



**Tavistock Town Council**

**Annual report to those charged with  
governance 2008-09**

**Draft - September 2009**

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# 1 Introduction

## **Background and purpose of the report**

- 1.1 Tavistock Town Council ('the Council') is responsible for the preparation of accounts which record its financial position as at 31 March 2009 and its income and expenditure for the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Council's accounts 'present fairly' the financial position of the Council. Our detailed findings are set out in section two.
- 1.2 Under the Audit Commission's Code of Audit Practice we are also required to reach a conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion'). The pieces of work that have informed our VFM conclusion and our detailed findings are set out in section three.
- 1.3 The Audit Commission's Statement of Responsibilities, which sets out the respective responsibilities of the Council and the auditor in relation to the accounts and arrangements for securing economy, efficiency and effectiveness in the use of resources reflect the scope of our audit and are available on the Audit Commission website.
- 1.4 This report summarises the principal matters arising from our audit. The issues raised have been discussed with the Town Clerk and his team as appropriate. International Standards on Auditing 260 (ISA260) requires us, as the Council's external auditors, to report to those charged with governance certain matters before giving an opinion on the accounts and the Code of Audit Practice requires us to report key matters relating to our VFM conclusion. For the Council, this function has been delegated to the Finance and General Purposes Committee at its meeting on 29 September 2009. The requirements of ISA260, and how we have discharged them, are set out in more detail in paragraph 2.6.

## **The accounts opinion**

- 1.5 We have substantially completed our audit of the 2008-09 accounts in accordance with the Audit Commission's Code of Audit Practice and applicable auditing standards.
- 1.6 At the time of reporting to the Council, we expect to issue an unqualified opinion on the Council's accounts. However, this will be confirmed, or otherwise, dependant upon the outcomes of our discussions with the Clerk and your Valuers regarding the impact of the impairment of Fixed Assets.
- 1.7 Our audit identified that the Council had not undertaken the annual impairment review of its Fixed Assets, which is contrary to your accounting policies. The need

for such a review has been highlighted as particularly important this year in light of the current economic climate and the downturn of land and asset values. At the time of writing of this report we are considering information supplied by your valuers to determine the impact on the accounts. Our initial discussions indicate an impairment of £1.9m on the Investment Property values whilst the impact on Freehold Land and Buildings is still to be evaluated. We envisage that either a total impairment value will be established and amended in the accounts, or, if not possible, we shall consider our position and the affect on our audit opinion.

- 1.8 Except for the lack of consideration of impairments, the overall quality of the Council's working papers to support the 2008-09 accounts continues to be of a sufficient standard. We were disappointed to note that the accounts did not include the full FRS 17 disclosure requirements and improvements implemented in the presentation of the accounts, in previous years, had not been fully reflected in the current year's accounts. Subsequently, we raised many unnecessary textual amendments, through DCK Beavers, to re-implement these changes. This should be addressed in future years to avoid a similar situation arising.
- 1.9 To date we have only recommended one significant adjustment to the accounts. This will be updated at the meeting of members and will depend on our final consideration of the impairments. In addition, we recommended many presentational changes to improve the clarity of disclosures in the accounts.

## Value for Money Conclusion

- 1.10 We have completed our work on the Council's arrangements for achieving economy, efficiency and effectiveness in its use of resources and we expect to issue an **'adverse' VFM conclusion**.
- 1.11 There has been a change to the assessment criteria in 2008-09, as discussed previously at the Council, that moves the emphasis in advance of processes to outcomes. There are four Key Lines of Enquiry against which Council's arrangements are assessed. As a result of our review, we consider that the Council had inadequate arrangements in place in respect of :
- arrangements to ensure that the Council plans its finances effectively to deliver its strategic priorities and secure sound financial health.
  - arrangements to ensure that the Council has a sound understanding of its costs and performance and achieves efficiencies in its activities
  - arrangements to ensure that the Council's financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people, and
  - arrangements to ensure the Council manages its risks and maintains a sound system of internal control.
- 1.12 Further details of this year's Use of Resources work are set out in section three.

