

# Annual Audit Letter

Canterbury City Council

Audit 2008/09

December 2009



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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.**

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## Audit Opinion

- 1 The 2008/09 audit is now complete. I issued an unqualified opinion on the financial statements and on the Council's value for money arrangements on 25 September 2009.
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## Financial Statements

- 2 The financial statements were approved by the General Purposes Committee on 29 June 2009, following consideration by the Audit Committee on 22 June 2009. Officers presented a comprehensive set of accounts and provided detailed explanations to members of the committees.
  - 3 A small number of minor matters arising during the audit were set out in the Annual Governance Report presented to the Audit Committee on 21 September 2009 and also to the General Purposes Committee on 24 September 2009.
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## Value for money

- 4 Based on the results of my work undertaken in relation to the Council's arrangements to secure economy, efficiency and effectiveness in the use of its resources, I issued an unqualified value for money conclusion for the year ended 31 March 2009.
  - 5 The Council has good arrangements in place to manage its finances, govern the business and manage other resources. It has performed well across a range of areas and delivered good outcomes for local people.
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## Actions

- 6 The Council has performed well but in common with other district councils, its financial position is challenging. Funding levels are likely to decline in real terms and officers and Members recognise the need to make significant efficiency savings. Tight financial management will continue to be vital, as will the success of the planned joint working across East Kent. Against this backdrop, my recommendations are as follows:
    - Continue work with partners to develop arrangements for joint working across East Kent, ensuring that appropriate governance arrangements are in place and that the new arrangements are used as a platform to deliver better services for local people; and
-

- Ensure financial management continues to be sufficiently robust to deal with the uncertainties and changes facing local government nationally and Canterbury locally.

# Financial statements and annual governance statement

**The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.**

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## Matters arising from the audit

- 7 I issued an unqualified opinion on the Council's accounts on 25 September 2009. In my opinion, the financial statements present fairly the financial position of the Council as at 31 March 2009 and its income and expenditure for the year then ended.
  - 8 I reported on the detailed matters arising from the audit to the Audit Committee on 21 September and to the General Purposes Committee on 24 September. The Council's accounts were produced to a high standard, with only a small number of adjustments required and strong working paper trails to support the financial statements.
  - 9 I did not identify any significant weaknesses in the Council's internal control arrangements which might result in a material error in the financial statements, or any weaknesses in the qualitative aspects of the Council's financial reporting. I am also satisfied that the annual governance statement complies with CIPFA requirements and is consistent with my knowledge of the Council.
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## Other matters - Impact of the economic downturn

- 10 During my review of the accounts, I noted the following other matters:

### Treasury Management

- 11 The Council had £6 million invested in two Icelandic banks, Heritable and Glitnir. These investments were due for repayment at dates between December 2008 and March 2009. In October 2008, the banks were placed in administration/receivership, and the Council has recognised in its accounts a potential impairment (loss) of £1,463,000 of principal and interest in accordance with CIPFA guidance. These investments complied with the Council's approved treasury management policy at the time when they were made, and the Council has reviewed its policy following the banking crisis to ensure that security of its funds continues to receive high priority when investment decisions are made.

### Asset valuations

- 12 As a result of falling market values of buildings and land, the Council has recognised in its 2008/09 accounts impairments (reductions in value) of £51 million in the value of its housing stock and £12 million in the value of other fixed assets. The book value of the Marlowe Theatre was also written down by £8.6million due to its closure for redevelopment.
- 13 I am satisfied that the Council has accounted properly for both the above issues in the financial statements. These issues highlight however the effect that the economic downturn is having on public finances and the bodies that manage them. Due to the impact of the recession and the pressure on public finances, the ability of councils to fund planned service delivery and capital programmes will be severely challenged. Continued robust financial management will be essential if the Council is to deliver the services it aspires to over future years.

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# 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.

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## Use of resources judgements

- 14 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.
- 15 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.
- 16 The Council's use of resources theme scores are shown in Table 1 below. These have been subject to our national quality assurance process. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 2.

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**Table 1** Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	2
Managing resources	3
<b>Overall</b>	<b>3</b>

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- 17 In overall terms I have assessed Canterbury as performing at level 3, which means that sound arrangements are in place across all the key lines of enquiry which I reviewed, and these are underpinning the delivery of strong outcomes for local people, but it has demonstrated some good areas of strength, which I outline below.

