

ANNUAL AUDIT LETTER – AUDIT 2008/09

LEAD OFFICER: Julie Crellin, Head of Finance and MIS
REPORT AUTHOR: Fergus McMorrow, Acting Chief Executive

Summary: To present the Audit Commission's key findings from their 2008/09 audit. It includes key messages arising from the audit of the financial statements and the results of work undertaken to assess the Council's arrangements to secure value for money in the use of its resources.

Recommendation: That the Audit Commission Annual Audit Letter be noted.

1. INTRODUCTION

1.1 The Annual Audit Letter is a summary of the key findings from the Audit Commission's 2008/09 audit and is shown at Appendix A to this report. The detailed findings have previously been considered by the Audit Committee in the presentation of the Annual Governance Report and the Use of Resources report. The Audit Committee approved action plans in response to these reports and progress on implementation is reported separately on this agenda.

2. KEY MESSAGES

- 2.1 The Annual Audit Letter indicates improvement in many areas of the Council's activities, reflected in the improved scores in relation to the Use of Resources and the overall Organisational Assessment of level 2 – performs adequately.
- 2.2 However, there are areas for further development. These have been detailed in the Annual Governance Action Plan and the Use of Resources Action Plan and an update on progress is shown separately on this agenda.
- 2.3 The Partnership Risk Management – Cumbria Local Strategic Partnership – Report has been considered by the Chief Executive's Group and a report will be brought to the March Audit Committee.

3. CONCLUSION AND RECOMMENDATION

- 3.1 Members need to ensure that the issues in the action plans, referred to at 2.2 above, are addressed. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that it demonstrates value for money in the use of public money. The Audit Commission's recommendations will assist the Council in meeting these responsibilities.
- 3.2 It is recommended that the Audit Commission Annual Audit Letter be noted.

**AUDIT COMMITTEE 03 02 10
ITEM**

List of Appendices:

Appendix A - Audit Commission Annual Audit Letter – December 2009

List of Background Documents: None

Officers consulted: Corporate Team

Background Papers: None

Annual Audit Letter

Copeland Borough Council

Audit 2008/09

December 2009



Contents

Key messages	3
Financial statements and annual governance statement	4
Value for money and use of resources	6
Looking forward	10
Closing remarks	11

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.
-

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 At the Audit Committee on the 23 September 2009 I discussed the detailed findings from my 2008/09 audit that were set out in my Annual Governance Report. I issued an unqualified opinion on the accounts on the 29 September 2009.
- 2 No material errors were found in the financial statements. This represents a significant achievement given the 2006/07 and 2007/08 financial statements were only signed at the end of March 2009. However, more still needs to be done to improve the quality of the accounts and improvements to the Council's accounts preparation process have been agreed for 2009/10.
- 3 My review of internal controls identified that some key controls were not operating within main financial systems including payroll, creditor payments and housing benefits. I also identified that during 2008/09 a batch of paid invoices went missing whilst in transit from the Council to the company that scans the documents. It is essential that the Council's financial records are securely maintained. The Council is reviewing arrangements for the transit of documents for scanning to ensure that they are robust.

Value for money

- 4 I issued a qualified Value for Money conclusion. This is because the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources, except for managing its assets effectively to help deliver strategic priorities and service needs, and for planning, organising and developing its workforce effectively to support the achievement of its strategic priorities.
- 5 I have completed my work on the Use of Resources assessment for 2008/09. Use of Resources (UoR) is a scored judgement which determines how well councils manage and use their resources. The Council's use of resources theme scores have been assessed as follows:
 - Manages finances: Level 2: performs adequately.
 - Governing the business: Level 2: performs adequately.
 - Managing its human resources Level 1: performs poorly.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the authority accounts for its stewardship of public funds.

Significant issues arising from the audit

- 6 I issued an unqualified opinion on the Council's accounts on 29 September 2009.
 - 7 The Council's finance team has worked hard to improve the overall quality of the financial statements for 2008/09. In my Annual Governance Report to the Audit Committee in September 2009 I reported that the draft financial statements did not include any material errors. This represents a significant achievement given the 2006/07 and 2007/08 financial statements were only signed at the end of March 2009. However, further work is required to improve the quality of the Council's accounts in future.
-

Material weaknesses in internal control

- 8 I consider the key internal controls operating within the Council's financial systems and any significant issues identified by Internal Audit. My review on the 2007/08 accounts identified that key reconciliations were not undertaken promptly during that year. This continued to be an issue during part of 2008/09. Some key controls were not operating as expected within main financial systems including payroll, creditor payments and housing benefits.
- 9 The Council electronically scans its paid invoices to minimise the need for storage. However, during 2008/09 a batch of paid invoices went missing whilst in transit from the Council to the company that scans the documents. The Council was aware that this loss had occurred and that these prime financial records were no longer available. It had taken steps to minimise the impact of this, for example by obtaining copy invoices from suppliers in respect of expenditure which has been grant funded. However, not all documents are now available. It is essential that the Council's financial records are securely maintained. The Council is reviewing arrangements for the transit of paid invoices for scanning to ensure that they are robust.