## Use of this report

- 1.13 This report has been prepared solely for use by the Council to discharge our responsibilities under the Audit Commission Code of Audit Practice and relevant auditing standards and should not be used for any other purpose. No responsibility is assumed by us to any other person. This report should be read in conjunction with the Council's draft letter of management representation.
- 1.14 This report includes only those matters that have come to our attention as a result of performance of the audit. An audit of the accounts and Use of Resources is not designed to identify all matters that may be relevant to those charged with governance. Accordingly the audit does not ordinarily identify all such matters.
- 1.15 We would like to take this opportunity to remind the Board of the need to monitor implementation of the recommendations arising out of this report (see Appendix A).

## Acknowledgements

- 1.16 We would like to record our appreciation for the co-operation and assistance provided to us by the Council's officers during the course of our audit.

**Grant Thornton UK LLP**  
**September 2009**

## 2 The accounts opinion

### Introduction

- 2.1 We summarise in this section matters arising from our audit of the Council's 2008-09 accounts which we are required, under auditing standards, to report to those charged with governance.

### Approach to the audit

- 2.2 We carry out work to enable us to report to the Council our opinion as to whether the financial statements 'present fairly' the financial position of the Council in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008 ('the SoRP').
- 2.3 We have planned our audit in accordance with auditing standards and the Audit Commission's Code of Audit Practice.
- 2.4 Other key factors to highlight include:
- we consider the materiality of items in the accounts both in determining the audit approach and in determining the impact of any errors; and
  - we have been able to place reliance on the key accounting systems operating at the Council for final accounts audit purposes.

### Accounting requirements

- 2.5 The Council approved the accounts in June 2009 and we commenced our audit on the 10th August, in line with agreed timescales. We carried out our audit work on these statements and as a result of our initial review, proposed a number of disclosure and accounting amendments, specifically in relation to impairment of assets. Further details of the impact of these changes are set out below

### Key audit findings

- 2.6 The principal purpose of the ISA 260 report is:
- to reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and those charged with governance.
  - to share information to assist both the auditor and those charged with governance fulfil their respective responsibilities; and

- to provide to those charged with governance constructive observations arising from the audit process.

2.7 We summarise our key audit findings in accordance with these requirements below:

Area	Key messages
Independence	<p>We are able to confirm our independence and objectivity as auditors and note that:</p> <ul style="list-style-type: none"> <li>• we are independently appointed by the Audit Commission</li> <li>• the firm has been assessed by the Audit Commission as complying with its required quality standards</li> <li>• the engagement lead and client service manager are subject to rotation after a period of no longer than five years</li> <li>• we comply with the Auditing Practices Board's Ethical Standards. We have undertaken £2k for non-audit work for the Council in 2008-09.</li> </ul>
Accounting policies and practices	<p>The Council has adopted appropriate accounting policies, in accordance with the 2008 SORP.</p> <p>We are satisfied that the relevant financial information disclosed in the Explanatory Foreword is consistent with the accounts. However, we have recommended that the Council includes further information under the budget comparison, to explain the significant variances that have occurred in 2008-09.</p> <p>We reviewed the Annual Governance Statement and have requested amendments to ensure that this reflects any weaknesses identified from our Use of Resources assessment and action to be taken to address them.</p>
Material risks and exposures	<p>The Council is required to confirm in its letter of representation that it has no material risks and exposures, to date, which should be reflected in the accounts.</p> <p>Our audit procedures have not identified any significant risks and exposures to the Council, to date, which should be reflected in the accounts.</p> <p>This review will be updated on the date the Council signs the final letter of representation and we sign our audit opinion.</p>

