

Annual Audit Letter

Allerdale Borough Council

Audit 2008/09

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

As I write this letter, Cumbria is just beginning to recover from the devastating floods which affected the whole County, but particularly Allerdale, in November 2009. The Council, other local authorities, NHS Cumbria, the emergency services, voluntary organisations and local people all worked well together to deal with the emergency and are now working on the recovery.

This letter 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 At the Governance Committee meeting on 29 September 2009 we discussed the detailed findings from my 2008/09 audit, which were reported in my Annual Governance Report. I issued an unqualified opinion on the accounts on that day.

Financial statements

- 2 This year's accounts contained fewer significant errors than in previous years. However, the Council's accounts did contain errors, which management amended. It is clear that the Finance Section has worked hard to address some of the errors, which were found in the accounts last year relating to internal recharges and financial instrument disclosures. The Finance Section has also sought external advice on complex accounting issues such as checking compliance with Financial Reporting Standards on the proper treatment of the job evaluation provision.

Value for money

- 3 My assessment of your arrangements to secure value for money is based on the work I have completed, covering all the key lines of enquiry (KLOE) as set out by the Audit Commission for district councils. I also undertook a review of risk management arrangements within the Cumbria Strategic Partnership.
- 4 The key strengths arising from my review of your arrangements to secure value for money include:
 - finances are well managed, treasury management is prudent and as a result reserves are being managed in recognition of the current economic pressures;

- strong performance on reporting to local people and other stakeholders through the Council's award winning website and the Outlook publication; and
- good governance with a robust framework to govern the Council's business and to capture the appropriate assurances to support the annual governance statement.

5 The Council can strengthen its use of resources arrangements by improving:

- quality assurance processes to ensure that the financial statements submitted for audit are free from material errors;
- member and chief officer commitment to embed strategic risk management to help to achieve service improvements; and
- the preparation and management of its regeneration claims for additional funding from government agencies, as late and inaccurate submissions could either result in loss of grant income or impact on securing future funding.

Looking forward

6 As Cumbria begins the recovery from the November 2009 floods, the Council has a major role to play in helping its people, local businesses and to enable the reconstruction of the damaged infrastructure. Even without this major challenge, the Council has many other challenges, not least managing finances within reducing resources.

7 To ensure continuity for year two of the assessment, the Use of Resources framework has not changed. The continuing emphasis is on ensuring that outcomes for local people have improved, which demonstrate arrangements are effective and have the intended impact. The Council will be assessed for the first time on how it is making effective use of natural resources.

8 It is vital that the Council manages and monitors the:

- Transformation Programme, to ensure planned improvements in quality of services and efficiencies are realised;
- performance management and the wider use of resources arrangements to ensure it delivers better outcomes across all service areas;
- proposals on sharing services, especially on revenues and benefits as the current IT systems will not be supported from October 2010;
- Workforce Plan to meet future needs including the Finance Section, and to assess the staff impact from the delivery of the Transformation Programme; and
- changes to its capital accounting arrangements to ensure it is fit for purpose in terms of compliance with the new International Financial Reporting Standard requirements.

9 I issued an unqualified value for money (VFM) conclusion in respect of your arrangements for securing value for money from the use of resources on 29 September 2009.

Key messages

- 10** The findings from my Annual Governance Report, my Use of Resources report and the Cumbria Strategic Partnership (CSP) report are summarised below. These individual reports have been discussed and agreed with the Borough Council. The CSP report and action plan are currently being discussed within the CSP.

Audit opinion on the financial statements

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

Issues arising from the audit

- 11** I reported to those charged with governance the issues arising from the audit of the accounts in September 2009 in my Annual Governance Report. An action plan was agreed and I summarise below the main issues arising.
- 12** I undertook additional opinion audit work to check the accounting for the job evaluation provision in 2008/09. I am satisfied that the accounting for this provision is in accordance with Financial Reporting Standard (FRS 12) and that the service costs are correctly reported.
- 13** However, the Cashflow Statement and accompanying notes contained significant errors as has happened in previous years. I also identified a number of errors in relation to the accounting for fixed assets. Additional audit testing was needed to obtain assurance over the valuations and impairment assumptions made on the asset base, as at 31 March 2009. The last full valuation was carried out in April 2004 and the current values from the revaluation exercise for April 2009 showed that the year end asset valuations were materially understated by £10.4m. The accounts were amended.
- 14** The economic downturn and banking crisis are 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 has recognised the need to continue to consider the implications as part of its medium term financial plan.
- 16** 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.
- 17** I have to raise again the issue of single programme grant claims as reported in 2007/08. I recognise some progress has been made in this area but further improvements are needed in the administration, timeliness of submission and evidence to support grant aided schemes.

Accounting Practice and financial reporting

18 I considered the qualitative aspects of your financial reporting and found that a number of improvements in the Council's capital accounting arrangements are needed:

- The new asset register system should be introduced in time for the 2009/10 final accounts to ensure compliance with the new International Financial Reporting Standards, which will apply from the 2010/11 financial year.
- As a result of the material error in the valuation of the fixed asset base as at 31 March 2009, the Council should consider a rolling revaluation programme instead of only once every five years.
- All revaluations in the 2009 revaluation exercise should include an estimate of the remaining useful life of each asset.
- All assets should be reviewed to establish whether or not there has been any impairment to the value and that they are valued on the right basis.

