

audit 2001/2002

Annual Audit Letter Shildon Town Council

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Appendix 1

Auditor's Statutory Report on the Best Value Performance Plan

DISTRICT AUDIT

Reference: SE001-20-2002 AAL

January 2003

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KEY MESSAGES

Overall approach

The Council's arrangements are less formalised than at larger authorities, reflecting the difficult balance between the appropriateness of formal arrangements and the limited capacity of a small authority. There is an increased risk from this approach, but the position appears to be appropriately managed by officers.

Accounts

We were unable to give an opinion on the accounts because certain capital transactions have not been properly accounted for. The Town Clerk has agreed to amend the accounts to properly reflect the transactions. We will reconsider the accounts in January and would hope to be able to give an unqualified opinion.

Internal Audit

The Accounts and Audit Regulations, 1996 imposed a statutory duty on local councils to „*maintain an adequate and effective system of internal audit of their accounting records and control systems*“. The proposed Accounts and Audit Regulations 2003 will introduce a new requirement for authorities to follow best practice when carrying out their internal audit role. New guidance on what constitutes best practice suggests that the Council's arrangements need to be strengthened.

The Council should consider appointing an independent Internal Auditor to give officers and Members assurance about the probity of the Council's systems of internal control.

Financial standing

Although Council balances have increased in the year, they are still relatively low when compared to the level of expenditure and precept. The Council must ensure that budgetary control procedures are robust enough to justify low levels of working balances. The position on balances will need to be reviewed in the light of the changes required to reflect the capital transactions mentioned above.

Best Value

The Best Value Performance Plan complied with statutory requirements. The Council complies with Best Value legislation but does not always take account of extensive best practice guidance, preferring to keep the length of the BVPP to a minimum.

As in previous years, the Council has been constrained by the lack of nationally set performance indicators and readily available comparative information. This needs to be kept under consideration in future years to ensure that performance indicators in the plan are relevant and benchmarking and comparison are provided wherever possible.

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The purpose of this Letter

This Annual Audit Letter summarises for Members the more important matters arising from our audit for 2001/2002, and comments on other current issues.

This is the first year that we have produced an Annual Audit Letter for the Council, reflecting the fact that larger local councils are being treated more like principal authorities. We expect the Annual Audit Letter to be a normal part of the audit in future years.

This year our Letter includes, at Appendix 1, the Auditor's statutory report on the Council's BVPP in accordance with Section 7 of the Local Government Act 1999.

The Audit Commission has circulated to all audited bodies a statement which 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.

Audit objectives

Audit work is based on the significant financial and operational risks that the Council faces and is structured around three main elements.

Accounts

- Opinion
- Core financial processes

Financial aspects of corporate governance

Legality of financial transactions

Financial standing

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Systems of internal financial control

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

Performance management

- Best Value Performance Plan
- Best Value Performance Indicators

Our audit has addressed the requirements of the Code of Audit Practice and we have worked with the Council to maximise the benefits of the integrated audit approach.

Our key findings and recommendations in respect of each area are summarised in the following pages.

Accounts

The financial statements do not present fairly the financial position of the Council. Amendments are required to properly reflect certain capital transactions.

Opinion

The draft financial statements were approved by the Finance and General Purposes Committee on 16 September 2002.

The Council's accounts were prepared within the statutory deadline. The financial statements were of a reasonable standard and we recognise the efforts made by officers to comply with CIPFA's Statement of Recommended Practice (SORP) and the Best Value Accounting Code of Practice (BVACOP). However, certain capital transactions are not properly accounted for and disclosed. The Town Clerk has agreed to amend the accounts and we will then reconsider them.

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We would hope to give an unqualified opinion in January.

Core financial processes

The core financial processes consist of:

- the main accounting system
- budgetary control
- closedown procedures.

Our review of the processes for the production of the accounts and related additional testing confirmed that satisfactory controls were in place during 2001/2002.

Financial aspects of corporate governance

The Council's arrangements are less formalised than at larger authorities, reflecting the difficult balance between the appropriateness of formal arrangements and the limited capacity of a small authority. There is an increased risk from this approach, but the position appears to be appropriately managed by officers.

The Council needs to meet its statutory responsibilities in respect of Internal Audit and should consider enhancing current arrangements to introduce independent review of systems of internal control.

Although revenue balances are increasing, levels are still relatively low compared to expenditure and precept. The Council needs to ensure that budgetary control systems are robust enough to justify the low working balances.

We carried out a detailed review of the Council's arrangements, covering:

legality of financial transactions financial standing

systems of internal financial control

standards of financial conduct, and the prevention and detection of fraud and corruption.

