



Accountants &
business advisers

Babergh District Council

Annual Audit Letter 2008/09

Report to Members

December 2009



Local Public Services

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Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party

[Local Government Code of Audit Practice](#)

[Statement of Responsibilities of Auditors and Audited Bodies](#)

1 Executive summary

- 1.1 This Annual Audit Letter (Letter) summarises the key issues arising from the work we have carried out during the year and highlights the key findings that we consider should be addressed by the Council.
- 1.2 We have already reported the detailed findings from our audit work to those charged with governance in the reports documented in the Appendix to this report. We have no additional recommendations for the Council at this time.
- 1.3 Emerging issues around the Council's financial position in 2009/10 have been identified and the Council is in the process of identifying savings to meet the shortfall. The other significant local issue is the potential impact of any Secretary of State for Communities and Local Government decision regarding the local government structure within Suffolk during 2010.

Key findings

- 1.4 A summary of key conclusions is included in the table below:

Area	Conclusion
Accounts	We issued an unqualified opinion on the financial statements.
Value for money conclusion	We issued an unqualified value for money conclusion .
Use of resources assessment	<p>Our scored judgements for the use of resources assessment were:</p> <ul style="list-style-type: none"> • 2 for managing finances: performing adequately • 2 for governing the business: performing adequately • 2 for managing resources: performing adequately <p>Overall, the Council was assessed as Level 2, performing adequately.</p>
South Suffolk Leisure	This was considered as part of our Use of Resources work above given the emphasis of partnership working in the updated Use of Resources Guidance and has therefore formed part of the consideration for scores given above.

Acknowledgement

- 1.5 Our aim is to deliver a high standard of audit which makes a positive and practical contribution that supports the Council's own agenda. We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the audit.

2 Introduction

About the Council

- 2.1 Babergh District Council has a population of approximately 84,000. It covers an area of 230 square miles. The largest town in Babergh is Sudbury which, along with its neighbouring village of Great Cornard, has a population of approximately 20,000. The other market town – Hadleigh – where the Council's offices are located, has a population of approximately 7,000. Each locality presents differing needs and priorities that the Council works towards addressing.
- 2.2 In 2008/09 Babergh District Council spent approximately £52m on providing services, which was funded from a variety of sources including £17m from fees and charges (including rents), £6m from general government grants and £6m from Council Tax. Resources are allocated to support the achievement of priorities set out in the Strategic Plan 2008-2018 and are spent on services such as waste, concessionary travel, housing, and leisure.

The purpose of this Letter

- 2.3 The purpose of this Letter is to summarise the key issues arising from the work that we have carried out during the year. Although this Letter is addressed to Members, it is also intended to communicate the significant issues we have identified, in an accessible format, to key external stakeholders, including members of the public. The Letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website at www.babergh.gov.uk.

Responsibilities of the auditors and the Council

- 2.4 We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England.
- 2.5 As the Council's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Council achieving its objectives. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

The scope of our work

- 2.6 Our main responsibility as the appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:
- the Council's financial statements
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

3 Key findings

Accounts

- 3.1 We issued an unqualified opinion on the Council's financial statements on 22 September 2009. Our opinion confirms that the financial statements present fairly the financial position of the Council as at 31 March 2009 and its income and expenditure for the year then ended.
- 3.2 We did not identify any significant issues from our review of the Council's accounting and internal control systems. Additional substantive testing was completed during the course of the audit to enable us to gain sufficient assurance over creditor and expenditure balances as a result of Internal Audit issuing an 'Unacceptable' opinion on this key financial system. Internal Audit have undertaken a follow-up review to ensure weaknesses have been addressed and we will review the outcome during our 2009/10 audit planning process.

Use of resources

- 3.3 The Code requires us to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources. This is known as the value for money conclusion and draws on the results of specific risk based audit work as well as the results of our use of resources assessment.

Specific risk-based work

- 3.4 Our work on South Suffolk Leisure formed part of our assessment for the Use of Resources work above. Partnership working is one of the key strands within the current Use of Resources assessment and the results of our work are summarised in the paragraphs below.
- 3.5 We have not identified any issues from our work that would have an impact on our opinion.

Use of resources assessment

- 3.6 We are required to assess how well local authorities manage and use their financial resources by providing scored judgements on the Council's arrangements in three specific areas on a scale of 1 to 4 where 1 is performing poorly, 2 is performing adequately, 3 is performing well and 4 is performing excellently. Our assessment forms part of the Audit Commission's new Comprehensive Area Assessment (CAA) for 2008/09 and is not comparable with 2007/08 or earlier years' scores.

3.7 Our scores for each key line of enquiry are shown below:

Theme	2008/09
Managing Finances	
• Planning for financial health	2
• Understanding costs and achieving efficiencies	2
• Financial reporting	2
Theme score	2
Governing the business	
• Commissioning and procurement	3
• Use of information	2
• Good governance	3
• Risk management and internal control	2
Theme score	2
Managing resources	
• Natural resources	N/A ¹
• Strategic asset management	N/A ²
• Workforce	2
Theme score	2
Overall Use of Resources score	2

¹ Not scored in 2008/09 – part of cyclical targeting

² Not scored in 2008/09 – part of cyclical targeting

3.8 We concluded that the Council has adequate arrangements in place in respect of managing finances, governing the business and managing resources and therefore overall it has adequate arrangements in place for Use of Resources. Within those themes, the Council has demonstrated a number of strengths which are highlighted in the paragraphs below.

