

Annual Audit Letter

London Borough of Bexley

Audit 2008/09

December 2009



Contents

| | |
|---|-----------|
| Key messages | 3 |
| Financial statements and annual governance statement | 5 |
| Value for money and use of resources | 7 |
| Other matters | 10 |
| Closing remarks | 12 |
| Appendix 1 – Use of resources scores | 13 |
| Appendix 2 – Action plan | 14 |

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 issued unqualified opinions on the Council's financial statements and on the Pension Fund accounts on 30 September 2009. I also issued an unqualified opinion on the Council's Whole of Government Accounts submission to the Communities and Local Government on 1 October 2009.

Financial statements

- 2 The Council submitted its accounts to audit by the deadline of 30 June 2009. Working papers provided to support the accounts were of a good quality, although for some areas of the accounts, there was scope for improvement. I identified two errors in a supporting note to the Pension Fund accounts relating to the change in market value of investments. The Council worked hard to resolve these matters and reduced the errors to an unreconciled amount of £609k between the change in market value of investments in the supporting note and that shown on the pension fund account. The council needs to ensure that all figures are adequately supported in the 2009/10 financial statements.
- 3 I reported the significant issues arising from my audit of the Council's financial statements and my audit of the Council's pension fund to the Audit Committee on 22 September 2009 in my Annual Governance Reports.

Value for money

- 4 I am pleased to report that I issued an unqualified value for money conclusion that, in all significant respects, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources arrangements.
- 5 The specified key lines of enquiry for the Audit Commission's new use of resources assessment framework form the basis of the auditor's value for money conclusion. The Council's overall use of resources score for 2008/09 was assessed as level 3, performs well.

- 6 The Council's scores for each of the three use of resources themes are set out below in Table 1.

Table 1 Use of resources theme scores

| Use of resources theme | Scored judgement |
|------------------------|------------------|
| Managing finances | 3 |
| Governing the business | 3 |
| Managing resources | 2 |

- 7 My audit fees are set out in table 2 below.

Table 2 Audit fees

| | Actual | Proposed in 2008/09 audit plan |
|--|-----------------|--------------------------------|
| Audit | £248,400 | £248,400 |
| Pension Fund | £38,000 | £38,000 |
| Additional fee for accounts and electors' issues | £20,000 | |
| Total audit fees | £306,400 | £286,400 |

Electors' issues

- 8 I have received a number of letters and enquires from members of the public this year. In particular there have been concerns raised around the Council's policies and procedures for the usage of the former Leader of the Council's purchasing card upon which Internal Audit have made a number of recommendations. I have issued a certificate to formally close my 2008/09 audit.

Actions

- 9 Recommendations are shown within the body of this report and have been agreed with the Council.

Independence

- 10 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

- 11 I issued an unqualified opinion on the Council's financial statements on 30 September 2009. The financial statements were prepared to a good standard. I identified errors in the financial statements, other than those of a clearly trivial nature, and reported these to management. Management agreed to adjust the financial statements for the errors identified. I presented my annual governance report to the 22 September 2009 Audit Committee.
- 12 We met regularly with members of the Council's finance team in the course of our audit work and have found officers to be cooperative and helpful in responding to audit queries. We did however identify scope to improve the quality and timeliness of working papers in a number of areas. We have held a workshop with finance staff to discuss areas for improvement for 2009/10 and the lessons learnt from the audit.

Recommendation

- R1** The Council should ensure that all working papers are prepared at the same time as the financial statements and have been reviewed to ensure that they are of a good quality before submission to audit.

Material weaknesses in internal control

- 13 I did not identify any material weaknesses in your internal control arrangements.

Internal Audit

- 14 Our triennial review of Internal Audit against the standards set out in the Chartered Institute of Public Finance and Accountancy's (CIPFA) 2006 Code of Practice for Internal Audit in Local Government found no significant areas of non compliance.