A number of issues were discussed with officers and appropriate action agreed. The principal issues were the need for:
an independent and appropriately qualified internal auditor (discussed further below)

financial standing and the level of revenue balances (discussed further below)

an update of Standing Orders, Financial Regulations and the scheme of delegation in view of the new Code of Practice

an Anti-Fraud and Corruption Policy and procedures for investigation.

Internal Audit

It is the responsibility of the Council to put in place adequate arrangements to satisfy itself that its systems of internal financial control are both adequate and effective in practice. In small authorities, such procedures are particularly important, as a lack

separation of duties can sometimes be difficult to avoid, although we recognise that the Council has made efforts to achieve this wherever possible.

The Accounts and Audit Regulations, 1996 imposed a statutory duty on local councils to "*maintain an adequate and effective system of internal audit of **their accounting records and control systems***" The Council recognised this duty and put in place pragmatic and cost effective arrangements. The proposed Accounts and Audit Regulations 2003 introduce a new requirement for authorities to follow best practice when carrying out their internal audit role. New guidance on what constitutes best practice suggests that the arrangements need to be further strengthened.

The Council should consider appointing an independent Internal Auditor to provide both officers and Members with additional assurance on the probity of its systems.

We would liaise with the Internal Auditor to avoid duplication and ensure that the Council obtains maximum value from its internal and external audit arrangements.

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Financial standing

Although the Council have increased revenue balances from £48,000 to £76,000, this was mainly as a result of the sale of assets to finance capital expenditure. Revenue balances now stand at 9.5% of gross expenditure. The position will need to be reviewed in the light of the changes required to properly account for certain capital transactions.

The Council need to ensure that budgetary control procedures are robust enough to justify the relatively low level of working balances.

Performance management

I have given an unqualified opinion on the BVPP and have not made any statutory recommendations or referrals.

Best Value

The Auditor's report under Section 7 of the Local Government Act 1999 is attached at Appendix 1.

The published BVPP complied in all significant respects with relevant legislation and statutory guidance. The Council complies with Best Value legislation but does not always take account of extensive best practice guidance, preferring to keep the length of the BVPP to a minimum.

Many authorities have found that Best Value has become focused on processes rather than outcomes. The Council should ensure that service reviews result in action plans that focus on improved service outcomes, with clear targets and measures that enable progress to be monitored.

As in previous years, the Council has been constrained by the lack of nationally set performance indicators and readily available comparative information. This needs to be kept under consideration in future years to ensure that performance indicators in the plan are relevant and benchmarking and comparison are provided wherever possible.

Other issues were raised with officers as part of an ongoing dialogue on the Council's approach to Best Value.

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Future audit work

The Audit Commission is realigning its operational year to match local authority financial years. The Council will be asked to agree an Audit Plan which covers financial years 2002/2003 and 2003/2004, and it is expected that the fee for this work will be collected between January 2003 and March 2004.

The arrangements for collecting the Best Value element of the fee may change, subject to the results of consultation by the Audit Commission.

We will discuss the proposed Audit Plan with officers early in the new year.

Closing remarks

The issues raised in this Letter and the audit work undertaken during 2001/2002 will be presented to Members in January 2003.

Finally, I would like to take this opportunity to express my appreciation for the assistance received from officers during the course of our work. Our aim is to provide a high standard of audit service which makes a practical and positive contribution to the work of the Council. We recognise the value of your co-operation and support.

David Parkin
District Auditor

January 2003

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Status of our reports to the Council

Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to Members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.

PM

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APPENDIX 11

Auditor's Statutory Report on the Best Value Performance Plan

Auditor's report to Shildon Town Council on its Best Value Performance Plan for the year ended 31 March 2002.

Certificate

I certify that we have audited Shildon Town Council's Best Value Performance Plan in accordance with Section 7 of the Local Government Act 1999 and the Audit Commission's Code of Audit Practice. We also had regard to supplementary guidance issued by the Audit Commission.

Respective responsibilities of the Council and the Auditor

Under the Local Government Act 1999 (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 ODPM.

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 Local Government Act 1999

whether the Secretary of State should give a direction under Section 15 of the Local Government Act 1999.

Opinion

Basis of this opinion

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

We planned and performed our work as to obtain all the information and explanation which we considered necessary in order to provide an opinion on whether the plan has been prepared and published in accordance with statutory requirements.

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In giving our opinion we are 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. Our work therefore comprised a review and assessment of the plan and, where appropriate, examination on a test basis of relevant evidence, sufficient to satisfy ourselves 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 we have qualified our audit opinion on the plan we are 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 Local Government Act 1999 and statutory guidance issued by the Government.

Recommendations on referral to the Audit Commission/ Secretary of State

I am required each year to recommend whether, on the basis of our 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 our 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 Local Government Act 1999

I do not recommend that the Secretary of State should give a direction under Section 15 of the Local Government Act 1999.

David Parkin
District Auditor

23 December 2002