

Annual Audit Letter

Brentwood Borough Council

Audit 2008/09

February 2010



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources. It also includes statutory recommendations to Members of the Council under section 11 of the Audit Commission Act 1998.

Introduction

- 1 2008/09 was a challenging year for Brentwood Borough Council, with difficulties experienced in preparing the 2008/09 financial statements. A lack of evidence and working papers to support the financial statement led me to issue a disclaimer opinion - that is, I could not form an opinion on the financial statements. The Council also faces a challenging financial position. As a consequence of these difficulties, I have issued statutory recommendations under section 11 of the Audit Commission Act 1998.

Audit Opinion and Financial Statements

- 2 I issued a disclaimer opinion on the 2008/09 financial statements for the Council on 10 December 2009. This means that I was unable to express an opinion, due to an inability to obtain sufficient evidence to satisfy myself that the financial statements as a whole were not misleading or incomplete.
- 3 The 2008/09 Statement of Accounts was approved by the Audit Committee on 12 August 2009, six weeks later than the statutory deadline of 30 June 2009. Subsequent progress on the audit was slow due to the number of issues identified during the course of our work and the poor standard of the financial statements and supporting working papers produced for audit.
- 4 Following an assessment of the progress and overall position of the audit in late September 2009 I decided that I should issue a disclaimer opinion.
- 5 A new reporting framework, International Financial Reporting Standards (IFRS), will apply to council accounts in 2010/11. The Council has not yet developed a project plan to implement these standards, although this is being prepared with support from Essex County Council.

Value for money

- 6 We assess how the Council makes use of its resources to provide local services. A national framework is applied to our assessment, with a score given between 1 (inadequate and below minimum standards) and 4 (performing strongly) in each of three key areas.

- 7 The Council has been assessed at a score of '1' in its Use of Resources. It achieved the following scores in our assessment.
 - Level 2 in respect of the way it manages its finances.
 - Level 1 in respect of the way it manages and governs the business as a whole.
 - Level 1 in respect of the way it manages its people.
- 8 Additionally, in terms of the impact on the value for money conclusion, I concluded that the Council did not meet the minimum standards during 2008/09 for four of the eight criteria assessed. As a result of this I have concluded that, overall, the Council does not provide value for money in its use of resources for the year ended 31 March 2009 and I issued an 'adverse' qualified conclusion.
- 9 I issued a separate Use of Resources report setting out the detailed findings supporting this assessment. This was presented to the Audit Committee on 22 October 2009.

Managing performance

- 10 The Audit Commission also assesses how well the Council manages and improves its services and contributes to wider community outcomes. The assessment considers how successful the Council is in delivering its corporate priorities. The priorities have been drawn from what matters most to local people.
- 11 The managing performance score is a 2 because the Council has been successful in delivering some improvements to services. More waste is being recycled and there are advanced plans to extend recycling services to reduce demand on landfill. New arrangements for street cleaning and tackling graffiti have been introduced. The Council is delivering against its planning, enterprise and highways priorities. Planning applications are now processed more quickly. Together with partners, regeneration activities are improving the town centre such as the work underway to improve the High Street in Brentwood. Joint working with Essex County Council is starting to bring improvements to the Borough's roads.
- 12 Crime is low in Brentwood. The Council and partners work well together to address issues of nuisance and anti-social behaviour. As a result, reported incidences of anti-social behaviour are falling. However, the fear of crime is still high. There are more activities for local people to help improve their health and fitness.
- 13 The availability of affordable housing remains a problem in Brentwood. As a result, local people are experiencing difficulties in finding suitable and affordable accommodation.
- 14 The Council makes good use of partnership working to improve capacity and the Council has plans to extend this further. It is early days and much still remains to be done before the full benefits can be seen.

