

Annual Audit Letter

Blackburn with Darwen Borough Council

Audit 2008/09

December 2009



Contents

Key messages	3
Financial statements and annual governance statement	5
Value for money and use of resources	7
Closing remarks	11
Appendix 1 – Use of resources and value for money conclusion	12

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 an unqualified audit opinion on your 2008/09 financial statements on 29 September 2009. The main issues I identified in carrying out my review related to fixed assets where some errors occurred because of software problems and the Council changing its asset register to a spreadsheet based system and the need to write back cheques totalling £1.4m in relation to individual housing market renewal acquisitions where no legal obligations existed at the time. None of the changes have had any impact on the Council's reported outturn position.
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Value for money conclusion

- 2 I have assessed your corporate arrangements for securing economy, efficiency and effectiveness in the use of resources against the seven criteria specified by the Audit Commission. I have concluded that your arrangements are adequate and issued an unqualified conclusion on the Council's value for money arrangements.
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Use of Resources

- 3 I have assessed how well you are using and managing your resources to deliver better value for money based on the Audit Commission's methodology and my assessment is as follows.
 - Managing Finances - Level 3: Performs Well.
 - Governing the Business - Level 3: Performs Well.
 - Managing Resources - Level 2: Performs Adequately.
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Comprehensive Area Assessment and organisational assessment

- 4 The Audit Commission introduced a new assessment regime during 2009, Comprehensive Area Assessment. This aims to review the performance of local partners in delivering better outcomes for local people. The assessment is designed to focus attention on areas that need attention in order to deliver additional and sustained improvement. Our work in this area has been led by the local Comprehensive Area Assessment Lead (CAAL). The CAAL has shared his findings with officers and he formally reported on 9 December 2009. Alongside the CAA report we have issued our organisational assessment, which combines our judgements on your use of resources and managing performance. Any issues arising will be discussed with you and planned into future years audit and assessment activity.

Audit fees

- 5 I set out in my audit plan in June 2008 my proposed fee of £220,579 I am able to confirm that the audit has been completed in accordance with the plan but as a result of work undertaken on group accounts for the first time this year and additional work needed to obtain assurance on your financial statements because of delays in providing working papers a supplementary fee of £10,024 has been charged. We anticipate this additional fee should be offset by a lower than planned fee in respect of the audit of claims and returns.

Independence

- 6 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

Your financial statements and annual governance statement are an important means by which Blackburn with Darwen Borough Council accounts for its stewardship of public funds.

Significant issues arising from the audit

- 7 I issued an unqualified audit opinion on your 2008/09 financial statements on 29 September 2009. The main issues I found when examining your accounts related to adjustments to fixed assets where some errors occurred because of software problems and the Council changing its asset register to a spreadsheet based system the need to write back cheques totalling £1.4m in relation to individual housing market renewal acquisitions where no legal obligations existed at the time. The changes have not had any impact on the Council's reported financial outturn position.
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Material weaknesses in internal control

- 8 As part of my audit I undertook a review of the Council's Internal Audit function to evaluate their performance against professional standards. Internal audit is a key part of the Council's overall system of internal financial control. My review has concluded that Internal Audit has failed to meet five of the eleven professional standards of the CIPFA Code of Practice for Internal Audit in Local Government. I have taken this into account in my overall assessment of internal control as part of my use of resources assessment. I have made a number of recommendations in my report on Internal Audit and have agreed an action plan with the Director of Finance. I am satisfied that the action we have agreed, when implemented, will both strengthen Internal Audit and the Council's overall internal financial control.
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Accounting Practice and financial reporting

- 9 My review also considers the qualitative aspects of your financial reporting. As a result of my audit two amendments have been made to the accounting policies and supporting notes to improve the presentation and completeness of the accounts. The notes have been updated to reflect the treatment of intangible fixed assets such as software licenses. In addition the Council has not accrued for vehicle leases where charges straddle financial years. Financial statements should be prepared on an accruals basis and departures are only expected from the accruals concept where a transaction is not capable of reliable measurement. Payments for vehicle leases are to be accrued from 2009/10.
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International Financial Reporting Standards (IFRS)

