

Annual Audit Letter

Adur District Council

Audit 2008-2009

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

- 1 I gave an unqualified audit opinion on the Council's financial statements on the 29th September 2009. My audit findings are detailed in my Annual Governance Report, which I discussed with the Council's Constitution and Audit Committee on 28th September.
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Financial Statements

- 2 The financial statements submitted for audit did not meet minimum standards and showed qualitative deterioration from the previous period. The accounts presented for audit contained a significant number of errors, including some errors with a material impact, across all of the primary statements. The Whole of Government Accounts (WGA) return submitted for audit also contained a large number of errors and inconsistencies with the Council's main financial statements.
 - 3 In light of the relatively poor quality of both the financial statements submitted for audit and WGA return, a total supplementary fee of £11,000 was raised to reflect the cost of the additional audit work required.
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Value for money

- 4 I assessed how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people. My assessment considered how well the Council performs across three areas:
 - managing finances;
 - governing the business; and
 - managing resources.

The Council is performing adequately across all of these areas.

- 5 Based on my work in this area I concluded that the Council has adequate arrangements in place to secure value for money. I therefore issued an unqualified value for money conclusion on 29th September 2009.

Table 1 Audit fees

	Actual (£)	Proposed (£)	Variance (£)
Financial statements	92,500	82,500	+10,000
Whole of government accounts	3,600	2,600	+1,000
Use of Resources	15,100	15,100	0
Data quality	8,100	8,100	0
Review of partnership working arrangements	11,400	11,400	0
Health Inequalities	3,600	3,600	0
Total audit fees			
Non-audit work	0	0	0
Total	134,300	123,300	+11,000

Actions

- 6** Recommendations relating to both the audit of the financial statements and the value for money conclusion were made and agreed in the Annual Governance Report.

Independence

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

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.

Significant issues arising from the audit

- 8 The financial statements submitted for audit did not meet minimum standards and showed qualitative deterioration from the previous period. The accounts contained a significant number of errors, including some errors with a material impact, across all of the primary statements. The statements were also not subject to a robust quality review prior to approval by committee. This was due to slippage against the timetable to closedown the general ledger and produce the accounts. Working papers to support the audit of the financial statements were adequate overall.
- 9 There are a number of factors that contributed to the relatively poor quality of the statements produced:
 - All primary statements of account are relevant at the Council and in general there is a high level of inherent technical complexity in the Council's accounts.
 - There remain problems with fundamental processes and systems such as cost allocation and the coding structure on the general ledger. A relatively high level of manual intervention is required to produce the financial statements which makes closedown of the general ledger more complex and prone to error. This also reduces the amount of time available to conduct a thorough quality review of the draft statements prior to approval by committee. This is recognised by officers and a full review of the cost allocation structure and complete overhaul of the coding structure on the general ledger is planned to take place during 2009/10.
 - The migration of some Financial Services staff from Adur Civic Centre to Worthing Town Hall caused us to twice amend the timetabling and schedule of resources for our planned programme of work at the Council. The move also caused other logistical difficulties and short term IT problems which limited officer access to some systems. These factors, coupled with the high level of errors in the draft accounts, increased the amount of audit time necessary to discharge our responsibilities in relation to the financial statements. Joint working between Adur and Worthing Financial Services should reduce the risk of similar difficulties re-occurring in the future.
 - The internal financial control environment at the Council, although more robust than in previous years, has clear scope for further improvement.
- 10 The more significant issues arising from the audit of the financial statements related to:
 - a failure to reflect the adverse affect of the economic downturn on the value of the Council's land and buildings shown in the balance sheet;

- a number of accounting errors relating to the disposal during the period of the Golden Sands caravan site;
- over-statement of Housing Revenue Account fixed asset disposals that took place in the year; and
- a number of differences between the trial balance analysis produced from the general ledger at year end and the financial statements.

More details on these issues and associated recommendations for improvement were included in our Annual Governance Report.

Material weaknesses in internal control

- 11** In 2007/08 I identified weaknesses in the Council's internal financial control environment which I reported in the 2007/08 Annual Governance Report. Our 2008/09 work shows that some improvements have been made in the internal financial control environment in response to the issues we raised. However, weaknesses in the design or operation of controls remain in some areas. In other areas improvements were only made part way through 2008/09. We were therefore not able to rely fully on the operation of those controls to gain assurance for the opinion on the financial statements. Where we have not been able to rely on the operation of controls we have worked with Internal Audit to deliver the additional substantive testing within the constraints of the audit fee.
- 12** Detailed weaknesses in internal control were reported as part of my 2008/09 Annual Governance Report together with agreed recommendations for improvement.

