

Annual Audit Letter

Arun District Council

Audit 2008/09

November 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 a qualified limitation of scope opinion on 30 September 2009 due to having insufficient assurance over the valuation of certain classes of fixed assets (and associated transactions such as depreciation) in the financial statements. The main reasons for the qualification were due to:
 - the Council not carrying out an impairment review (which we would have expected in light of the recent economic downturn in 2008/09);
 - inadequate assurance for our purposes that the valuation basis of certain classes of non-HRA fixed assets was correct; and
 - inadequate assurance for our purposes that the accounting treatment and valuation of Arun Leisure Centre and pool was correct.
 - 2 As the relevant fixed asset balances in the financial statements exceeded the materiality level for the audit (£1,875,000), this issue affected my opinion.
 - 3 It is important for those charged with governance to note that these issues do not impact upon council tax levels.
 - 4 My audit findings are detailed in my Annual Governance Report, which I discussed with Council's Audit Committee on 25 September 2009.
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Financial Statements

- 5 Apart from the issues identified regarding the valuation of fixed assets in the financial statements, the accounts presented for audit were of a good quality.
 - 6 I reported some control weaknesses in the housing rents and general ledger systems (journals) which required my audit team to undertake further substantive procedures. The Council is considering the action it needs to take in response to these issues.
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Value for money conclusion

- 7 I issued an unqualified value for money conclusion on 30 September 2009, stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.
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Use of resources

- 8** 2008/09 was the first year of the Audit Commission's new Use of Resources (UoR) framework. The new framework differs significantly from our previous Use of Resources assessment and assesses how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people.
- 9** My assessment considered how well the Council performed across the following three areas.
- Managing finances.
 - Governing the business.
 - Managing resources.
- 10** I assessed the Council as performing adequately overall and across each of the three themes. This is in line with the position for the majority of district councils nationally. We have shared our view of those areas where there is scope for improvement with the Council.

Impact of the economic downturn

- 11** The economic downturn is likely to have an adverse impact on local government funding available in future years. There will be an increasing need, both financially and politically, for the Council to continue to improve the value for money of services provided to the community, and demonstrate this improvement.
- 12** The economic downturn may result in increased costs to the Council as a result of an increased demand for services by vulnerable groups affected by the more difficult financial climate. Reduced levels of funding and rising demand will mean that Councils will need to make increasingly difficult decisions regarding the quality and scale of services they deliver whilst continuing to identify different and more efficient means of delivery.
- 13** There may also be an increased risk of fraud. There is a well-established link between a deteriorating economy and increasing levels of fraud and the Council will need to continue to invest resources to mitigate this risk. To date the Council has been particularly effective in its approach to tackling benefit fraud and continues to apply resources to this area.
- 14** As part of my responsibilities, I have reflected on the wider environment and the associated risks the Council faces. We note from our work on use of resources that the Council has plans in place via its medium term financial strategy to respond to these future challenges. We will continue to monitor the Council's response to this challenge.

Key messages

International Financial Reporting Standards (IFRS)

- 15** From 2010/11 local government bodies are required to prepare their financial statements in compliance with International Financial Reporting Standards (IFRS) and the timetable for achieving this has already started as 2009/10 figures will require restatement under IFRS to form the comparative data for 2010/11.
- 16** The Council is starting to make preparations for the adoption of IFRS. The Council has not yet devised an IFRS implementation plan or timetable and hence this has not been shared with the relevant departments and the Audit Committee. The Council is in the process of commissioning an IFRS workshop for staff and members from the Audit Commission, to be held in December 2009.
- 17** The Council need to progress with planning and implementing the IFRS transition at a quicker pace to ensure implementation is effective and efficient.

Audit fees

- 18** I reported our fee proposal to the Council in our 2008/09 Audit Plan. My outturn fee against that plan is shown in Appendix 1.

Independence

- 19** 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

- 20** I gave a qualified limitation of scope opinion due to the Council not carrying out an impairment review of its non-HRA fixed assets and not providing sufficient evidence over the valuation of all non-HRA fixed assets (and associated transactions such as depreciation) in the financial statements.
- 21** A significant proportion of non- HRA assets (NBV £38 million) had been valued at depreciated replacement cost (DRC) but there was a lack of evidence as to whether this was an appropriate basis for all these assets.
- 22** Additionally, we did not have assurance that the accounting treatment and valuation of Arun Leisure Centre (net book value £2.2 million) was correct. The land that the leisure centre is located on belongs to West Sussex County Council. The leisure centre is run by Inspire Leisure via a contract with Arun District Council. The arrangements are complex and we were unable to obtain sufficient assurance that the leisure centre had been valued and accounted for correctly within the financial statements.
- 23** These valuation and accounting issues were the most significant issues arising from our 2008/09 opinion audit and will need to be addressed by the Council for 2009/10. We made recommendations setting out the actions that the Council needs to take in our Annual Governance Report. We will be meeting with the Council shortly to consider the detailed work that needs to be undertaken in 2009/10.