- 18 Key areas of strength demonstrated by the Council include the following:
- Understanding costs and achieving efficiencies: The Council has a good understanding of its cost base and provides high quality service outcomes in most areas. Good use is made of whole life costing decisions, for example for the Marlowe theatre.
  - Commissioning and procurement: The Council works well with its partners and local suppliers and has delivered efficiency savings through better procurement.
  - Governance, risk management and internal control: Both Members and officers demonstrate high standards of governance and accountability. Risk management arrangements work well and inform good decision making. The Audit Committee is effective and Internal Audit provide a good and wide ranging level of assurance.
  - Workforce planning: Performance management arrangements are strong and the Council has a good track record in terms of workforce development.
- 19 The key challenge for the Council is that, like other district councils, Canterbury faces a very challenging financial position going forward. The Council currently has a sound balance sheet with funds available to support future investment. However, in real terms, income is projected to fall in future years and officers and Members already recognise the need to prioritise and to make savings. Efficiencies are planned through an extensive programme of joint working with partners in East Kent and the success of this will be critical in helping the Council to maintain a secure financial position and to deliver planned service improvements.
- 20 Key recommendations for the Council are to:

**Recommendation**

**R1** Continue work with partners to develop arrangements for joint working across East Kent, ensuring that appropriate governance arrangements are in place and that the new arrangements are used as a platform to deliver better services for local people.

**R2** Ensure financial management continues to be sufficiently robust to deal with the uncertainties and changes facing local government nationally and Canterbury locally.

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**Other local risk based work**

- 21 We have completed our 2008/09 Kent-wide review of health inequalities. Presentations have been delivered to the Kent Public Health Board and local Health and Wellbeing Boards across Kent.
- 22 We found that the Canterbury Health and Wellbeing Panel has a good understanding of local communities and were aware of the facilities needed in certain areas, eg a wellbeing centre for Herne Bay. Work is under way to give people more access to facilities to help them have healthy lifestyles, eg partners have invested in improving leisure centres, and 'Active' programmes have encouraged more people to get involved in trying different sports. In considering ways to bring about success in reducing health inequalities, three key barriers were identified:

## Value for money and use of resources

- allocation and adequacy of resources;
- prioritisation; and
- communication with communities.

23 An action plan has been developed with the Panel to tackle these areas.

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### VFM Conclusion

24 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. My conclusions on each of the areas are set out in Appendix 2.

25 I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

# Closing remarks

- 26 I have discussed and agreed this letter with the Chief Executive and the Director of Corporate Services. I will present this letter at the Audit Committee on 30 November 2009 and copies should be provided to all members.
- 27 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.
- 28 The Council has taken a positive and constructive approach to our audit. I wish to thank Council staff for their continued support and co-operation during the audit.

Andy Mack  
District Auditor  
October 2009

# Appendix 1 – UoR underlying principles of performance

<b>Level 2</b> <b>Meets only minimum requirements – performs adequately</b>	<b>Level 3</b> <b>Exceeds minimum requirements – performs well</b>	<b>Level 4</b> <b>Significantly exceeds minimum requirements – performs excellently</b>
<p>Arrangements, that are consistent with established professional practice and guidance, meet statutory requirements and operate effectively.</p> <p>Arrangements sufficient to address the KLOE demonstrating, for example: organisational leadership and commitment; partnership working; and appropriate capacity and skills informed by priorities with supporting action plans as appropriate.</p> <p>Arrangements that achieve minimum acceptable levels of performance.</p>	<p>Implemented effective arrangements that are:</p> <ul style="list-style-type: none"> <li>• forward looking and proactive in identifying and developing opportunities for improvement; and</li> <li>• include more sophisticated measuring and assessment techniques.</li> </ul> <p>Outputs and outcomes demonstrate arrangements which are effective and have the intended impact. Where appropriate, the arrangements show evidence of effective partnership working.</p> <p>Evidence of performing consistently above minimum acceptable levels and achieving value for money.</p>	<p>Demonstrating innovation or best practice.</p> <p>Demonstrating strong outcomes for the community including through partnership working.</p> <p>Evidence of performing well above minimum acceptable levels and achieving excellent value for money.</p>

# Appendix 2 – UoR key findings and conclusions

The following tables summarise the key findings and conclusions for each of the three Use of Resources themes.