Accounting Practice and financial reporting

- 13** I considered the qualitative aspects of your financial reporting. There were a number of errors and omissions in the financial statements relating to additions, internal consistency and disclosure. Many of these issues would have been detected had sufficient time been available to conduct a thorough reasonableness review of the statements prior to approval by committee.
- 14** The Whole of Government Accounts (WGA) return submitted for audit also contained a large number of errors and inconsistencies with the Council's main financial statements. Numerous iterations of the return needed to be produced before I was able to certify it as consistent with the Council's main accounts. This resulted in the deadline for completion of the work not being achieved. The Council's performance in this area could be improved by ensuring that the officer preparing the WGA return has a detailed knowledge of the primary financial statements on which the return is based.

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

- 15** 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.
- 16** 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.
- 17** The Council's use of resources theme scores are shown in Table 2 below. My key findings and conclusions for the three themes are summarised in paragraphs 21 to 23. I reported detailed findings for each of the key lines of enquiry in my Annual Governance Report.
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Table 2 Use of resources theme scores

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

18 The Council **manages its finances** adequately:

- It has set and approved a balanced and realistic 2008/09 budget that considered the medium term.
- There is no formal medium term financial strategy (MTFS) that covers 2008/09, but there are financial plans covering the medium term which reflect high level Council priorities and that have been considered and approved by councillors. Without a formal MTFS it is, however, difficult to make linkages between the Council's financial plans and other key strategies.
- Budget consultation with local people takes place but without significant impact on budget decisions. Some equality impact assessments have been undertaken, but the rate of progress in this area needs to be accelerated.
- There is a corporate focus on improving value for money, particularly through innovative partnership working with Worthing Borough Council. This is key to managing spending within increasingly limited available resources while limiting negative impacts on core services.
- Efficiencies are delivered and there is an understanding of costs, but there remain some higher spending areas. There is generally a good balance between costs and performance, but only limited use of benchmarking to examine comparative costs.
- There is a good track record of managing spending within budget. Budget monitoring and forecasting information is reliable, relevant, and understandable, and monitoring has delivered corrective action. By reporting budget performance alongside performance and risk monitoring, councillors have a fuller picture of the VFM delivered by the Council.
- The 2008/09 financial statements and associated arrangements do not meet minimum standards and there has been some deterioration in this area from the previous period.

19 The Council **governs its business** adequately:

- It has a broadly effective method of commissioning – though this is undermined by the lack of a clear vision of intended outcomes. There is no clear link between identified needs and commissioning. There is also no current procurement strategy.
- The partnership with Adur is a strength and supports innovative working and a focus on reducing costs and delivering VFM. Reviews of all services are now being undertaken and this process identified savings of £314,000 in 2008/09.
- There is an adequate approach to understanding the supply market and considering options for procurement. The Council has a good track record in using different supply arrangements, and uses a variety of collaborative and framework agreements.
- Relevant and reliable information is produced to support decision making and manage performance. The management of data quality is adequate.

Value for money and use of resources

- The principles and values of good governance are demonstrated by the Council's constitution and ways of working.
- Partnership agreements are used to promote good governance and shared purpose in the Council's partnerships, including the Adur Worthing Partnership. However, governance arrangements for the CenSus partnership have not been strong, though this is now being addressed.
- Risk management is adequate. There is a clear corporate commitment to managing risk, though there are weaknesses in internal financial controls.

20 The Council **manages its workforce resource** adequately:

- The skills and productivity of staff are managed effectively. Effective people management policies are in place and a single pay structure has been established for joint services.
- Training needs of staff are addressed in annual reviews and there are low levels of sickness absence.
- The corporate approach to workforce planning is progressing positively. Action is being taken to define a corporate workforce development strategy - a draft is in place and actions are being taken to address workforce planning issues.
- There was no evidence of joint working with other local partners to share or develop workforce resources.
- There is a continuing challenge to ensure that the organisation's workforce needs in the medium term are considered strategically and effectively address future challenges and succession planning.
- There has been a good level of engagement with staff on organisational change.
- Progress on developing a corporate approach to equalities and diversity has been slow, though some structures are now in place to encourage development.