Accounting Practice and financial reporting

10 I consider the qualitative aspects of the Council's accounting practice and financial reporting and reported these in my Annual Governance Report .The areas where improvements are necessary were as follows:

- production of the cashflow statement and associated notes;
- compliance with the Statement of Recommended Practice (SORP);
- ensuring that key controls within individual financial systems operate as expected throughout the year;
- only removing assets from the asset register when they are sold; and
- periodically reviewing unpresented cheques listing for out of date cheques.

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

- 11** 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.
- 12** The Council's use of resources theme scores are shown in Table 1 below. The key findings and conclusions for the three themes are then summarised in the sections that follow the table.

Table 1 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	2 - performs adequately
Governing the business	2 - performs adequately
Managing resources	1 - performs poorly

Managing finances

- 13** The Medium Term Financial Strategy (MTFS) sets the service and budget planning context for a three year period and contains clear and realistic assumptions about future income levels, inflation and efficiency savings. The Council communicates the key messages about the budget process and financial planning to staff and councillors. The Council has improved its approach to service plans with the number of plans being reduced and service and financial planning being more integrated. A variety of methods have been used to engage with communities in financial and service planning.

Value for money and use of resources

- 14** 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.
- 15** The Council has considered the impact of the banking crisis on its treasury management and will continue to consider the implications as part of its medium term financial plan. The economic downturn also affects my audit considerations and as part of my responsibility, I have reviewed the Council's treasury management arrangements and found them to be prudent.
- 16** For 2008/09 revenue expenditure was in line with the budget but capital expenditure was substantially underspent. This is due to schemes that did not progress as quickly as anticipated. This included a significant underspend that had already been carried forward into 2008/09. The Council has recognised that the delays to delivering its capital programme are not acceptable and have put in place more robust monitoring arrangements from April 2009.
- 17** The Council has worked hard to ensure it delivers value for money. However, whilst some services are able to show lower costs with higher quality the picture is not consistent or sustained across the Council. Whilst for 2008/09 the Council exceeded its efficiency savings target much of that reported related to Gershon efficiency savings that had been brought forward from previous years.
- 18** The S151 officer, who was appointed in October 2008, has implemented significant improvements to ensure that the Council produces relevant, timely and reliable financial monitoring and forecasting information. The permanent appointment to key finance posts has provided the necessary skills and capacity to undertake 2008/09 closure successfully. There was a clear timetable for the 2008/09 accounts closedown and the accounts were presented for audit in accordance with the 30 June 2009 deadline.

Governing the business

- 19** The Council is clear about the intended outcomes of its activities but the extent to which its procurement strategy and practice reflect an ongoing assessment of local needs is less evident. The Procurement Strategy 2006/09 set in place a basic framework for staff, members and suppliers but there are crucial areas within this framework that are poorly defined. However, the Council has shown that it is willing and able to take tough decisions in evaluating a range of alternative service delivery options across a range of service areas.
- 20** There is corporate commitment to data quality, with the identification of strategic responsibility at political and officer level. The data quality improvement plan has clearly identified actions, responsibilities and timescales to support improvement but implementation has not been consistent at service level. Performance reports are presented to relevant committees on a quarterly basis and under achievement against targets are followed up. Our spot checks identified a mixed picture on the level of data quality achieved.

- 21 The Council has a Code of Corporate Governance and the strengthening of the Audit Committee by the appointment of an experienced independent Chairman Chair demonstrates the Council's commitment to promoting the principles of good governance.
- 22 The Council manages risk in a number of ways and has strategies and policies to support this. However our assessment of the Cumbria Strategic Partnership (CSP) identified the need for the partners to improve risk management and governance arrangements at the Cumbria Strategic Partnership level.

Managing resources

- 23 Of the three 'managing resources' KLOE's only one, workforce planning, was assessed for 2008/09. The new UoR assessment also required workforce planning to be assessed in greater detail than in previous years.
- 24 The Council has commenced work on a strategy to identify its medium to longer term staffing needs. Workforce planning had been delayed due to the lack of resources to progress it and other activities, such as the Pay and Grading Review. The completion of this work needs to be progressed as a matter of priority in order to ensure the effective management of its human resources.
- 25 The Council has had difficulty attracting applicants to some of the most highly skilled roles although in the latter half of 2008, was successful in recruiting senior finance staff, and has now filled other key posts. The Council does not yet have effective measures in place to reduce high levels of sickness. A single workforce development initiative has commenced across the Councils main front-line services of waste and open spaces, in direct support of the Councils commitment to encourage learning opportunities amongst its staff.
- 26 The Council uses various methods to keep staff informed on change management issues. This includes staff Roadshows approximately three times a year for all employees to brief them on change and offer opportunities for making views known; the Chief Executives blog; and using the intranet, as with the recent Pay and Grading Review. There have been regular newsletters to staff on progress of the process. The Council conducted a staff attitude survey in 2007/08 and has been working on improvements arising from the results.
- 27 The Council is performing poorly in terms of a range of performance indicators connected with employees who are disabled or from black and minority ethnicity (BME) communities compared to the profile of the Council's communities. This performance showed a relative deterioration from the last year for which information was available.

