Commission and I issued an unqualified VFM conclusion on 30 September 2011.

## Audit opinion and financial statements

I issued an unqualified audit opinion on the Council's accounts for 2010/11 on 30 September, the statutory deadline. At the same time I issued my certificate of completion of the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

The financial statements were prepared for the first time on the basis of the International Financial Reporting Standards (IFRS), and the work involved in their preparation and auditing has increased considerably. For West Lindsey District Council to meet the deadline for 2010/11 shows good progress from the problems in 2009/10, which I reported in last year's Annual Audit Letter. Officers accept that further progress needs to be made in order to deal with the issues that my audit highlighted, and are determined to build on this year's improvement.



# Current and future challenges

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Economic downturn and pressure on the public sector

Councils face severe and long-term social and financial challenges over the next few years as the coalition Government aims to eliminate the structural deficit by 2015/16. District Councils have felt the impact of reduced income from fees and charges as a result of reduced economic activity. The 2010 comprehensive spending review identified year-on-year cuts in government grants until 2014/15, with West Lindsey District Council facing a reduction in Government funding of 24.7% by 2012/13. The Council's 2011-2015 Medium Term Financial Strategy sets out how the Council plans to deliver its services despite this reduction in funding. This is to be achieved starting with a savings target of £1.4m in 2011/12.

Treasury Management

The Council had deposited £7m with a number of the Icelandic Banks which failed during the 2008 financial crisis. To date £1.137m has been repaid from the Heritable Bank, out of a total claim of £2.017m, by October 2012 it is estimated that a further £0.578m will be repaid resulting in an eventual recovery of approximately 85% of this claim. The Icelandic District Court confirmed on 1 April 2011 priority status for local authority deposits and this support estimated recoveries of 95% of the Landsbanki claim (£4m deposited and £4.558m claimed) and 100% of the Glitnir claim (£1m deposited and £1.110m claimed). This decision was upheld by the Supreme Court in Iceland on the 28 October 2011.

Income streams

Future changes to funding for English councils were recently announced by the coalition Government. Included are proposals to decentralise the distribution of business rates, by replacing the current system with plans for councils to retain rates collected locally. In 2010/11 business rate income for the Council was £14.98m. The detail of the proposed changes has yet to be finalised, and so the impact on the Council's financial plans cannot yet be determined. In addition there are plans by the Government to localise support for council tax and replacing a demand-led central government budget for council tax benefit to a cash limited grant for each local authority. It is anticipated that this could cost West Lindsey District Council £800,000 per annum.

# 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 the Council accounts for its stewardship of public funds.**

## **Overall conclusion from the audit**

I issued an unqualified opinion on the financial statements on 30 September 2011, the statutory deadline. The implementation of IFRS has been a challenging year for all councils and it included the requirement to restate the 2009/10 financial statements. This was a particular challenge for West Lindsey District Council because of the difficulties in 2009/10, which meant that I could not give my opinion until 28 October 2010. We did find a number of material errors in the restatement, which officers amended prior to submitting the 2010/11 financial statements for our audit.

The 2010/11 financial statements contained a material amendment relating to the presentation of the past pension credit; a material error relating to the incorrect netting off of income within expenditure in the Comprehensive Income and Expenditure Statement; and a further material error in the value shown for the Capital Adjustment Account in the Balance Sheet which was as a result of numerous capital accounting errors in the financial statements. There were also a significant number of non-trifling errors. Management agreed to amend all these errors. I reported my detailed findings to the September Governance and Audit Committee in my Annual Governance Report.

As a result I had to do more work than I had planned in order to get the assurance I needed for my opinion, and this resulted in an additional fee of £5,000, significantly less than last year (£15,000). Officers are committed to building on the improvement this year, and to embed the demands of the IFRS accounting framework in their processes for financial statements.

## **Significant weaknesses in internal control**

I did not identify any significant weaknesses in your internal control arrangements.