Area	Key messages
Audit adjustments	<p>Significant audit adjustments are detailed below:</p> <p><b>Fixed Assets</b></p> <p>Our audit identified that the Council had not undertaken the annual impairment review of its Fixed Assets, which has been particularly important this year in light of the current economic climate and the downturn of land and asset values. Officers and the Council should be aware that the Statement of accounts should adequately reflect the current valuation of all assets and liabilities as at the balance sheet date. Should an inappropriate valuation be included this results in the accounts not reflecting the true financial position of the Council nor complying with proper accounting practice. At the time of writing of this report we are considering information supplied by your valuers to determine the impact on the accounts. Our initial discussions indicate an impairment of £1.9m on the Investment Property values whilst the impact on Freehold Land and Buildings in Operational Use is still to be evaluated.</p>
	<p><b>Other adjustments</b></p> <p>Our review of the accounts highlighted that accruals were understated for three items of expenditure, totalling £4,280, that had been incurred before the year end. The accounts have been adjusted for this amount.</p> <p>Details of all audit adjustments are included in Appendix B of this report.</p>
Unadjusted errors	<p>We recommended one non-significant adjustment. The unadjusted error is set out in Appendix E.</p> <p><b>The Council is required to confirm whether or not they are satisfied to accept this unadjusted error, or if they require the amendment to be processed.</b></p>

Area	Key messages
Other matters	<p>Except for the consideration of impairments, the overall quality of the Council's working papers to support the 2008-09 accounts continues to be of a sufficient standard.</p> <p>We were disappointed to note that the accounts did not include the full FRS 17 disclosure requirements and improvements that had been implemented, in previous years, had not been fully reflected in the current year's accounts. Subsequently, we raised a number of textual amendments, through DCK Beavers, to re-implement these changes that should have been already included.</p> <p>Going forward, the Council should ensure that improvements to the presentation of the accounts made this year are replicated in future years.</p> <p>We received no questions or objections from the public in relation to the accounts.</p> <p>Having considered the Council's 2009-10 budget, it is appropriate for the Council to prepare its accounts on a going concern basis.</p> <p>We have not identified any matters, that we have not already reported, that require the attention of the Council.</p> <p>The scale audit fee for the year was £5,816. However, the actual fee charged, and agreed with the Clerk, is £9,100 and reflects the risks currently associated to the audit of the Town Council's financial statements and value for money conclusion. We issued a fee letter to further expand on this.</p> <p>We have carried out an additional £2,000 of audit work outside of the Code of Audit Practice audit in 2008-09. This work related to the provision of a workshop to assist Councillors in developing their Strategic vision, objectives and performance management arrangements at the Council. However, this has not progressed in the last six months and, as a result, this is reflected in our 'adverse' VFM opinion set out in section 3.</p>

## Next steps

- 2.8 We will continue to work with the Council to complete outstanding finalisation issues. As noted in paragraph 1.7 above, we expect to issue an **unqualified opinion on the Council's accounts, subject to resolution of the issue regarding impairment of assets.**
- 2.9 The Council is required to confirm whether or not they are satisfied to accept the unadjusted errors, as set out in Appendix C, or if they require the amendments to be processed. We request that where they are not minded to adjust for these items, that

this is formally documented in the minutes of the meeting and reflected in the Letter of Representation.

- 2.10 As material adjustments have been processed, or are due to be processed, in the accounts since the approval by the Council in June 2009, the Council are required to re-adopt these accounts, to enable us to issue our audit opinion.
- 2.11 The Council should monitor implementation of the recommendations arising from this report. These are set out in the action plan in Appendix A.

## 3 The VFM conclusion

### Introduction

- 3.1 Under the Audit Commission's Code of Audit Practice we are required to reach a conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion'). In meeting this responsibility we review evidence that is relevant to the Council's corporate performance management and financial management arrangements, which are assessed against the relevant criteria specified in the Code of Audit Practice.

### VFM conclusion

- 3.2 We have completed our work on the Council's arrangements for achieving economy, efficiency and effectiveness in its use of resources and we will issue an **'adverse' VFM conclusion**. The assessment was based on the arrangements that the Council had in place during 2008-09.
- 3.3 Our conclusions for each of the criteria are set out in the table below:

Criteria	Arrangements adequate?
The Council plans its finances effectively to deliver its strategic priorities and secure sound financial health	No
The Council has a sound understanding of its costs and performance and achieves efficiencies in its activities	No
The Council's financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people	No
The Council manages its risks and maintains a sound system of internal control	No

### Detailed Findings

- 3.4 The basis of our conclusion is an assessment of the Council against each criteria, for which there are a number of areas against which we assess performance. To reach our conclusion we have reviewed key documentation including policies, procedures and minutes of Committee meetings, as well as discussions with the Town Clerk. Where we consider the arrangements in place to be inadequate, we have set out details below.