Key messages

Overall Organisational Assessment

- 15 The Use of Resources and Managing Performance assessments are combined to give an overall Organisational Assessment judgement for the Council.
 - 16 The Council has been judged as performing poorly in the Audit Commission's organisational assessment. This is because whilst the Council scored a level 2 in its managing performance, it scored a level 1 in the use of resources assessment. Under the Audit Commission's Comprehensive Area Assessment (CAA) Framework a score of 1 in either the Managing Performance or the Use of Resources theme will lead to an overall Organisational Assessment score of 1.
 - 17 The Council's Managing Performance and Organisational Assessment have been reported separately by the Audit Commission's Comprehensive Area Assessment Lead for Essex.
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Financial standing

- 18 The Council's level of General Fund reserves has decreased from £2.734 million at 31 March 2008 to £1.745 million at 31 March 2009. Additionally, the Council committed £1 million from these reserves to fund its organisational restructuring during 2009/10. Overall revenue balances have decreased from £4.387 million at 31 March 2008 to £2.940 million at 31 March 2009, a decrease of some 33 per cent. Combined with this, the Council is facing a range of financial pressures in 2009/10 and future years.
 - 19 The Council has forecast an overspend of some £465,000 for 2009/10, and also forecast that the level of General Fund balances would decline to some £280,000 at 31 March 2010, which is substantially less than the minimum level of £1 million set by the Council. However, the Council has just received notification of a substantial VAT Refund that would - assuming that it was received by 31 March 2010 - significantly affect the forecast outturn and level of balances. Whilst the Council is more confident in the robustness of the forecast outturn for 2009/10, significant risks remain that this figure will be achieved. The Council is being more transparent in its reporting of the financial position and is committed to improving its budget setting and monitoring. It also recognises that it must take immediate action to increase reserves and has plans to do so.
 - 20 Members will need to consider how to respond to these issues and take decisions to ensure that the Council's financial position is sound in the short and medium term. I will continue to monitor the Council's response and actions in this key area.
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Treasury management arrangements

- 21 The Council did not have any investments with Icelandic banks. I have reviewed the Authority's treasury management arrangements and have concluded they are adequate.
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Recommendations made to the Council under Section 11 of the Audit Commission Act 1998

- 22** Section 11(3) of the Audit Commission Act 1998 provides the power for an auditor appointed by the Audit Commission to make recommendations to audited bodies for consideration by the body in the opinion of the auditor under section 11(3).
- 23** The Council's finance function capacity issues and financial position have led me to make recommendations for consideration by the Council under section 11(3) of the Audit Commission Act 1998.
- 24** The following recommendations are made for consideration by the Members of Brentwood Borough Council under section 11(3) of the Act.

| Recommendations | |
|-----------------|--|
| R1 | The Council should take steps to strengthen the capacity of the Finance team and to ensure a fully effective Finance function. |
| R2 | The Council should address the significant issues noted in my Annual Governance Report in a timeframe that will ensure that the 2009/10 Statement of Accounts are complete, accurate and supported by comprehensive, auditable working papers. |
| R3 | The Council should put in place proper procedures to ensure that it retains knowledge of key financial systems and processes. This should include system guidance and robust handover arrangements to retain knowledge when there are staff changes |
| R4 | The Council should ensure that sufficient and appropriate resources are directed towards addressing control weaknesses in material financial systems. |
| R5 | The Council needs to determine a clear financial position using robust information. The Council needs to take urgent action to increase the level of its reserves and to take steps to ensure that its financial position is sound in the short and medium term. |

Audit fees

- 25** In my 2008/09 supplementary opinion audit plan of 6 March 2009 I set out the reasons for an increase in the original proposed audit fee. This increase was based on the Council taking actions to address the recommendations raised in the 2007/08 Annual Governance Report issued by the previous external auditors, PKF (UK) (LLP), and our 2008/09 Interim Audit Report. As the Council did not produce an auditable set of financial statements, these actions were clearly not implemented and consequently we had to undertake additional work on the audit which has resulted in a further additional audit fee. Additional work was also required on the opening balances and comparative figures for 2007/08, which led to the identification of a fundamental misstatement in respect of the valuation of council dwellings. The additional fee for this work has now been determined as £29,500 and Table 1 shows the breakdown of the final fee.

Key messages

Table 1

| | Planned fee 2008/09 | Revised fee 2008/09 | Final fee 2008/09 |
|--|--------------------------------|--------------------------------|------------------------------|
| | £ | £ | £ |
| Financial statements | 107,985 | 115,985 | 145,485 |
| Use of resources and data quality (undertaken by PKF) | 31,000 | 31,000 | 31,000 |
| Total audit fee | 138,985 | 146,985 | 176,485 |
| Total inspection fee | 6,565 | 6,565 | 6,565 |
| Total audit and inspection fee | 145,550 | 153,550 | 183,050 |

Actions

- 26 Recommendations are contained within my Annual Governance Report and Use of Resources report. I have made recommendations within this letter, including recommendations made under section 11(3) of the Audit Commission Act 1998 to further develop the arrangements in place at the Council, with the purpose of delivering better outcomes for the residents of Brentwood. The Council should monitor the implementation of these recommendations.