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

I assess your arrangements to secure economy, efficiency and effectiveness in your 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.

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>The Council's 2010/11 outturn was a small underspend compared to budget. The Council approved transfer of £1.9m of unused earmarked reserves back to the General Fund. The Council has set a balanced budget for 2011/12.</p> <p>The Medium Financial Strategy has been updated in response to the Comprehensive Spending Review.</p>

Criterion	Key messages
<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>The Medium Term Financial Strategy 2011-2015 sets out how the Council plans to deliver its services despite a reduction in Government funding of 24.7% by 2012/13. This is to be achieved, starting with a savings target of £1.4m in 2011/12.</p> <p>The Council is actively seeking to develop partnership working, particularly with the County Council. It is also looking for innovative ways to use its resources, including reviewing the purpose of its reserves to ensure that they are used in the most appropriate way. The Council is keen to encourage local initiatives.</p>

### Report by exception

The Audit Commission requires me to report by exception where significant matters come to my attention, which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in our use of resources. There are no such matters of such significance which I needed to refer to in the wording of my formal value for money conclusion. I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.

### Housing Re-inspection

The Audit Commission re-inspected the Council's strategic housing services, and reported in December 2010. The report concluded that:

**West Lindsey District Council is providing a fair, one-star strategic housing service, with promising prospects for improvement. Positive aspects of the service include the reduction in the number of homeless families and the use of temporary accommodation and the increased supply of new and affordable housing. However, there remains scope to improve the number of empty homes returned to use and the engagement of the whole community in housing issues.**

The full report is available on the Audit Commission's website ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)). The Council was previously inspected in June 2009 and given a rating of a 'poor, zero-star service with uncertain prospects for improvement'.

# Closing remarks

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I have discussed and agreed this letter with the Chief Executive and Director of Resources. I will present this letter at the Governance and Committee on 19 December 2011 and will provide copies to all board 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	27 April 2010
Grant Report	2 February 2011
Opinion Audit Plan	1 April 2011
Annual Governance Report	16 September 2011
Opinion on financial statements	30 September 2011
Value for Money Conclusion	30 September 2011
Annual Audit Letter	10 November 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.

Tony Crawley  
District Auditor

10 November 2011



# Appendix 1 – Fees

	Actual	Proposed	Variance
Audit fee (financial statements/vfm conclusion)	£104,950*	£99,950	£5,000**
Inspection work-Managing Performance theme of organisational assessment	£0	£8,320	(£8,320)***
Inspection work-Housing Re-inspection	£17,245	£17,245	£0
Non-audit work	0	0	0
<b>Total</b>	<b>£122,195</b>	<b>£125,515</b>	<b>(£3,320)</b>

## Explanatory Notes:

(1) \*In July 2009, in recognition of the financial pressures that public bodies are facing, the Commission confirmed that it would give a 'one-off' subsidy to cover the additional cost of transition to IFRS for local authorities in 2010/11 only. A refund of £5,976 against the above audit fee was issued in April 2010. In addition a further 1.5 per cent rebate (£1,509) was given on 2010/11 fees in December 2010.

(2) \*\*The additional £5,000 fee relates to:

- additional time required for review of the 2009/10 IFRS restated accounts. This arose because of errors (including some that were material) in the restated accounts and the need to review a number of versions of the IFRS statements which commenced in April 2011 and was completed in July 2011;
- additional time spent due to errors (including some that were material) in the 2010/11 accounts both in the core financial statements and notes to the statements, as set out in the Annual Governance Report; and
- vouching all the required amendments through to the final revised 2010/11 accounts.

(3) \*\*\* The planned inspection fee was not charged as a result of the Government's decision to abolish Comprehensive Area Assessment in May 2010.

(4) The fee for certification of claims and returns is charged at published daily rates. The current estimate is a fee in the region of £17,346 (£14,912 in 2009/10). Our work on claims and returns is currently ongoing.

# 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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