Material weaknesses in internal control

- 24** I did not identify material weaknesses in the design of the Council's internal controls, but we noted some weaknesses in the operation of certain key controls. These include controls over journals under £50,000 and housing rents. The Council needs to strengthen the controls in these key financial systems to help improve its system of internal control. The Council and its Internal Auditors are considering the recommendations we have made.

Accounting Practice and financial reporting

25 In our Annual Governance Report, we reported on the qualitative aspects of your financial reporting and made recommendations for the Council to consider. The key issues related to improvements being needed to:

- related party transactions arrangements;
- the fixed asset register;
- the income accruals process; and
- the financial instruments note.

Value for money and use of resources

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.

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.

VFM conclusion

- 26** 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 will specify each year, which of the use of resources key lines of enquiry (KLOE) are the relevant criteria for the value for money conclusion at each type of audited body.
- 27** I issued an unqualified conclusion on 30 September 2009, stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Use of resources judgements

- 28** 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.
- 29** 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.
- 30** The Council's use of resources theme scores are shown in Table 1 below. The key findings and conclusions for the three themes, and the underlying KLOE were reported in detail in the Annual Governance Report. This included areas for improvement.

Value for money and use of resources

Table 1 Use of resources theme scores

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

Managing finances

- 31** The Council met all the criteria for level 2 for this theme. Whilst for 2008/09 we have issued a qualified opinion on the financial statements we recognise that the Council usually has a good track record of preparing accounts that meet statutory requirements and present fairly its financial performance and position. Furthermore, the use of resources assessment considers the wider aspects of financial and external reporting, of which the statutory financial statements form only a part.
- 32** The Council is also good at budget setting and monitoring. Budgets for all years have been balanced and contain realistic projections. Good processes are in place to support sound financial management. The capital programme is considered affordable. The Council is debt free. The Council has good levels of reserves which are well managed. It understands its costs and performance and uses this information in decision making.

Governing the business

- 33** The Council met all the criteria for level 2. The Council has sound governance arrangements and processes in place. It has a long established audit committee. There is a Code of Conduct in place and all elected members are required to sign up to the Code. It has a well established scrutiny function. There is a standards committee in place which oversees compliance with the code of conduct. The Council has an established whistle blowing policy which is used. It produces reliable data and information to meet the needs of its decision makers, to support decision making and manage performance, in all areas apart from in housing services. It has a vision of its intended outcomes which shapes its commissioning and procurement.

Managing resources

- 34** Overall, the Council met all level 2 criteria however it did not meet all of the level 3 criteria. It has a productive and skilled workforce. It knows its medium to long term staffing requirements but it does not take a corporate strategic approach to workforce planning. It engages and supports staff through a range of methods and has put in place the required level of policies and practices supporting diversity and people management. However, in 2008/09 the Council achieved level 1 for the government Equality Standard and has been slow to take action to make improvements in this area. The Council has plans in place to address this.

Specific risk-based work

- 35** We carried one specific piece of risk based work in 2008/09 on health inequalities to inform our Use of Resources assessment and VFM Conclusion.
- 36** We 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 the Primary Care Trust (PCT), West Sussex County Council, Sussex Police, Sussex Partnership Trust, Western Sussex Hospitals Trust and all the district and borough councils in West Sussex.
- 37** 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.
- 38** Phase two followed up on the progress made to deliver the action plan, and to answer the key question of 'how likely are partnership arrangements in West Sussex to reduce health inequalities across the local population?' We found that good progress has been made in most areas particularly in relation to the development of partnership working and the establishment of countywide structures to support work to reduce health inequalities. A lot of work is taking place across the county to address health inequalities, but a countywide health inequalities action framework, a recommendation from phase one of this work, has not yet been developed. We have agreed an action plan and will continue to work with partners during 2009/10 to follow up progress.

Closing remarks

- 39** I discussed and agreed this letter with the Chief Executive and the Director of Resources on 18 November 2009. I will present this letter at the Audit Committee on the 22 December 2009 and will provide copies to all Committee Members.
- 40** 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

Report	Date issued
Audit plan	June 2008
Supplementary opinion audit plan	June 2009
Annual Governance Report	September 2009

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- 41** 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.

Lizzie Peers
Appointed Auditor
November 2009

Appendix 1 – 2008/09 audit fees

- 42** We reported our fee proposals as part of the 2008/09 Audit Plan. In my supplementary opinion audit plan, which I issued on 30 June, I re-visited and specified the detailed risks that I would need to consider as part of my audit opinion work. In my original audit plan, the estimated fee for the opinion audit was £81,297 as part of a total audit fee of £124,600.
- 43** In light of the control weaknesses and the additional work that I needed to undertake, my original fee was not realistic. In my supplementary opinion audit plan I had anticipated an additional fee of between £5,000 and £6,000. However, I did not anticipate the fixed asset valuation issue would be as significant an issue as it has been. This area has required significantly more audit work and required the involvement of our technical team. As a result the final additional audit fee was £15,000 as set out in the table below:

Table 3 Audit fees

	Plan 2008/09 £	Actual 2008/09 £
Financial statements including WGA	81,297	96,297
Use of resources (value for money conclusion)	43,303	43,303
Total audit fees (excluding VAT)	124,600	139,600
Additional audit fee charged and included in the £96,297 above		15,000

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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