Key Line of Enquiry	Summary of findings
The Council plans its finances effectively to deliver its strategic priorities and secure sound financial health.	The Council should develop its strategic objectives and develop a medium-term financial strategy.
The Council has a sound understanding of its costs and performance and achieves efficiencies in its activities.	Although the Council does review costing information that supports decision making e.g. Pixon Lane, it should regularly review costs to ensure they are in line with services provided. The Council should set efficiency targets.
The Council's financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people	The Council should use financial and related performance information to monitor performance during the year. The Council's draft accounts for 2008-09 required material amendments to its fixed assets and reserves balances. The most recent published accounts and Annual Audit Letter should be on the website.
The Council manages its risks and maintains a sound system of internal control	Whilst the Council has a risk management strategy, the risk register should be further developed to reflect the Council's Corporate and Service business risks. The Council should develop a Fraud & Corruption strategy.

## Acknowledgements

- 3.5 We would like to acknowledge the efforts of the Council's Clerk and officers in responding to the issues raised during the course of the audit. However, it is now essential that appropriate action is taken to address the matters arising from the current year's audit, so that the Council would be in a better position to meet these requirements in future years.

## Next steps

- 3.6 The Board should monitor implementation of the recommendations included in this report. These are set out further in the action plan in Appendix A.

## Appendix A Action plan

Finding	Actions required	Management response	Implementation details
<b>Accounts</b>			
<p><b>Valuation of assets</b> The Council had not undertaken an annual impairment review of its Fixed assets to reflect the current economic climate and the affect of land and building price decreases on asset values. Whilst the total affect of this is to be fully established at the date of this report, we have confirmed that Investment Properties should be impaired by £1.956 million. As such, the values do not currently comply with proper accounting practices.</p>	<p>The Council should ensure that an annual impairment review is undertaken and appropriate amendments made to the accounts. It is recommended that this process should be included as part of the Council's Final Accounts closure process.</p>	<p>We operate to a 5 yearly revaluation of our properties. The need to have an 'impairment' review each year is new. Our surveyors undertook such a desktop review as soon as we were asked, and the results incorporated into the revision of the draft accounts.</p>	<p>Already included in 2008-09 accounts.</p>
<p><b>FRS 17</b> The accounts provided for audit did not comply with the SORP, as the disclosures for pensions under FRS 17 were incomplete.</p>	<p>The Council should ensure that a self assessment, against future SORP requirements, is provided as part of the Final Accounts working papers confirming compliance with disclosure requirements.</p>	<p>Noted and passed on to our accountants. This is one of the matters that will disappear if the Audit Commission removes Town and Parish councils from the need to follow the SORP.</p>	<p>Noted for future end of year procedures.</p>

Finding	Actions required	Management response	Implementation details
<b>Use of Resources</b>			
<p><b>Strategic Objectives and Medium- term Financial Planning.</b></p> <p>The Council does not currently have strategic objectives nor has it developed a Medium-term Financial Strategy.</p>	<p>The Council should develop its strategic objectives for the year and over the longer term.</p> <p>The Council should develop its Medium term financial planning and annual budgeting to underpin strategic objectives, based on clear assumptions. Members should be fully engaged in the planning process.</p> <p>The Council should ensure the Medium Term Financial Strategy defines the financial resources required to deliver priorities.</p> <p>The Council should integrate financial planning with strategic and service planning processes on a medium to long term basis. Budgets should be supported by achievable savings plans.</p> <p>The Council should engage local communities and other stakeholders in the financial planning process.</p>	<p>This was a recommendation last year and a Working Group of 5 councillors was formed to decide on strategic objectives.</p> <p>Concurrent with the development of our strategic objectives we will introduce Resource assessment base on 3 criteria. Managing finances, managing business and managing resources. Integrated financial planning will be paramount to the budget setting process. Members will be involved in a comprehensive training programme enabling challenges to financial data to be most effective.</p>	