Independence

- 27 I 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's accounts for its stewardship of public funds.

Summary

28 I issued a disclaimer opinion on the Council's accounts on 10 December 2009, later than the deadline of 30 September for publication of the accounts set within the Accounts and Audit Regulations 2003. I did this as there were a number of areas where insufficient evidence was made available to enable me to conclude whether certain accounting entries were fairly stated. Additionally, there were a number of areas where I was unable to agree the Council's accounting treatment.

Significant issues arising from the audit

29 I reported the significant findings from the audit in my Annual Governance Report presented to the Audit Committee on 22 October, and in a revised report presented on 24 November 2009. I issued a supplementary Annual Governance Report reporting the findings from my further work on opening balances and comparative figures for 2007/08 on 4 December 2009. I was unable to obtain sufficient evidence to satisfy myself that the financial statements as a whole were not misleading or incomplete

30 The key areas where I was unable to obtain sufficient appropriate evidence were as follows.

Balance sheet

- Council Dwellings held in the balance sheet at £405.752 million.
- The disposal of Council Dwellings valued at £1.370 million.
- The valuation of Infrastructure assets at £0.870 million.
- The classification of £15.808 million of Other Land and Buildings as being specialised assets.
- The classification of two car parks held in the balance sheet at £1.115 million as non-operational assets.
- The Merrymeade House capital commitment disclosed at £0.873 million.
- Debtors held in the balance sheet at £6.125 million including the provision for doubtful debts of £0.848 million.
- Creditors held in the balance sheet at £6.912 million.

Financial statements and annual governance statement

- The bank overdraft held in the balance sheet at £0.769 million.
- Any adjustment to creditors that would be necessary to recognise the liability for finance leases that are accounted for as operating leases.
- £1.307 million excluded from temporary investments and creditors in the balance sheet relating to a Trust Fund.
- The revaluation reserve held in the balance sheet at £9.551 million.
- 'Amounts Applied – Other' within the Useable Capital Receipts Reserve recorded at £1.415 million.

Income and expenditure account

- Gross service expenditure in the income and expenditure account of £91.556 million.
- Gross service income in the income and expenditure account of £37.953 million.
- Interest payable and similar charges in the income and expenditure account of £0.514 million.

Statement of Movement on the General Fund Balance

- The depreciation and impairment of General Fund assets of £6.125 million.
- The depreciation and impairment of HRA fixed assets of £31.611 million.
- The calculation of the Minimum Revenue Provision of £0.345 million.

Cash flow statement

- Net cash outflow from revenue activities in the cash flow statement of £1.266 million.
- Capital cash outflows in the cash flow statement of £3.685 million.
- Capital cash inflows in the cash flow statement of £1.493 million.

Collection Fund

- The distribution of previous year's council tax surplus in the collection fund of £1.418 million.

- 31** In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements. I found the following errors.
- The value of council dwellings at 1 April 2008 is disclosed as £439.810 million. This is valued at existing use value rather than on an existing use – social housing as required by the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice. In consequence, fixed assets as at 1 April 2008 in Note 3 to the Housing Revenue Account are overstated by approximately £202.313 million.
 - The Council accounts for leased vehicles, plant and equipment as operating leases. In my view, application of Statement of Standard Accounting Practice (SSAP) 21 requires certain of these leases to be accounted for as finance leases. In consequence, fixed assets included in the balance sheet as at 31 March 2009 are understated by £1.402 million.