Use of resources and value for money

I also assessed whether the Council had 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.

I considered how well the Council is managing and using its resources to deliver value for money and better outcomes for local people, and gave a scored use of resources judgement.

Value for money conclusion

19 I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources on 29 September 2009. My conclusions were based on the findings from my review of the Council's Use of Resources, which has been separately reported in more detail.

Use of resources judgements

20 The use of resources theme scores for Allerdale Borough Council is shown in Table 1 below. The key findings and conclusions for the three themes, and the underlying KLOE, are also summarised in paragraphs 21 to 26. The findings from the review of risk management in the Cumbria Strategic Partnership are summarised in paragraphs 27 to 29.

Use of Resources, summary findings

21 In forming my scored use of resources judgements, I 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.

Table 1 Use of resources theme scores

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

Use of resources and value for money

Managing finances

- 22** I concluded that the Council performs adequately in managing its finances. The Council performs well on financial planning to deliver strategic priorities and has an understanding of its costs and performance to deliver efficiencies. The Transformational Programme is in progress and is aimed at delivering better services and planned efficiency savings of £3.5m by March 2010. It is important that momentum on the shared services agenda is maintained on risk areas such as revenues and benefits as the current IT systems will not be supported from October 2010.
- 23** Financial reporting is timely and meets the needs of stakeholders but there is scope to improve the material accuracy of the accounts. The Council performs very well on other aspects of reporting, including the award winning website and the Outlook newsletter, which are delivering effective outcomes.

Governing the Business

- 24** I also concluded that the Council performs adequately in governing its business. It is performing adequately in commissioning and procuring quality services and supplies tailored to local needs. It involves a wide range of stakeholders in some of its procurement decisions and is improving customers' accessibility to services through a number of projects. The Council has adequate data quality arrangements in place but some weaknesses have been identified.
- 25** The Council has a sound system of internal control overseen by an effective Audit Committee. Internal Audit and the Audit Committee provide effective challenge and the strategic Corporate Governance Group ensures robust assurances underpin the annual governance statement. There is scope to improve the corporate leadership on integrating strategic risk management more within the performance management framework to assist in the drive for better outcomes and improved services.

Managing resources

- 26** The Council has adequate arrangements to plan, organise and develop its workforce. The training and development plan links directly to corporate aims and objectives through appraisals. However, the Council continues to have difficulties in having all technically skilled staff within finance, although a restructuring programme is in progress, which may deliver positive outcomes in future years.

Cumbria Strategic Partnership Risk Management Review

- 27** In addition to the use of resources work undertaken on the KLOE specified by the Audit Commission we also undertook a review of Risk Management within the Cumbria Strategic Partnership (CSP). All partnerships face uncertainties in delivering their objectives. Effective strategic risk management is essential to enable the Cumbria Strategic Partnership (CSP) to exploit opportunities to improve services in a cost efficient way.

- 28** The CSP's Governance Framework clearly sets out the risk management arrangements, however these are not implemented consistently nor do they encourage well managed risk taking to deliver innovative service improvements and efficiencies. Overall, partnership risk management has a low profile in the CSP and risks are identified at too high a level. As a result, there is limited input from partner organisations and there are no linkages between the high level assessments and partner organisations' risk assessments.
- 29** 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.

Audit Committee Effectiveness Workshop

- 30** The Council approached me to facilitate an Audit Committee workshop in September 2009 to assess its effectiveness and to further enhance its role. The workshop was aimed at training and developing members with the agenda covering:
- risk management and assurance;
 - the roles of key officers and auditors;
 - the role of the audit committee;
 - governance in practice;
 - annual reporting cycle;
 - auditing the financial statements and Annual Governance Statement; and
 - international Financial Reporting Standards.
- 31** A detailed action plan was generated from the workshop which will be managed by the Chair of the Audit Committee and the Senior Internal Audit Manager. The Audit Committee is currently performing well and it can further improve its effectiveness through an annual plan and report cycle. I also recommend the Audit Committee revisits its sources of assurance including Internal and External Audit to direct their future risk assessments and work programmes.

Closing remarks

32 I have discussed and agreed this letter with the Chief Executive and the Head of Finance. I will present this letter at the next Audit Committee and will provide copies to all members. Table 2 compares the proposed audit fee against the actual fee for the 2008/09 and also for the advice and assistance work requested in 2009/10.

Table 2 Audit fees 2008/09

	Actual £	Planned £	Variance £
Financial statements and annual governance statement	81,015	70,721	10,294
Value for money	37,929	37,929	Nil
Total audit fees	118,944	108,650	10,294
Non-audit work 2009-2010 (Audit Committee effectiveness workshop)	2,380	2,380	Nil
Total	121,324	111,030	10,294

33 The audit fee was increased to reflect the additional work required to obtain sufficient assurance for the fixed asset, cash flow statement and job evaluation provision material accounting entries within the 2008/09 accounts.

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, see Table 3.

Table 3 Reports

Report	Date issued
Audit Plan	June 2008
Audit Opinion Plan	June 2009
Annual Governance report	September 2009
Final Accounts Memorandum	October 2009
Audit Committee effectiveness Action Plan	October 2009
Cumbria Strategic Partnership Risk Management Review	October 2009
Use of Resources 2008/09	November 2009

Independence and acknowledgements

- 35** I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.
- 36** 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.

Gina Martlew
Appointed 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.

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