Accounting Practice and financial reporting

- 15 I considered the qualitative aspects of your financial reporting and have no issues I want to raise with you in this respect.

Pension fund

- 16 The Pension Fund's financial statements and annual governance statement are an important means by which the Fund accounts for its stewardship of public funds. I reported the significant issues arising from my audit of the Council's pension fund to Pension Investments Committee on 8 September 2009 and the Audit Committee on 22 September 2009 in my Annual Governance Report. I issued an unqualified opinion on the pension fund's financial statements on 30 September 2009.
- 17 The Council provided its pension fund accounts for audit on 30 June 2009 as part of the financial statements for the Council as a whole. The accounts submitted for audit were complete and were supported by adequate working papers although there is scope to strengthen them.
- 18 I identified in the financial statements two errors within a supporting note relating to the change in market value of investments. The Council worked hard to resolve these issues and reduced the errors to an unreconciled amount of £609k between the change in market value of investments note and that shown on the pension fund account.
- 19 In order to ensure that this matter is addressed for the 2009/10 financial statements the council are preparing half yearly accounts to 30 September 2009. I am liaising with the Council over this issue.

Recommendation

- R2** Ensure that supporting notes relating to investment assets in the pension fund account are fully reconciled to fund managers' reports, other balances in the financial statements and that all figures can be adequately supported.

- 20 I consider the qualitative aspects of your accounting practice and financial reporting for the pension fund. The Council does not have a separate bank account for the pension fund instead it maintains an account within the ledger to record the pension fund transactions. The council needs to take steps to ensure that it can fully reconcile and support this account as part of the close down process. Consideration should also be given to having a separate bank account for the pension fund in order to provide a clear separation of the Council's and the pension fund's money.

Recommendation

- R3** Ensure that the pension fund cash account is fully reconciled as part of the accounts close down process.

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

- 21** In forming my scored use of resources judgements, I have used the methodology set out in the Audit Commission's new [use of resources framework](#), which places an increased focus on outcomes achieved by public bodies and is generally considered a harder test than last year. 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 representing excellent performance. Level 1 represents a failure to meet the minimum requirements at level 2.
- 22** 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.
- 23** My use of resources judgement will be combined with the managing performance theme score to form the organisational assessment for the Council. This, and the area assessment, will be reported to the Council by the Comprehensive Area Assessment Lead in December 2009.
- 24** The Council's use of resources scores are shown in Table 1 above. The Council's overall use of resources score for 2008/09 was assessed as level 3, showing that the Council continues to perform well under use of resources. The scores for the individual KLOE are shown in Appendix 1.
- 25** The Council has performed strongly across all KLOEs, with the exception of natural resources where, similar to many Councils the performance was adequate largely due to the new nature of this KLOE. My key messages are set out below.

Managing finances: How effectively does the organisation manage its finances to deliver value for money? (Performing well, level 3)

- 26 The Council has integrated strategic and service planning well. Members and senior officers have a full set of management information, which is readily accessible, on which to base decisions about savings and spend. Although the Council actively consults its Local Area Agreement partners and business and other stakeholders in financial planning, it does not have extensive arrangements for consulting the general public as a matter of routine. The Council has a good track record of managing spending within budget with accountability for financial management being clear within the Council.
- 27 Overall, the Council delivers good services at a cost that is not high compared with similar boroughs. The Council has a good understanding of its costs and performance. Decision making and commissioning have delivered savings and efficiency improvements and the Council has managed its resources well overall. The economic downturn has not stopped the Council from progressing its major efficiency project, Bexley First.
- 28 Officers produce good quality, regular reports to budget holders, senior managers and Members, enabling them to have a good knowledge of the Council's financial position. The Council managed its planned savings programme well through effective monitoring by the Management Board. It was also able to manage the impact of £6m from planned property disposals which did not happen as a result of the recession. Supporting financial information is good. For example, detailed explanations of complex financial issues allowed Members to take decisions on progressing Bexley First.