21 Detailed recommendations to improve the Council's use of resources were agreed and reported as part of my 2008/09 Annual Governance Report.

VFM Conclusion

22 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 specifies each year which of the use of resources key lines of enquiry are the relevant criteria for the VFM conclusion at each type of audited body.

23 I issued an unqualified conclusion on 29th September 2009 stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Specific risk based use of resources work

Review of partnership working arrangements

- 24** Over the last five years, the Council has worked increasingly closely with Worthing Borough Council on various partnership projects driven by the need to reduce revenue expenditure, minimise increases in council tax and retain similar levels of service. For example, refuse and recycling services for both councils have operated from a shared depot since 2004 with a fully integrated waste and recycling service introduced in July 2007.
- 25** The possibility of extending partnership working has been high on the agenda of both Councils. In July 2007, following research and consultation, both Councils agreed a proposal for:
- a streamlined single officer structure;
 - a single workforce; and
 - shared services for the people of Adur and Worthing.
- 26** Our objectives for the review of these arrangements were to:
- assess partnership progress made to date, identify strengths and highlight areas where progress towards rationalisation and/or integrated services is less well developed;
 - assess the effectiveness of the joint strategic role and its link to corporate planning, achievement of corporate objectives and delivery of Local Area Agreement outcomes;
 - review the financial forecasts underpinning the partnership and the use being made of external funding;
 - consider capacity to deliver the transformation outlined in the business cases; and
 - consider the impact on day to day service provision including governance arrangements.
- 27** We concluded that the Adur Worthing partnership is both innovative and ambitious. The work of the partnership has been recognised at national level and has attracted many approaches from other local authorities keen to learn from Adur and Worthing's experiences.
- 28** Significant savings have been achieved for both Councils from organisational transformation and staff restructuring. Partnership working is also beginning to drive out efficiencies from business transformation of services. Approximately £850,000 of recurrent annual revenue savings have been built into budgets from 2009/10 onwards (subsequently revised by officers to £913,900). This is a considerable achievement. The partnership is well governed. Key decisions are subject to appropriate scrutiny and are taken in a transparent and publicly accountable way.

Value for money and use of resources

- 29** Over the last two years the pace of change has been fast. High level business cases have outlined proposals for potential future savings of 10-15 per cent against an ambitious timescale. The successful delivery of the integrated refuse and recycling services is a good example of effective partnership working demonstrating improved service outcomes and reduced costs. In part this has been achieved because officers have been able to focus on one key project over a three year period. It will be more challenging to provide shared services and address business transformation across all services at the same time.
- 30** The capacity of strategic directors, executive heads of service and some teams is limited with many facing significant service delivery challenges. Both Councils have recognised that timescales for change are too ambitious and that service reviews will not have been carried out and implemented by March 2010. A recent focus on rapid improvement reviews has re-energised the process. The Partnership now aims to complete all reviews by March 2010 but recognises that implementation of outcomes will take longer.

Health Inequalities

- 31** We have reviewed the action being taken to address health inequalities throughout West Sussex in two phases; the first phase was completed in early 2008, and phase two was concluded in September 2009. The work involved West Sussex Primary Care Trust (the PCT), West Sussex County Council, Sussex Police, Sussex Partnership Trust, Western Sussex Hospitals Trust and all of the district and borough councils in West Sussex.
- 32** Phase one found that partners have a good understanding of the health of local people and good progress had been made to reduce health inequalities. Important building blocks had also been established, including the establishment of five Local Neighbourhood Improvement Areas (LNIAs) in the areas of most deprivation in the County. Partners were developing a clear strategic direction although there was no formal strategic framework in place. We agreed an action plan with the PCT to progress key issues arising from the review.

Closing remarks

- 33** I have discussed and agreed this letter with the Chief Executive, Strategic Director of Resources and Executive Head of Financial Services. A copy of this letter will be sent to all members of the Council.
- 34** 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 3

Report	Date issued
Audit Plan	March 2008
Supplementary Opinion Audit Plan	June 2009
Adur and Worthing Partnership Review	August 2009
Annual Governance Report	September 2009.

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- 35** The Council has taken 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.

Helen Thompson
 District Auditor
 November 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.

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