Finding	Actions required	Management response	Implementation details
<p><b>Understanding of costs and performance achieving efficiencies in its activities.</b></p> <p>Although the Council does review some costing information that supports decision making e.g. Pixon Lane, it does not regularly review costs to ensure they are in line with services provided. The Council does not set efficiency targets.</p>	<p>The Council should develop a full understanding of its costs, including whole life and unit costs the main factors that influence these and how they link to performance.</p> <p>The Council should develop its processes to ensure it understands its costs and performance in decision making and commissioning.</p> <p>The Council should identify the scope for making efficiencies and then monitor their achievement.</p>		
<p><b>Financial reporting</b></p> <p>The Council does not use financial and related performance information to monitor performance during the year.</p>	<p>The Council should develop its reporting so it can use financial and related performance information to monitor performance and provide reports that support strategic decision making.</p>	<p>To be implemented once Performance Indicators have been developed. Depends on the production of Strategic Objectives.</p>	<p>Noted for development in 2010.</p>

Finding	Actions required	Management response	Implementation details
<p><b>Preparation of accounts</b> The Council's draft accounts required material amendments to its fixed assets and reserves balances, since approval by the Council in June 2009.</p> <p><b>Publication of Accounts</b> The most recent published accounts and annual audit letter are not on the website</p>	<p>The Council should ensure that arrangements are put in place to address the issues and amendments arising from the 2008-09 accounts process to reduce the amount and extent of adjustments required in future years.</p> <p>The Council should ensure that the 2008/09 accounts and Annual Audit Letter (or equivalent) are published on the Council's website on a timely basis and in accessible formats.</p>	<p>Noted and passed to our accountants.</p> <p>Interesting. As a parish level council we have received no cascade of e-government money from our Borough council. Thus we have no duty to maintain a web site at all, unlike principle councils. To include the audit documents on such a web site is above and beyond the requirements of the Local Government Finance Act 1982 and Accounts and Audit Regulations 2003 requirements.</p>	<p>Completed October 2009</p> <p>To be considered by Councillors.</p>
<p><b>Risk management</b> The Council has a risk management strategy, however, the risk register requires further development to reflect the Council's Corporate and Service business risks.</p>	<p>The Council should develop its risk register to link to its strategic risks, assess risks for likelihood and impact and assign individuals to lead on actions identified to mitigate each risk, to include partnerships.</p>	<p>We will try to get experienced external assistance in developing our existing risk strategy.</p>	<p>To be considered during 2009</p>

Finding	Actions required	Management response	Implementation details
<p><b>Fraud &amp; Corruption</b> The Council has no Fraud &amp; Corruption strategy</p>	<p>The Council should develop a clear strategy and allocate appropriate resources to manage risk of fraud and corruption.</p>	<p>This is a statutory duty for principle councils. Much (including common computer systems) is not available at parish level. We will investigate the strategy in place with the Borough council to see what might be relevant to us.</p>	<p>To be considered during 2009.</p>

## Appendix B Accounts adjustments agreed

Accounting adjustments that affect the reported surplus / deficit on the I&E account	
Finding	Impact
<p><b>Accruals</b></p> <p>Our audit identified that the following items had been expensed before 31 March 2009, paid after that date and had not been accrued for:</p> <p>EDF Energy    £1,073  HM Williams    £2,300  Crown Copiers £    907  <b>Total            £4,280</b></p>	<p>Expenditure and accruals increased by £4,280.</p>

### Disclosure adjustments

A number of disclosure adjustments have been agreed to the accounting policies and notes to the accounts improve the clarity and presentation of the accounts that do not affect the reported financial position.

Furthermore, the Annual Governance Statement has been updated to reflect the outcomes of findings from the our VFM conclusions.

## Appendix C Summary of Unadjusted Errors

Accounting adjustments that do affect the reported surplus / deficit on the I&E account	
Finding	Impact
Having completed their audit of the Devon County Council Pension Fund, the Audit Commission reported that the audited net assets of the fund are £1,782.6 million. The assumed value used by the actuary in his calculation was £1,767.9 million - an underestimate of £14.7 million. Tavistock Town Council's share of this difference is £8,000.	Revised FRS 17 disclosures to reflect that the assets used by the Actuary for the calculations were understated by £8,000.



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