Governing the business: How well does the organisation govern itself and commission services that provide value for money and deliver better outcomes for local people? (Performing well, level 3)

- 29 The Council has a clear understanding of local needs and engages local stakeholders effectively. The Council actively identifies and implements new ways of delivering services and has a good understanding of the supply market and other sources of expertise. The Council uses an appropriate range of different approaches for procuring services and considered a wide range of options for Bexley First before selecting a particular provider.
- 30 There is a comprehensive data quality process in place. The Council has also recently introduced a clear policy for the management of data in partnerships. Data quality is robust and supports decision makers well and the Council's officers are well aware of the importance of data security. There have been no major serious untoward incidents. Routine monitoring is robust and allows action to be taken where appropriate.
- 31 The Council used its 2007/08 Annual Governance Statement proactively as a means of raising the awareness of Members and senior managers of governance issues and delivering improvement on areas of concern. All the necessary elements of the ethical framework are in place: codes of conduct; protocols for dealing with planning applications; Standards Committee; registers of interest and gifts and hospitality; and a whistle blowing procedure.

Value for money and use of resources

- 32 The Council has put effective risk management processes in place. It can demonstrate that its partnerships have put in place risk management arrangements as part of setting priorities, policy making, financial planning and performance management. The Council has clear, effective and innovative arrangements to manage fraud and corruption.

Managing resources: How well does the organisation manage its natural resources, physical assets, and people to meet current and future needs and deliver value for money? (Performing well, level 2)

- 33 The Council has a good understanding of the issues it faces and has devoted considerable effort to its climate change strategy. The Council does not yet have full information about its use of natural resources but knows what it needs to do to collect this. The Council is visibly committed to effective use of natural resources and energy saving but many of its plans are still in progress and the outcomes have not been fully realised.
- 34 The Council has clear arrangements for ensuring that asset management decisions are based on need. Recent and current capital projects reflect corporate priorities well. While the Council has insufficient resources to deliver its long standing, £7m backlog maintenance programme, it has sensibly focused on top priorities such as community centres. The Council is proactive in identifying assets for disposal and the Council's work with partners has secured value for money improvements to secure community benefits.
- 35 During 2010, our assessment of how the Council manages its resources will incorporate a new theme on workforce planning, in line with the Audit Commission's use of resources framework.

Value for money conclusion

- 36 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 line of enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body. In 2008/09 nine KLOE were specified, the findings for which are summarised in the preceding section on use of resources judgements. In order to achieve an unqualified value for money conclusion it is necessary to demonstrate that the Council meets the minimum standards for each KLOE, which it has done, as set out above. My conclusions on each of the areas are set out in Appendix 1.
- 37 I am pleased to report that I issued an unqualified value for money conclusion for 2008/09 that, in all significant respects, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources arrangements.

Other matters

Grant certification programme

- 38 The audit of the grants certification programme is progressing well and a number of claims have already been certified. The largest and most complex claim is the Housing Benefit and Council Tax Benefit subsidy claim which was signed off on 27 November 2009 ahead of the audit deadline of 30 November.

International Financial Reporting Standards

- 39 The introduction of international financial reporting standards (IFRS) into the public sector raises significant challenges for local government to ensure arrangements are in place to facilitate the preparation of timely and accurate IFRS-compliant accounts for 2010/11. Whilst the Council has been reviewing its financial information to ensure it can meet the reporting requirements, our experience in other sectors has shown that despite an apparently long lead-in time, it is important for authorities to retain their focus and continue plan for early completion of work. We have discussed progress with officers and agreed that the Council still has considerable work to do on IFRS.

| Recommendation |
|--|
| R4 The Council should review its financial information to ensure it can meet the reporting requirements for the introduction of international financial reporting standards. |

Whole of Government accounts submission

- 40 I issued an unqualified opinion upon the Council's Whole of Government Accounts submission to the Communities and Local Government on 1 October 2009 in line with the deadline.