Material weaknesses in internal control

- 32** I reported a number of weaknesses in internal control in my 2008/09 Interim Audit Report to the Council in May 2009. These included:
- failure to reconcile the fixed asset register to other systems operated by the Council;
 - failure to carry out monthly reconciliations of bank balances recorded in the Council's accounting system to the records held by its bankers;
 - failure to carry out regular debtor and creditor control account reconciliations;
 - failure to implement the recommendations raised by Internal Audit;
 - weaknesses on journal controls (the process to move transactions from one account code to another);
 - inadequate arrangements to ensure all transactions are authorised properly;
 - inadequate segregation of duties in some areas so that some officers were able to process transactions without the involvement of anyone else which increases the risk of fraud or error; and
 - orders being made with outside suppliers without complying with the Council's official ordering processes.
- 33** Our post-statements audit also revealed the absence of a Head of Internal Audit Opinion.
- 34** As part of my audit I also reviewed the Annual Governance Statement prepared by the Council. In my opinion, the Authority's comments concerning significant governance issues did not appropriately reflect my understanding of the governance framework because the Annual Governance Statement did not refer to the significant internal control weaknesses noted in paragraph 28.
- 35** The Council is actively working to address these control weaknesses.

| Recommendations | |
|-----------------|--|
| R6 | Develop a project plan for the implementation of IFRS accounting standards in 2010/11 and monitor progress against the plan through the Audit Committee. Ensure that the implications of IFRS on financial planning are widely understood. |
| R7 | Prepare comprehensive working papers to support all grants claims. |
| R8 | Ensure all grant claims are reviewed by a senior officer prior to submission for audit. |

Section 11 recommendations

- 36** Section 11(3) of the Audit Commission Act 1998 provides the power for an auditor appointed by the Audit Commission to make recommendations to audited bodies for consideration by the body in the opinion of the auditor under section 11(3).
- 37** The Council's finance function capacity issues and financial position have led me to make recommendations for consideration by the Council) under section 11(3) of the Audit Commission Act 1998.

The Council's finance function capacity

- 38** During 2008/09 a key member of the Finance team left the employment of the Council. This resulted in the loss of knowledge of processes and systems within the Finance team, severely eroding their capacity and capability. Before the appointment of a replacement, the Council relied on an Interim Section 151 Officer and Interim Head of Financial Management to manage the Finance team and prepare the 2008/09 financial statements. The lack of corporate memory in the Finance team, an antiquated in-house, bespoke financial management system, a lack of written guidance notes or knowledge and the inexperience of the remaining team members led to the Council failing to produce auditable financial statements in 2008/09 with supporting working papers.
- 39** The Council has now employed a permanent Section 151 Officer and resources have been allocated to the Finance team. This includes a consultant working solely on the Housing Revenue Account (HRA) and another consultant tasked with clearing the backlog of control account reconciliations. The Section 151 Officer has now reconciled the balance sheet and input it into the financial management system and is working towards restating the balance sheet at 31 March 2009 that can be audited. The Council intends to perform a dry-run of preparing the 2009/10 accounts in January 2010 and I intend to work with the Council to monitor the outcomes of this exercise.
- 40** Further recovery action has included the Council exploring the options and opportunities to share best practice and to learn from other authorities, and for increasing capacity through partnerships with other councils. For example, the Council has an agreement with Essex County Council for the provision of Internal Audit services. The Council has also had some informal discussions with other councils about partnership arrangements in other areas, and these will be pursued further in 2010/11.

- 41 The Council is delivering some fundamental changes to the structure and culture of the organisation. In 2008/09 a number of initiatives were established to improve the quality and capacity of its workforce. It has carried out a skills audit and there are now plans to build capacity through seconded people with specialist skills. It is also implementing an effective performance appraisal system to assess individual development needs. There is now a better link between training and the priorities of the Council. A new system to manage performance and staff training on Customer Excellence has been established.

The Council's financial position

- 42 The Council's level of General Fund reserves has decreased from £2.734 million at 31 March 2008 to £1.745 million at 31 March 2009. Additionally, the Council committed £1 million from these reserves to fund its organisational restructuring during 2009/10. Overall revenue balances have decreased from £4.387 million at 31 March 2008 to £2.940 million at 31 March 2009, a decrease of some 33 per cent.
- 43 In addition to the reduction in General Fund reserves, the Council had also planned (at the time that the 2009/10 Budget was set in February 2009) to use some £1 million from reserves to fund the cost of the Council's organisational development programme. Together with potential under achievement of income targets identified as part of the early 2009/10 budget monitoring, this indicated that General Fund reserves would potentially fall below the recommended minimum level of £1 million recommended when the 2009/10 Budget was set. In response the Council has taken a series of measures to mitigate this risk, including:
- the cancellation of all non-essential expenditure (that deemed to have little or no impact on service delivery);
 - the halting of overtime unless specifically authorised by Heads of Service; vacant posts being left unfilled unless judged to have undesirable impact on services; and
 - all projects being managed to deliver the intended savings, efficiencies or improvements in quality of service.
- 44 As a result of a detailed exercise to re-forecast the outturn against the Budget for 2009/10, the Council forecast an overspend of some £465,000 for the year. The Council also forecast that the level of General Fund balances will have declined to some £280,000 at 31 March 2010, which is substantially less than the minimum level of £1 million set by the Council. However, the Council has just received notification of a substantial VAT Refund that would - assuming that it was received by 31 March 2010 - significantly affect the forecast outturn and level of balances. In addition the Council is also re-forecasting other budgets. However the Council has plans to mitigate this position and improve the level of reserves from 1 April 2010 (see paragraph 45). Whilst the Council is more confident in the robustness of the projected overspend for 2009/10 as a result of the re-forecasting work carried out, risks remain that this figure will be achieved.

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- 45 Given that the forecast level of General Fund balances is substantially below the minimum level, the Council recognises that it must take immediate action to increase them. It is planning to use a contingency of £250,000 included within the 2010/11 Budget for the Organisational Development programme to increase reserves. In addition, the Council has identified additional savings of £378,000 from the 2010/11 Budget over and above the target level of savings of £1.2 million, which will also be added into reserves. Even if these plans are achieved, taken together with the forecast level of reserves at 31 March 2010, the level of reserves would still be below the minimum level.
- 46 The Council recognises the need to put in place robust financial management and budget setting and monitoring arrangements. The Council is being more transparent in its reporting of the financial position and is committed to improving its budget setting and monitoring. This includes both the medium term (as set out in the MTFS) and the ongoing arrangements for monitoring the Council's financial position. The Council has put in place arrangements that include:
- monthly reporting (revenue and capital) to budget holders with explanations to be provided by budget holders where variations occur;
 - fortnightly reporting to the Council's Senior Management Board; fortnightly to a new Financial Management Board, chaired by the Leader of the Council to inform Members and to enhance decision making; and quarterly to Members through the Policy Board; and
 - reporting on the financial position to the relevant Council Committee at each meeting of the committee, including variance analysis and recovery plans where necessary.
- 47 The following recommendations are made for consideration by the Members of Brentwood Borough Council under section 11(3) of the Act.

| Recommendations | |
|------------------------|---|
| R1 | The Council should take steps to strengthen the capacity of the Finance team and to ensure a fully effective finance function. |
| R2 | The Council should address the significant issues noted in my Annual Governance Report in a timeframe that will ensure that the 2009/10 Statement of Accounts are complete, accurate and supported by comprehensive, auditable working papers. |
| R3 | The Council should put in place proper procedures to ensure that it retains knowledge of key financial systems and processes. This should include system guidance and robust handover arrangements to retain knowledge when there are staff changes |
| R4 | The Council should ensure that sufficient resources are directed towards addressing control weaknesses in material financial systems. |

Recommendation

R5 The Council needs to determine a clear financial position using robust information. The Council needs to take urgent action to increase the level of its reserves and to take steps to ensure that its financial position is sound in the short and medium term.

48 Under section 11 (1) of the Audit Commission Act 1998, the Council must consider the recommendations made under section 11(3) set out above. Section 11(4) requires that this consideration shall be held at a meeting of the Council within one month of the recommendations being sent to the Council. Section 12 of the Act also requires at least seven clear days notice of the meeting to be given through advertisement in a newspaper circulating in the area of the Council concerned.

Certification of claims and returns

49 We certify the Council's claims and returns on the following basis.

- Claims below £100,000 are not subject to certification.
- Claims between £100,000 and £500,000 are subjected to a reduced, light-touch certification.
- Claims over £500,000 are subjected to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment leads to a reduced certification approach for these claims.

50 The certification of the Council's claims has resulted in three claims being qualified to date (Housing Benefits and Council Tax Benefits Subsidy, Housing Subsidy Base Data and Pooling of Capital Receipts claims). Additionally one claim has been amended (National Non Domestic Rates).

51 The working papers to support these claims were of poor quality and often there were instances where amounts being claimed were unsupported by evidence.

52 We also identified a trend where the grant claims were submitted for audit without being reviewed by a senior officer. This represents a key quality control weakness.

53 I will prepare a separate report on my audit of grant claims submitted by the Council in February 2010.

International Financial Reporting Standards

- 54 The national timetable for the implementation of International Financial Reporting Standards (IFRS) means that these will be first applied in the 2010/11 financial year. However, comparative figures for the 2009/10 financial year will be required.
- 55 Applying IFRS will have significant implications for the way in which local authorities prepare their annual financial statements. The Council does not have a detailed project plan in place, although this is being prepared with support from Essex County Council.

Use of resources

I am required to consider how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and give a scored use of resources judgement.

I am also required to conclude 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

- 56** 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.
- 57** 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.
- 58** The Council's use of resources theme scores are shown in Table 2. The key findings and conclusions for the three themes were contained in my separate Use of Resources report presented to the Audit Committee on 22 October 2009. The key findings are set out in paragraphs 53 to 65.

Table 2 Use of resources theme scores

| Use of resources theme | Scored judgement |
|------------------------|------------------|
| Managing finances | 2 |
| Governing the business | 1 |
| Managing resources | 1 |

Managing finances

- 59** Financial planning is linked with strategic and service planning over the medium term. There is no clear evidence of engagement with local communities and stakeholder consultation during the financial planning process was limited. Financial training and improved monitoring arrangements have resulted in members and service managers becoming more involved in financial planning and budgetary control.

Use of resources

- 60 The Council has met its efficiency target for the year and new exercises are being undertaken to identify efficiency savings (including the use of 'Mietool' to plan and evaluate projects and a new project management framework). Costs for key services are compared to other councils and private sector providers. Additionally an efficiency and VFM programme for the Council was developed to identify the best possible use of resource available to them to produce services. The Place Survey reveals higher than average satisfaction rates amongst local residents in Brentwood.
- 61 The Council monitors its financial position regularly. However, reports to budget holders and members are not always at the right level and they do not take a corporate overview. As a result, during 2008/09 there was minimal corporate knowledge of the significant budget gap. It is unclear how performance and financial data are combined to show value for money and performance against priorities. The Council is now developing its finance and performance systems to do this and provide evidence of value for money and performance against priorities.
- 62 The 2008/09 financial statements were not prepared by the statutory deadline of 30 June due to problems in producing reliable and robust data from the Council's financial systems, and external support was brought in to address the shortcomings. The financial statements were not approved by the Audit Committee until 12 August 2009. Subsequently, our audit of the financial statements found significant problems and there was a lack of working papers to support key entries and balances, to the extent that a disclaimer opinion has been issued.

Governing the business

- 63 The Council works collaboratively to procure effectively and has a good understanding of the supply market. Procurement options are evaluated and services such as Pest Control have been market tested. There are further plans to market test the Revenues and Benefits service. The Council uses an evaluation matrix covering such factors as price, quality and financial stability. There are clear priorities for the Council and these have been adopted by the Local Strategic Partnership (LSP).
- 64 The framework for data quality in the Council is in place but it is not clear how far the Council uses information to manage partnerships. New performance reporting enables both data quality and corporate and service performance issues to be addressed and identified.
- 65 Internal Audit undertook a review of Data Quality in April 2009 and gave a Limited Assurance opinion based on the lack of software encryption, absence of a Data Quality Strategy and there is no process in place to ensure that Freedom of Information requests have been actioned within the statutory 20 working day limit. A data security policy is not in place to define what is classed as sensitive data, outline the need to comply with the Data Protection Act and comply with the requirements of Government Connect.

- 66** The Council has a sound governance framework in place and overall members and officers work well together. The approach to risk management is improving but as yet clear outcomes are unknown. There are no arrangements to manage risks arising from partnerships however these will be in place in the future. Internal audit lacked impact during 2008/09 owing to cultural issues at the Council and former senior managers. The Council have a new internal audit service provided by Essex County Council from 1 April 2009.
- 67** Basic control weaknesses were revealed as part of our interim audit for example purchase orders not raised, lack of authorised signatory list and absence of bank and control account reconciliations. During 2008/09 there was no separate audit committee, although one has now been established.

Managing resources

- 68** The Council is investing in the culture and skills of its workforce. There is a large Organisational Development programme in place with emphasis on training and communications. However, the outcomes and improvements in performance and culture are not yet apparent and the Council lacks a full analysis of the gaps in skills.
- 69** Training helps deliver corporate priorities. A training and development plan has been produced with resources identified against each priority. Workforce planning is rolling out but is not fully integrated with corporate plans and has yet to be embedded at the service level.
- 70** Senior management effectively manage and support organisational change and has involved the workforce. Staff surveys have been undertaken and there are forums for staff discussion and engagement.
- 71** The Council is making limited progress in improving its approach to diversity. Although it has improved its adherence to equalities legislation, action plans to support the delivery of these schemes are weak in relation to targets and expected outcomes. An effective participation strategy has not yet been completed. Pay systems do not meet equal value legislation and the Council has not carried out a single status review.

Value for money conclusion

- 72** I assess 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.

Use of resources

73 I have identified weaknesses in your arrangements in four out of the eight areas assessed, as follows.

- The Council failed to put in place appropriate arrangements for the preparation of its financial statements for the year ended 31 March 2009 in consequence of which I was unable to obtain sufficient appropriate audit evidence and have issued a disclaimer of opinion on the financial statements.
- Data security arrangements are weak and staff are unaware of data quality requirements.
- Basic control weaknesses were identified as part of my audit, for example failure to raise purchase orders and failure to carry out bank and control account reconciliations. Risk management arrangements are weak with no arrangements to manage risks arising from partnerships.
- Workforce planning is not fully integrated with corporate plans and has yet to be embedded at the service level and the Council lacks a full analysis of gaps in skills.

74 I have issued an adverse qualified conclusion stating that the Council did not have adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.

Review of Diversity Progress

75 A review of diversity progress was undertaken during 2008/09. The work was undertaken to assess the Council's progress developing its approach to service accessibility and diversity, including compliance with statutory requirements.

76 The key findings from the review were as follows.

- Access arrangements are improving. Some improvements have been made to access arrangements through the Town Hall, information centre and website. More services are now available electronically. Extended opening hours for one service have been trialled but found not to be cost effective.
- The Council has improved its adherence to equalities legislation. It now has up-to-date gender, race and disability equality schemes. Although the action plans to support the delivery of these schemes are weak in relation to targets and expected outcomes. An effective participation strategy has not yet been developed.
- The Council is taking a proactive approach to diversity awareness for officers. However, its approach to improving Councillors awareness is not yet so well developed. It has appointed a consultant to help build Councillors competency and understanding.
- The Council is not yet aware of its diverse communities. However, it is developing a customer information database to help develop its knowledge.

- The Council is not achieving its own targets. The Council has not yet developed an effective participation strategy. Such a strategy is required under the equality standard in recognition that working with community groups in the design and delivery of services requires much more than a consultation exercise; there needs to be positive engagement. The Council is also unlikely to achieve its objective set out in its Corporate Performance Plan 2008/09 to achieve level 3 during 2008/09. The race equality action plan shows the target date as being 1 October 2008. This was not achieved.
- Performance regarding equality and diversity performance indicators (PIs) for the Council's workforce is weak. It is only in the top 50 per cent of councils nationally in relation to the percentage of its staff with disabilities. It is in the bottom 25 per cent of councils nationally for the percentage of staff from BME communities and top earners who are women.

Closing remarks

- 77** I have discussed and agreed this letter with the Chief Executive, the Executive Director (Resources) and the Head of Resources. I will present this letter at the Audit Committee on 26 January 2010 and will provide copies to all members.
- 78** Further detailed findings, conclusions and recommendations in the areas covered by the audit are included in the reports issued to the Council during the year.

Table 3

| Report | Date issued |
|--|-------------------------|
| Audit and inspection plan | April 2008 |
| Supplementary Audit Opinion Plan | February 2009 |
| Interim Audit Report | May 2009 |
| Review of Diversity Progress | May 2009 |
| Use of resources report | October 2009 |
| Annual Governance Reports | October - December 2009 |
| Opinion on financial statements | December 2009 |
| Value for money conclusion | December 2009 |
| Organisational Assessment and Managing Performance | December 2009 |
| Annual audit letter | February 2010 |

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- 79** 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.

Paul King
District Auditor
February 2010

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.

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