- 10** In March 2008 the Treasury announced that the annual financial statements of government departments and other public sector bodies would be prepared using International Financial Reporting Standards (IFRS) from 2009/10 onwards. For local government bodies the first full year of application is the 2010/11 financial statements but the starting period for this (the transition date) is 1 April 2009. Local government bodies will be required to produce their 2009/10 Whole of Government Accounts return on an IFRS basis.
- 11** As part of my 2008/09 audit I have completed an Audit Commission survey on the Council's progress in preparing for the implementation of the IFRS. The Council has made a good start in its preparations for IFRS. Officers have identified the key risk areas for Blackburn with Darwen, undertaken an initial analysis to assess the work required and are in the process of preparing methodologies for the various work areas. However, officers recognise that, in keeping with many councils, there is still considerable further work needed during 2009/10 to ensure that the required timeframes are met.

Treasury Management

- 12** As part of my 2008/09 audit, I completed an Audit Commission return on the Council's Treasury Management arrangements. The Council had no investments with Icelandic banks in 2008/09. There were no significant issues identified in my review. The Council is currently reviewing its Treasury Management framework following updated CIPFA guidance.

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

- 13** 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.
- 14** 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.
- 15** The Council's use of resources theme scores are shown in Table 1. The key findings and conclusions for the three themes are summarised below. Our detailed findings and recommendations have been set out in a separate report on Use of Resources.
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Table 1 Use of resources theme scores

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

Managing Finances

- 16** The Council manages its finances well, integrating financial and corporate planning processes. The Council has clear, high level priorities which reflect the needs of local people and demonstrate the Council's understanding of the scale of local challenges, particularly in relation to poor health and inequalities that exist across the Borough. Joint community analysis, planning and procurement approaches are targeting areas important to local residents and the needs of citizens and service users are at the heart of service redesign and delivery.
- 17** The Council has a detailed understanding of its comparative costs (including unit costs) and spending. The impact of external factors such as deprivation levels have been assessed and managers and members are using this information to better understand the links between costs and the outputs and outcomes achieved. The Council is making effective use of benchmarking and unit costs to challenge performance and value for money (vfm) in most key priority areas.
- 18** The Council produces monitoring and forecasting information that is reliable, relevant and understandable on a regular and timely basis for budget holders throughout the year. The Council has a good track record of managing its spending, although there is scope to further improve the management of the capital programme with the 2008/09 capital budget of almost £60m being under spent by around £13m.
- 19** The Council has responded positively to the earlier closedown agenda in recent years and has presented its accounts for approval by the Audit Committee before 30 June 2009. An unqualified opinion has again been given on the Council's 2008/09 accounts by 30 September 2009, although the working papers to support the accounts were not as well prepared or as timely as in the previous year.

Governing the business

- 20** The Council and its partners have a very clear vision of intended outcomes for local people, based on a detailed analysis and understanding of needs. Effective partnership and neighbourhood working is helping the Council to deliver local community priorities.
- 21** The Council has a sound framework in place to oversee data quality, including in partnerships. Arrangements for collecting, recording and reporting data are integrated into business planning and management processes. A corporate data quality policy and corporate minimum standards (CMS) are in place. However the Council recently reported a data security breach which was significant and involved the loss of confidential personal information involving clients in contact with adult social care services. The loss has been reported to the Information Commissioner and a number of recommendations aimed at minimising future data losses are being implemented.
- 22** There is a strong performance culture within the Council linked to the delivery of key priorities. Performance is well managed and integrated with financial reporting. The Council uses performance data as part of its routine performance monitoring arrangements to focus attention on under-performing service areas.

Value for money and use of resources

- 23** The Council has appropriate governance arrangements in place, including for its partnerships. For example, the Local Strategic Partnership (LSP) ensures details of its governance arrangements are available on the LSP website and is now taking its meetings out to the neighbourhoods. The Council manages its significant business risks well with a risk management policy having been in place for a number of years. The Council's key partnerships have risk management arrangements in place.
- 24** The Council revised its corporate counter fraud and corruption strategy, its whistle blowing policy and a money laundering policy towards the end of 2008/09. There are clear links to the Council's strategic objectives. A fraud awareness e-learning kit has been purchased and will be used to raise levels of awareness in the Council and provide advice about the action to take where fraud or corruption is suspected in the Council.
- 25** The Council's Internal Audit function is not operating effectively. Our recent review of Internal Audit, which covered the 2008/09 financial year, has identified that they have not met five of the eleven professional standards. These are the same standards that Internal Audit was assessed as failing to meet at the last review of Internal Audit in 2007. We have reported separately to the Council on this review.