3.9 To put the overall score of 2 into national context for 2008/09 of the 201 district Councils in England 135 (67%) were scored at level 2 overall, 57 scored at level 3, 2 at level 4 and 7 did not have adequate arrangements overall, scoring at level 1.

Managing Finances

3.10 The Council has been able to demonstrate an improving level of integration of its financial and its corporate planning, with the Council being able to demonstrate more coherent and systematic planning arrangements for 2009/10.

3.11 A number of examples were demonstrated through which it can demonstrate the proactive use of cost information and the Council has in place regular Key Performance Indicator and cost monitoring. However, the Council has not demonstrated fully how it uses unit costs, benchmarking and consideration of value for money systematically and proactively in relation to all service planning, although this is developing.

3.12 A general improvement in the quality of the accounts and supporting working papers was noted and further recommendations have been made in our Annual Governance Report to continue the improvement journey.

Governing the business

3.13 The Council has in place strong processes for procurement, project management, commissioning and assessment of need. The Council has in place a Procurement Strategy,

an associated action plan and a Procurement Task Group. The strategy is robust and is delivering outcomes with a stretched action plan to reflect achievement of targets.

- 3.14 The Council, through its data quality policy, was developing its strategic approach to data quality roles, responsibilities and data requirements during 2008/09. An action plan to support the implementation of the policy has been agreed to improve arrangements going forward.
- 3.15 A number of pro active arrangements were demonstrated in the Good Governance KLOE such as the reciprocal arrangement with Mid Suffolk in reviewing Standards Committee decisions and observation of Committee proceedings has become a standing item on Standards Committee agendas, where the members feedback their observations on behaviour of members through attendance at meetings.
- 3.16 The Council has in place adequate risk management arrangements with a refreshed Risk Management Strategy in place. However, there is still a need to apply these processes more fully to both the service level and to partnerships to fully embed risk management. Anti-fraud arrangements are considered to be adequate.

Managing Resources

- 3.17 The Council has made significant progress in this area centred on the development of its Organisational Development Plan which aligns staff, skills development and employment policy and practices to the aims and objectives of the Council. The individual training and development needs of staff are identified and followed up and evaluated through an effective performance appraisal system. Organisational change is considered an area of strength for the Council and progress is being made on diversity and equalities development. However, there is a need for the Council to develop a strategic workforce plan demonstrating that it understands its current staffing/capacity, skills and profiles and has integrated this with service planning.

Conclusion

- 3.18 To strengthen arrangements further, the Council needs to focus on:
- embedding across all main service areas the use of both cost and performance data comparisons
 - further developing its strategic review of partnerships to cover the regular and systematic review of the achievement of value for money
 - expanding and embedding the data quality culture across all services
 - developing a strategic workforce plan demonstrating that the Council understands future workforce needs and has factored them into the planning process and can demonstrate impact on service planning.
- 3.19 The results of our use of resources assessment have been shared with the Audit Commission as part of the integrated approach to developing CAA. The results of CAA will be reported separately by the Audit Commission.

Value for money conclusion

- 3.20 Taking into account our work on use of resources, we have concluded that adequate arrangements are in place to secure value for money and have provided an unqualified value for money conclusion for the year ended 31 March 2009.

Grants

- 3.21 Improvements in the quality of supporting working papers for grant claims were noted compared to prior year, although of the six grant claims audited all but one required amendment. A more detailed report will be provided to the Overview and Scrutiny (Stewardship) Committee later in the year.

Emerging issues

Current economic climate

- 3.22 In view of the potential impact of the recession on property values the Council commissioned its external valuers to carry out reviews of asset values during 2008/09. This review resulted in the Council's asset values being adjusted downward by £32,613,000.
- 3.23 In response to the continued economic downturn, the Council also carried out a review of its position and the impact of the recession on all aspects of its operation. This identified a number of risk areas such as the decline in income from fees and charges. Savings plans are being considered as part of the 2010/11 budget setting process to fund the shortfall identified in the forthcoming financial year.

Treasury management

- 3.24 Following the collapse of the Icelandic banks in October 2008 the Audit Commission conducted a study to examine treasury management arrangements in local authorities. The resulting report *Risk and Return* was published in March 2009 and in this report the Audit Commission committed to asking auditors to follow up the lessons from the report as part of their use of resources work.
- 3.25 We concluded from this work that the Council's treasury management arrangements are satisfactory and the Council has taken action to strengthen its arrangements in light of the collapse of the Icelandic banks.

Local Government Review

- 3.26 The Court of Appeal has recently issued its judgement regarding the local government review in Suffolk and other areas. A revised timetable has now been established and the decision of the Secretary of State is awaited following a period of consultation. The outcome could have a significant impact on the Council and we will be monitoring the situation as part of our continual planning process.
- 3.27 The Council is also considering the integration of operational and managerial services with Mid Suffolk District Council should the merger of Suffolk authorities not take place after the Local Government Review decision.

International Financial Reporting Standards (IFRS)

- 3.28 International Financial Reporting Standards (IFRS) will be adopted in local government from 2010/11 and require transitional arrangements to be put in place by the Council. The Audit Commission is undertaking a national study on the implementation of IFRS in local government to assess the progress being made by authorities towards preparing IFRS-based accounts. As part of this study and our use of resources work, we have reviewed the Council's progress in this area. Work at the Council is in the early stages, but the key areas of impact have been identified. Members of the project team managing the IFRS transition have attended training and the use of external advisors is planned to increase capacity.

Appendix: Reports issued in relation to the 2008/09 audit

Report	Date Issued
Annual audit plan	May 2008
Use of resources assessment	January 2010 following appeal
Annual governance report	September 2009