Electors' issues

- 41 I have received a number of letters and enquires from members of the public which required senior staff input, and additional audit time. I have also held meetings with electors to discuss their issues. In particular there have been concerns raised around the Council's policies and procedures in relation to the former Leader of the Council's misuse of a Council purchasing card where controls were inadequate to demonstrate the highest standards expected for the stewardship of public funds. The Director of Finance requested that Internal Audit carry out a full investigation into this matter which was reported to the Audit Committee together with recommendations for improvement and has kept me informed throughout the process. The Council has taken a decision not to issue any further purchasing cards to elected members. I have issued a certificate to formally close my 2008/09 audit.

Other matters

Recommendation

R5 The Council should ensure that all recommendations arising from Internal Audit's review of the former Leader's purchasing card activity are fully implemented.

Closing remarks

- 42 I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Audit Committee on 26 January 2010 and will provide copies to all Audit Committee Members.
- 43 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 **Audit reports Issued**

| Report | Date issued |
|---|-------------------|
| Audit plan | May 2008 |
| Supplementary opinion audit plan | June 2009 |
| Pension fund audit plan | June 2009 |
| Main audit annual governance report | September 2009 |
| Pension fund annual governance report | September 2009 |
| Opinion on the financial statements | 30 September 2009 |
| Value for money conclusion | 30 September 2009 |
| Whole of Government accounts submission | 1 October 2009 |
| Annual Audit letter | December 2009 |

- 44 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 and look forward to working with the Council in the year ahead.

Susan M Exton
District Auditor
December 2009

Appendix 1 – Use of resources scores

The following table summarise the scores against the individual KLOEs

| KLOE | Score | VFM criterion met? |
|--|-------|--------------------|
| Managing finances | | |
| Planning for financial health | 3 | Y |
| Understanding costs and achieving efficiencies | 3 | Y |
| Financial reporting | 3 | Y |
| Governing the business | | |
| Commissioning and procurement | 3 | Y |
| Use of information | 3 | Y |
| Good governance | 3 | Y |
| Risk management and internal control | 3 | Y |
| Managing resources | | |
| Natural resources | 2 | Y |
| Strategic asset management | 3 | Y |

Appendix 2 – Action plan

| Page no. | Recommendation | Priority Low Med High | Responsibility | Agreed | Comments | Date |
|--|--|--------------------------------|--|--------|--|------------------------------|
| Annual Audit Letter 2008/09 Recommendations | | | | | | |
| 5 | R1 The Council should ensure that all working papers are prepared at the same time as the financial statements and have been reviewed to ensure that they are of a good quality before submission to audit. | Med | Deputy Director of Finance & Procurement | Yes | Gap analysis of existing process to be completed before year-end. | 31 March 2009 |
| 6 | R2 Ensure that supporting notes relating to investment assets in the pension fund account are fully reconciled to fund managers' reports, other balances in the financial statements and that all figures can be adequately supported. | High | Head of Technical Finance | Yes | The recommendation will be implemented for the 2009/10 accounts closure. | 2009/10 accounts |
| 6 | R3 Ensure that the pension fund cash account is fully reconciled as part of the accounts close down process. | High | Head of Technical Finance | Yes | The recommendation will be implemented for the 2009/10 accounts closure. | 2009/10 accounts |
| 10 | R4 The Council should review its financial information to ensure it can meet the reporting requirements for the introduction of international financial reporting standards. | Med | Deputy Director of Finance & Procurement | Yes | The IFRS Steering Group is monitoring progress of individual work streams on IFRS. | 2009/10 accounts and ongoing |
| 11 | R5 The Council should ensure that all recommendations arising from Internal Audit's review of the former Leader's purchasing card activity are fully implemented. | High | Director of Finance | Yes | All recommendations either have been or are in the process of being implemented. | 31 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.

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