Managing resources

- 26** The Council is building up a picture of the natural resources it consumes in its operations and is in the process of developing strategies and plans to reduce its impact on the environment and to protect natural resources. It is working with others across the Lancashire area to develop local responses. However, it is unclear what impact has been delivered so far through membership of the various partnerships.
- 27** The Council is developing an Environmental Strategy to drive forward a coherent approach on the use of natural resources and sustainable development. Work is currently underway to identify and manage climate-related risk and communicate these potential vulnerabilities and opportunities to members, managers and partners and set out the next steps in addressing them.
- 28** The Council has been compiling data about its energy consumption for several years and this has been used to set financial efficiency targets for Council departments. More recently the data has been used to provide a baseline year against which to measure progress of the Council's carbon management plan 2008/09 to 2012/13. The Council is putting in place structures and processes to incorporate sustainability within existing performance, project and risk management arrangements.

29 The Council has arrangements in place for managing and improving the performance of its corporate assets. An up to date Asset Management Plan is in place and is linked to key priorities. Asset management plans are integrated with other corporate and service level strategies and plans. Capital investment supports the delivery of key priorities and is linked to the Medium Term Property Strategy (MTPS) and the Medium Term Financial Strategy (MTFS). Significant investments are assessed as part of the Council's gateway process using option appraisal and whole of life costs. The level of backlog maintenance has been assessed and is included within the capital programme, MTFS and MTPS. There is evidence of progress in delivering backlog maintenance plans. Performance indicators and benchmarks are being used to improve corporate asset use and there is evidence of the Council meeting its targets.

VFM Conclusion

- 30** 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 KLOE are the relevant criteria for the VFM conclusion at each type of audited body.
- 31** I issued an unqualified conclusion stating that Blackburn with Darwen Borough Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources. The criteria and my judgements are summarised in Appendix 1.

Closing remarks

- 32** The economic downturn, public sector funding and the banking crisis are having a very significant impact on public finances and the bodies that manage them. It is envisaged that there will be wide ranging and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes in the short to medium term, including pressures on income streams. There are further challenges for policy priorities where patterns of demand for services are also changing. These changes and the Council's response will be a key focus of my attention for future audits.
- 33** I have discussed and agreed this letter with the Strategic Director of Resources and the Director of Finance. I will present this letter at the Audit Committee in January 2010 and will provide copies to all Committee members.
- 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.

Table 2

Report	Date issued
Audit Plan	June 2008
Review of Internal Audit	September 2009
Annual Governance Report	September 2009
Audit report on your financial statements	September 2009
Use of Resources 2009	November 2009
Annual Audit Letter	December 2009

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- 35** 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.

Clive Portman
District Auditor
December 2009

Appendix 1 – Use of resources and value for money conclusion

The following tables summarise the Use of Resources themes scores and VFM conclusion.

Managing finances

Theme score	
KLOE 1.1 (financial planning) Score VFM criterion met	3 Yes
KLOE 1.2 (understanding costs and achieving efficiencies) Score VFM criterion met	3 Yes
KLOE 1.3 (financial reporting) Score VFM criterion met	3 Yes

Appendix 1 – Use of resources and value for money conclusion

Governing the business

Theme score	
KLOE 2.1 (commissioning and procurement) Score VFM criterion met	3 Yes
KLOE 2.2 (data quality and use of information) Score VFM criterion met	3 Yes
KLOE 2.3 (good governance) Score VFM criterion met	3 Yes
KLOE 2.4 (internal control) Score VFM criterion met	2 Yes

Managing resources

Theme score	
KLOE 3.1 (natural resources) Score VFM criterion met	2 Yes
KLOE 3.2 (asset management) Score VFM criterion met	3 Yes
KLOE 3.1 (workforce) Score VFM criterion met	Not assessed at Unitary councils in 2008/09

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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