Review of Risk Management in the Cumbria Strategic Partnership

- 28 To inform our Use of Resources assessment we undertook a review of Risk Management within the Cumbria Strategic Partnership (CSP).

Value for money and use of resources

- 29** All partnerships face uncertainties in delivering their objectives. Effective strategic risk management is essential to enable the Cumbria Strategic Partnership to exploit opportunities to improve services in a cost efficient way.
- 30** Although the CSP's Governance Framework sets out the risk management arrangements, it is not implemented consistently nor does it encourage well managed risk taking to deliver innovative service improvements and efficiencies.
- 31** The CSP's Governance Framework needs to be fit for purpose without imposing a burden on the partnership managers. Partners acknowledge improvements are required to the risk management and wider governance arrangements within Cumbria Strategic Partnership. Our detailed report and action plan are currently being discussed and agreed within the CSP.

VFM conclusion

- 32** On 29 September 2009 I issued a qualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources, except for managing its assets effectively to help deliver strategic priorities and service needs and planning, organising and developing its workforce effectively to support the achievement of its strategic priorities.
- 33** Improvements required to the Council's arrangements for workforce planning are set out in the section 'Managing resources'. Areas for improvement in strategic asset management include the need to update the Asset Management Plan, implement a corporate group to improve strategic asset management, ensure that comprehensive information on assets is in place for the full year, develop and report on performance indicators in respect of assets and ensure whole life costing is always used for investment decisions.

Looking forward

Organisational Assessment and Comprehensive Area Assessment

34 In December 2009 the Audit Commission will publish its findings from the review of the Council's Organisational Assessment which forms part of the Comprehensive Area Assessment for Cumbria as a whole. These assessments draw on our findings from our work on the Council's use of resources but are separate judgements made by the Audit Commission's Comprehensive Area Assessment Lead (CAAL).

Service inspections during 2009/10

35 The Audit Commission has specified two service inspections to be undertaken in the 2009/10 financial year at Copeland Borough Council. An inspection of the Council's strategic housing services took place in October 2009 and will be formally reported in December 2009. An inspection of the Council's benefits service commenced in December 2009 and will be reported early in 2010.

Use of Resources assessment during 2009/10

- 36** The key lines of enquiry specified for the assessment are set out in the Audit Commission's work programme and scales of fees 2009/10. My work on use of resources informs my 2009/10 value for money conclusion. In 2009/10 we will assess KLOE, 3.1 on natural resources. As we have not assessed the Council's use of natural resources before we plan to commence our work in this area in January 2010.
- 37** As part of my consideration for my 2009/10 value for money conclusion I will also need to undertake additional work on the two areas that were qualified in 2008/09. These are workforce planning which was assessed as a level 1 for 2008/09 and strategic asset management which was also qualified in my 2007/08 VFM conclusion and was found still to be below minimum standards for 2008/09.

Closing remarks

- 38** I have discussed and agreed this letter with the Acting Chief Executive and the Head of Finance and Management Information Systems I will present this letter to members at the first Audit Committee of 2010.
- 39** 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 Reports issued during the year

Report	Date issued
Audit Plan	June 2008
Triennial review of Internal Audit	August 2009
Partnership Risk Management - Cumbria Local Strategic Partnership	August 2009 (Presentation)
Annual Governance Report	September 2009
Auditor's report giving an opinion on the financial statements	September 2009
Partnership Risk Management - Cumbria Local Strategic Partnership	November 2009
Interim audit memorandum	December 2009
Use of Resources	December 2009

-
- 40** The audit fee has increased since my original plan to reflect the cost of additional work required during 2008/09 to meet our Code of Audit Practice requirements and to obtain sufficient assurance on the Council's financial statements. This work included:
- triennial review of Internal Audit which was not in the original plan;
 - additional substantive testing of final accounts transactions because the controls operating within financial systems did not work as expected;
 - additional work on fixed assets and the cashflow statement;
 - consideration of additional evidence on workforce planning as part of UoR;
 - additional work on strategic asset management as part of this year's VFM conclusion; and
 - also the original fee for 2008/09 had not been increased to reflect problems identified with 2006/07 and 2007/08 accounts.

Table 3 Audit fees

	Actual (£)	Proposed (£)	Variance (£)
Financial statements and annual governance statement	105,761	88,491	17,270
Value for money	38,378	33,909	4,469
Total audit fees	144,139	122,400	21,739

Independence

41 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Acknowledgements

42 The Council has continued to take a positive and constructive approach to our audit. I wish to thank the Council's staff for their support and co-operation during the audit.

Karen Murray
District Auditor
December 2009

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

If you require further copies of this report, or a copy in large print, in Braille, audio, or in a language other than English, please call 0844 798 7070.

© Audit Commission 2009

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk
