

Government and Public Sector

November 2009

Blaby District Council

2008/09 Annual Audit Letter

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The Members of Blaby District Council
Council Offices
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16 November 2009

Ladies and Gentlemen

We are pleased to present our Annual Audit Letter summarising the results of our 2008/09 audit. We look forward to presenting it to the Audit Committee on 16 December 2009.

Yours faithfully



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

In April 2008 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers 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.

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Executive Summary

The purpose of this letter

The purpose of this letter is to provide a high level summary of the results of the 2008/09 audit work we have undertaken at Blaby District Council that is accessible for members and other interested stakeholders.

We have already reported the detailed findings from our audit work to those charged with governance in the following reports:

- Audit opinion for 2008/09 financial statements, incorporating the conclusion on Use of Resources
- Report to those charged with Governance (ISA (UK&I) 260)

The matters reported here are those that we consider are most significant for the Authority.

Scope of work

Our audit work is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Authority is responsible for preparing and publishing its financial statements, including the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements;
- reviewing the Authority's Annual Governance Statement;
- forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- undertaking any other work specified by the Audit Commission.

Audit Findings

We audited the Authority's accounts in line with approved Auditing Standards and issued an unqualified audit report on 29 September 2009.

We have not identified any material weaknesses in the Council's accounting and internal control systems during the audit.

The Council already faces a number of financial challenges and there is every likelihood that following the general election in 2010 further significant cuts in public sector expenditure will have to be made.

The new use of resources framework forms part of the Comprehensive Area Assessment (CAA). We evaluated the arrangements against criteria set by

the Audit Commission and reached a score of 2 (performs adequately) for each of the three areas under assessment (namely managing finances, governing the business and managing resources). It is important to note that although the one to four scoring definition is the same as that used in previous years, the underlying assessment methodology is fundamentally different. A score under the old use of resources system cannot therefore be compared to a score under the new system. There is no like for like comparison.

We issued an unqualified conclusion on the Authority's arrangements for its Use of Resources on 29 September 2009.

Summary of Recommendations

We have made a number of recommendations to the Council during the year. The most significant of these are summarised below.

- In the context of its medium term financial challenges the Council should continue to focus on the following areas:
 - Sound financial management and keeping to budgets, in spite of service pressures;
 - Achieving the savings targets identified in the savings programme;
 - Improving and modernising services, making them more efficient and affordable;
 - Sound management of the Council's capital programme;
 - Enhancing learning from best practice elsewhere;
 - Strengthening the approach to joint working with other Leicestershire Councils.
- During the course of our Use of Resources assessment work we have identified, and reported to management, a number of areas for development, the most significant of which are summarised in this report.

Audit findings

Accounts

We audited the Authority's accounts in line with approved Auditing Standards and issued an unqualified audit report on 29 September 2009.

The key issues arising from our audit of the 2008/09 accounts were reported to the Audit Committee on 29 September 2009 and are summarised below.

Unadjusted Differences

There were two unadjusted misstatements for us to bring to the attention of members of the Audit Committee.

- Six invoices, totalling £25,000, for the support and maintenance of the Northgate software package, were included in the 2008/09 accounts as expenditure. However, these invoices related to the 2009/10 financial year and therefore should have been recognised as a prepayment.
- The Council received £756,322 for the year end housing benefit subsidy payment. Only £742,149 had been accrued in the accounts therefore the debtor was under accrued by £14,173.

Adjusted Differences

During the course of our work we identified a small number of errors and disclosure matters in the Council's draft accounts.

The net effect of these adjustments on the Council's draft accounts can be summarised as follows:

- £3.2 million decrease in the Council's net assets position
- £0.5 million increase in the Council's deficit for the year (as set out on the face of the Income and Expenditure Account)
- £0 impact on movement in the General Fund Balance.

There were 3 material adjustments made to the draft Accounts, which are set out as follows:

Fixed Asset Revaluation

Following discussion with ourselves the Council reassessed the impact of the decrease in market values on its asset base by applying appropriate indices for the 2008/09 financial year. All of the decrease affected the value of land, with a downward revaluation of £2.379 million in the 2008/09 financial year.

Debtor Accruals

At the year end four creditor accruals were raised for amounts which had already been paid. To adjust for the incorrect creditor accruals the Council raised debtor accruals for the equivalent value, therefore both debtors and

creditors were then overstated. The creditor accruals should have been reversed out of the accounts instead of raising a corresponding debtor.

Pension fund asset

Through the audit of the Leicestershire Local Government Pension Fund, it was identified that the pension fund asset value reported by the investment managers as at 31 March 2009 was 3.3% lower than the estimated values used by the Actuary in their calculations. We recognise that the asset valuation provided by the Actuary was their best estimate at the time of calculation and in our experience of pension fund accounts audit, such amendments are to be expected, given that asset valuations as at the year end are not always available at the time draft accounts are typically produced. The impact on Blaby District Council's share of the pension fund asset was therefore calculated as £792k.

Systems of internal control

We are required to report to you any material weaknesses in the accounting and internal control systems identified during the audit. We are pleased to report that we have not identified any such material weaknesses during the course of our audit procedures.

Financial Standing

The 2008 Annual Audit and Inspection letter set out some of the key challenges facing the Authority. The key theme was the pressure upon the Authority's financial health over the medium term, following the housing stock transfer. The financial challenges for the Council are considered further below.

Current Financial Performance

The Council reported an in year deficit of £118.9 million in the Income and Expenditure Account for 2008/09 of which £116.7 million related to the sale of housing stock assets to Three Oak Homes. After adjusting for statutory accounting and carrying forward £0.3 million of resources to 2009/10, the Council reduced its General Fund balance by **£0.061 million**. The General Fund balance as at the 31st March 2009, and therefore the amount available

to fund future general Fund activities, was £1.8 million.

The 2009/10 budget monitoring report which went to Cabinet in November 2009, identified forecast additional net costs of £0.056 million to the General Fund Revenue Account compared to budget. However this equates to only 0.53% of net revenue expenditure and is within the Council's agreed thresholds. Indications are that the Council is currently on track to achieve the budgeted annual establishment savings of £0.16 million.

Medium term financial forecasts and associated risk

The Medium Term Financial Strategy (MTFS) published in March 2009 set out resource requirements for 2010/11 of £11.2 million as set out in the table below.

	2010/2011 £ million
Net Budget Requirement Before Use of General Fund Reserves (incorporating £0.61 million of savings proposals)	11.2
Formula Grant	6.4
Council Tax	4.4
Collection Fund Deficit	(0.0)
<i>Further Savings to be Identified</i>	<i>0.4</i>
Total Resources	11.2

The latest published medium term plans highlight budget gaps of £0.4 million and £0.6 million in 2010/11 and 2011/12 respectively, assuming Council Tax increases of 4.9% and 4.49% per annum and contributions from the residual costs reserve of £0.159 million and £0.149 million.

The Council has identified the following areas of the business which are vulnerable to sensitivity and therefore present a risk to the achievement of the above forecasts:

- Concessionary travel
- Income generation
- Transfer of housing stock
- Energy costs
- Legal costs
- New Financial Information System
- Systems Thinking Project

The Council already faces a number of financial challenges and there is every likelihood that following the general election in 2010 further significant cuts in public sector expenditure will have to be made. In these circumstances, and given the budget risks the Council has itself already identified over the coming years, it remains imperative that the Council continues to focus on the following areas:

- Sound financial management and keeping to budgets, in spite of service pressures;
- Achieving the savings targets identified in the savings programme and;
- Continuing to improve and modernise services through the systems thinking project, making them more efficient and affordable;

Use of Resources

The new use of resources framework forms part of the Comprehensive Area Assessment (CAA) and comprises the following three areas:

- Managing finances
- Governing the business.
- Managing Resources.

We evaluated the arrangements against criteria set by the Audit Commission in underlying Key Lines of Enquiry (KLoE) and reached a score for each based on the following:

- 1 Failure to meet minimum requirements – inadequate performance;
- 2 Meets only minimum requirements – performs adequately
- 3 Exceeds minimum requirements – performs well; or
- 4 Significantly exceeds requirements – performs excellently.

The scores for these KLoEs then determines the overall score for each area, using rules issued by the Commission. The Commission in turn then determines an overall score for the Authority.

It is important to note that although the above one to four scoring definition is the same as that used in previous years, the underlying assessment methodology is fundamentally different. A score under the old use of resources system cannot therefore be compared to a score under the new system. There is no like for like comparison. The Audit and Inspection Letter for 2007/08, issued to the Council in March 2009 summarises this well when it states that the *“2009 use of resources assessment framework will be more demanding than previous use of resources assessments. It is broader in scope and embraces wider resource issues such as people and workforce planning, and the use of natural resources. It also places more emphasis on considering outcomes for local people. It is particularly important to recognise that the key lines of enquiry are more strategic and focus much more explicitly than previously on value for money achievements rather than on processes.”* Put simply it was easier to score, for example, a 3 under the previous methodology than is the case now.

Managing Finances

We have scored the KLoEs for managing finances as follows:

Key Line of Enquiry		Score
1.1	The Authority plans its finances effectively to deliver its strategic priorities and to secure sound financial health	2
1.2	The Authority has a sound understanding of its costs and performance and achieves efficiencies in its activities	2
1.3	The Authority's financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people	2

Summary Findings

The Council has demonstrated integration of financial planning with corporate plans and priorities. Local residents have been involved in determining the Council's priorities and there are some good examples of where the Council has engaged with key stakeholders on major decisions, for example in setting car parking charges.

The objectives within the Council's corporate plan 2008 - 2011 are used in determining the priorities for the MTFS 2009 - 2012. The MTFS is also linked to other key strategy documents such as Leicestershire County and sustainable community strategy and the Blaby District sustainable community strategy. The Council's strategic priorities are cascaded throughout the Council in the form of service plans for specific departments and objectives for individuals.

The Council has been consistent in managing its expenditure within its available resource, maintaining appropriate levels of reserves and has a good track record of achieving efficiencies, not least during the last year with the management restructure. The council has exceeded its targets for collection of Council tax and NNDR during the 2008/09 year.

The Council has demonstrated a reasonably good understanding of costs, including analysis/ monitoring of unit costs in some areas, such as cost per applicant in development control.

The Value for Money (VFM) profile produced by the audit commission confirmed that the cost per head for key services are some of the lowest in the country. Also the Council's spend on services per head of population is the lowest of all the 15 district council's, with a similar profile to Blaby, within the country. Along with a low cost base, Blaby retains an average quality of service (with a quarter of Best Value Performance Indicator's in the top quartile and over a half above the English Councils average in 2007/08) and good customer satisfaction levels. Indications from the 2008 Place Survey are that the results look positive for the Council, with 56% of respondents satisfied with the way the Council runs things overall, which exceeds the other 7 Leicestershire district councils.

The Council has started to achieve efficiencies in the last few years, for example through the Welland Procurement Unit. There are also some examples of where the Council is starting to achieve efficiencies through partnership working. The council has also undertaken systems thinking in a number of services (benefits, council tax, refuse, planning) and initial indications are that there is improved performance in these areas, with substantially reduced time taken to process new benefit claims, process planning applications and deal with council tax enquiries.

The council installed a new general ledger system at the beginning of the 2008/09 financial year which gives the Council greater functionality in how it performs budget monitoring and it has increased functionality around reporting. However, the Council have not yet used these facilities to maximum effect.

Areas for Development

The Council should aim to actively involve stakeholders in the overall financial planning process so that there is consultation with key stakeholders as to how money should be spent to achieve the Council's priorities. Currently engagement is carried out on selected projects and is rather more communicative, than consultative.

The Council engages with the local community in carrying out an assessment of need, however the Council must ensure that this engagement is with the whole community, including 'harder to reach' groups.

The Council should look to carry out more extensive benchmarking of costs and performance. For example, by assessing how unit costs and transaction costs compare with others and explaining why these may be different. This information should be used as part of the Council's challenge as to whether it is achieving Value For Money and to drive where efficiencies need to be made.

In making decisions, the Council should be able to demonstrate on a consistent basis that it makes effective use of scenario analysis to evaluate options, take account of whole life costs and benefits and their impact on the local community and environment.

The Council has demonstrated a number of examples of partnership working, however there is scope to undertake partnership working more extensively as part of an overarching strategy. As part of this, the Council should be able to demonstrate a clear understanding of the total resources at the disposal of significant partnerships and these resources should be used to support clearly identified and demonstrable outcomes. The Council should regularly review the effectiveness of its partnership working to demonstrate that partnerships are providing effective outcomes and value for money.

Now that the new General Ledger system has bedded in, the Council should look to maximise use of the system going forward. For example, by making use of the tailored reporting functionality, implementing the automatic recharge functionality to enhance budget monitoring and making use of the function which prevents somebody from raising an order against a General Ledger code where there is no remaining budget.

To ensure that external reporting meets the needs of the reader, the Council should look to do the following:

- Consult more extensively with the local community on the format and content of the reports, for example through the community forums.

- Include information around the council's environmental impact (with an analysis of the council's environmental footprint) and address diversity issues in its reporting, for example by reporting who receives services and where money has been spent across demographics and services.

Governing the business

We have scored the KLoEs for governing the business as:

Key Line of Enquiry		Score
2.1	The Authority commissions and procures quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money.	2
2.2	The Authority produces relevant and reliable data and information to support decision making and manage performance	2
2.3	The Authority promotes and demonstrates the principles and values of good governance	2
2.4	The Authority manages its risks and maintains a sound system of internal control	2

Summary Findings

The Council consulted widely within the community to understand what their priorities were for the district through the Blaby Together group. Through discussions with community forums the council developed a sustainable community strategy which feeds through to the objectives in Blaby's corporate plan 2008 - 2011.

The Council has started to evaluate its services to assess whether they provide value for money. For example, the refuse collection service was reviewed and efficiencies found worth £0.12 million. There have also been reviews as part of the systems thinking process of benefits and council tax. The early indications are that these reviews have had positive impacts on the performance indicators.

The Council has provided some specific examples of where sustainability is considered in making procurement decisions, such as Thorpe Astley Community Centre. However, sustainability is not currently considered as part of a wider commissioning strategy.

The council have developed a data quality policy for the first time in December 2008 and data quality training is carried out every year for key staff involved in inputting data. Internal Audit work closely with services, and are key to managing data quality, reporting issues to Performance Board and recommending appropriate actions.

A data quality strategy and data sharing protocol has been developed by Leicestershire Together. The accuracy of data and efficiency of uploading the LAA data will be improved when the individual District Performance Management systems are integrated with the LAA TEN software system in 2009/10.

During the year we have undertaken data quality spot checks on housing benefit claims and on two national indicators, NI156 (number of households living in temporary accommodation) and NI192 (percentage of household waste sent for reuse, recycling and composting). From the work performed, we have concluded that there is an appropriate framework in place for the management and accountability of Data Quality. There are successful policies and procedures to support teams and staff have sufficient capacity, capability and knowledge to fulfill their responsibilities effectively. Some issues were noted as part of our sample testing of benefit records, however the management arrangements in place were deemed to be adequate. No issues were noted in relation to the testing of the two national indicators.

The quarterly portfolio reports combine both financial performance and qualitative performance. These are clearly aligned with the objectives for the individual portfolio. However, the financial performance information is limited and is not comprehensive enough to facilitate robust decision making, therefore this is currently under review by the Council and separate financial reporting to members is being considered.

The Council has in place a risk management strategy, a corporate risk register and service risk registers. There are also risk registers for the priorities around the SCS and specific risk registers for ad hoc projects and events, ie. the housing stock transfer. The MTFS has been risk assessed and all reports to committee are required to be risk assessed, with a section on risk included in the template report.

There is some evidence of assessment of risks around partnership working. For example, the Leicestershire and Rutland Improvement Partnership risk register is updated on an ongoing basis and the SCS is risk assessed, resulting in risk registers for each priority area.

Standing orders, financial regulations and the scheme of delegation are reviewed and updated as required through regular reports to Council. For example, changes were made following the management restructure.

Areas for Development

Service users and the wider community should be involved at each stage of the commissioning cycle: assessing needs, establishing priorities, designing services, and reviewing performance. The Council should over time be able to demonstrate that it is on track to deliver key intended outcomes such as better quality, more responsive services, sustainability and value for money.

The Council should ensure that corporate objectives are specifically linked through to the council's procurement and commissioning objectives to ensure that decisions are made which help to deliver the Council's strategic objectives. The Council should also consider the environmental impact of all commissioning decisions on a consistent basis and not just on ad hoc projects.

There were a number of areas for development identified in relation to IT controls and data security and the Council should look to review it's arrangements on an ongoing basis to assess if these are fit for purpose. As part of our testing of IT controls we identified that in 2008/09 there was no penetration testing of the network system and anti virus software was not installed on the council's application servers.

As a result of the management restructure and focus on implementation of the JCAD risk management software, during 2008/09 there was a lack of regular monitoring of risk at member level. The Council needs to ensure that the corporate risk register is reviewed by members on a regular basis during the year and also that there is robust monitoring of the service risk registers at a senior management level. Risk management training should be provided to address gaps in knowledge which have arisen following the management restructure.

The Council has a small fraud team, which is focussed on benefit fraud and carries out work on a reactive basis. The Council should consider whether there are any efficiencies that can be found within the current process, for example implementation of a fraud system to automate the manual processes currently in place. The development of a fraud workplan should also be considered, which covers both reactive and preventative work, with an element of time focussed on promoting an anti-fraud culture within the Council and providing members with training and updates on fraud.

Managing resources

We have scored the KLoEs for managing resources as:

Key Line of Enquiry		Score
3.3	Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?	2

Summary Findings

Following the management restructure, the Council now has a new Director of Performance and People and the following progress has been made in workforce planning and development:

- The Council adopted a People strategy in January 2009, which is monitored formally at the quarterly JCC forum.
- In 2009/10, workforce planning has been specifically incorporated in to directorate service plans.

- The Council has demonstrated some good examples of effective recruitment campaigns, such as the use of apprenticeships for students to gain their BTEC in business administration, creation of a student environmental health officer post and use of Equality Britain to advertise jobs.
- The council has introduced a new appraisal process, which is competency based and links to corporate priorities. Key success criteria were created for senior managers following the management restructure which are linked to the council's corporate priorities.
- The council assesses the views and wellbeing of its staff through the annual staff surveys and stress surveys. The results of these surveys are used to implement actions. For example, as a result of identifying bullying as a possible issue, a bullying policy has been developed and the concept of bullying buddies has been introduced.
- The council has a number of initiatives in place to increase the health and wellbeing of its staff. These initiatives, along with the initiatives put in place around bullying have helped to reduce the sickness absence within the council.
- The Health and Safety committee meets quarterly and the number of accidents at work has decreased substantially between 2002 and 2008.
- The council has demonstrated good consultation with staff through a variety of means, such as the sounding board forum, which is chaired by the Chief Executive. The Council has also demonstrated strong engagement with staff during the recent management restructure through support from a career management company and 1-2-1 coaching sessions by an external company.
- The council has a Corporate Equalities Group who present an annual report to Cabinet and Scrutiny. The council has recently started to participate in equalities forums put on by Leicestershire County Council and equality and diversity training has been undertaken in the year for staff and for members.

Areas for Development

The council has started to make good progress in this KLoE and will need to continue this progress by demonstrating outcomes, in order to move up to the next level.

The Council needs to ensure it has in place robust succession planning arrangements and has a coherent and effective approach to workforce planning, which is done at a strategic level, using a 'top down' approach, rather than using only a 'bottom up' approach as part of the service planning process.

The Council should aim to achieve Level 3 of the Equality Standards for Local Government.

Effective recruitment campaigns need to be put in place to address the hard to reach areas of the population and those which are currently under-represented in the workforce, such as disabled employees.

The Council should look to achieve a workforce that reflects the make up of the local community across all departments, including at a senior level

Conclusion on Use of Resources

We were also required to issue a conclusion on the adequacy of the Authority's arrangements for ensuring economy, efficiency and effectiveness in its use of resources.

We issued an unqualified conclusion on the Authority's arrangements for its Use of Resources on 29 September 2009.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS). The AGS was included in the financial statements.

We reviewed the AGS to consider whether it complied with guidance issued by relevant professional bodies and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of

concern to report in this context.

Treasury Management

During the year, the collapse of the Icelandic banking system, together with the disclosure that a number of public sector bodies in the UK held significant investments there, raised concerns nationally as to the adequacy of treasury management practices within the public sector. In response to such concerns, and as part of our use of resources assessment we completed a Treasury Management 'workbook' issued to us by the Audit Commission. This work, which was in the form of a questionnaire completed with the assistance of council staff, identified no matters for concern. The Council does not hold funds in Icelandic banks but has in the light of this issue, reviewed its policies and strategies in this area. Our review of treasury management identified some minor control points which have been communicated to management.

Expenses

In light of the recent furore nationally on politicians expenses, we have discussed the matter of expenses with the Council's Head of Finance. These discussions gave no indications that the Council's arrangements in this area were not operating effectively.

Matters affecting future accounting periods

Transition to International Financial Reporting Standards (IFRS)

CIPFA has issued the Exposure Draft and Invitation to Comment on the Code of Practice on Local Authority Accounting in the United Kingdom 2010. This will apply to accounting periods starting on or after 1 April 2010. The new Code is the first to be prepared under IFRS. Because of the need to have comparative information for the first set of full IFRS accounts the effective date of the transition is 1 April 2009. The Authority will need to have values for assets and transactions as they should be recognised under IFRS from this date.

The Authority will need to ensure that it has a good grasp of the changes to accounting requirements under the new Code, and that it has robust plans in

place to enable collection and processing of the information needed to comply with the new Code.

In our experience the key features of a successful IFRS conversion project have proven to be:

- Completed impact analysis and comprehensive conversion plans;
- The commitment of key stakeholders in the organisation;
- Operational steering and technical groups;
- Cabinet/audit committee oversight;
- Regular progress reporting against the plan;
- The necessary project management resources; and
- Appropriate and timely training for all members and officers with IFRS involvement.