## Managing finances

<b>Theme score - 3</b>
<b>Key findings and conclusions</b>
<p>Financial planning and health: The Council's financial planning process ensures that financial resources are allocated to corporate priorities. Financial planning risks are identified and strategies to overcome them are in place. The budget setting process is timely, budget management is good and savings are being delivered in response to the economic downturn. Community consultation has helped shape financial planning and support resource decisions. Senior officers and members demonstrate a good level of financial leadership.</p> <p>Understanding costs and performance: The Council has an overall picture of its comparative cost and performance which helps it to prioritise service planning and review. High quality outcomes are provided in most services. Targets for efficiency savings are being delivered consistently. The Council is working with East Kent partners to plan service quality improvements in a cost-effective way.</p> <p>Financial reporting: The Council has good financial monitoring and forecasting processes to identify variances, enable corrective action and support decision making. The Council's accounts are prepared on a timely basis, with few errors, statutory deadlines and standards have been met and working papers are of good quality. Accounts and other reports are available on its website and draft policies are published for consultation ensuring effective engagement with the public.</p>

## Appendix 2 – UoR key findings and conclusions

<b>KLOE 1.1 (financial planning)</b>	<b>Score - 2</b>
<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>Resources are allocated to corporate priorities</li> <li>Community consultation helps shape financial planning (eg capital programme)</li> <li>Budget management is good and savings are being made in response to the economic downturn</li> </ul> <p><b>Issues to consider</b></p> <ul style="list-style-type: none"> <li>Reconsider priorities for future spending</li> <li>Consider the impact of shared services and partnership working on future capacity and planned savings</li> </ul>	
<b>KLOE 1.2 (understanding costs and achieving efficiencies)</b>	<b>Score - 3</b>
<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>The Council has a good understanding of its costs and relative performance</li> <li>High quality outcomes are provided in most service areas</li> <li>Capital investment decisions are supported by whole life costing (eg Marlowe Theatre and Wave Crest car park)</li> <li>Efficiency targets are being delivered consistently</li> </ul> <p><b>Issues to consider</b></p> <ul style="list-style-type: none"> <li>How to deliver improved efficiency while maintaining performance, especially during the economic downturn?</li> </ul>	
<b>KLOE 1.3 (financial reporting)</b>	<b>Score - 3</b>
<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>Good processes are in place for financial monitoring and forecasting, accounts preparation and scrutiny</li> <li>Good engagement with public over policies for consultation, eg environmental policies update</li> </ul> <p><b>Issues to consider</b></p> <ul style="list-style-type: none"> <li>Greater scope for the use of risk and sensitivity analysis in financial monitoring?</li> </ul>	

**Governing the business**

<p><b>Theme score - 2</b></p>	
<p><b>Key findings and conclusions</b></p>	
<p>Commissioning services: The Council has a Procurement &amp; Partnering Strategy in place, which contains an action plan for priorities for procurement. There are good arrangements to inform businesses about procurement arrangements and encourage bids. Service reviews have led to planned savings in procurement of stationery, etc. A structured approach to procurement is in place - joint arrangements are used where appropriate to support limited internal resources. The Council is working with partners to identify VFM opportunities through joint working.</p> <p>Data quality: The Council has sound policies and systems in place to produce relevant and reliable data, and data security arrangements are sound. Data quality risks are assessed by management and improvements implemented. Performance reports are actively used in the decision making process. Improvements to services have been demonstrated as a result of the performance management system. Data quality protocols need to be extended to cover local partners.</p> <p>Governance: The Council has a sound governance framework. All expected codes, constitutional arrangements and procedures operate effectively. Governance principles are supported by members and management with appropriate training and development. The Council has a clear corporate vision, and good arrangements are in place to respond to complaints. Governance arrangements for local partnership projects are overseen by a joint committee.</p> <p>Risk management: The Council's risk management arrangements operate effectively, and members and staff receive appropriate training. The risks of significant partnerships are managed proactively. The Audit Committee and internal audit functions are effective, and systems of internal control are sound. The Council has a strong anti-fraud culture and publicises the results of benefits fraud investigations in the local press.</p>	

## Appendix 2 – UoR key findings and conclusions

<b>KLOE 2.1 (commissioning and procurement)</b>	<b>Score 3</b>
<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Good arrangements to inform businesses about procurement arrangements and encourage bids – for example ‘Meet the Buyer’ events</li> <li>• Efficiency reviews across services have led to significant savings</li> <li>• Effective approach to partnership working and local suppliers.</li> </ul> <p><b>Issues to consider</b></p> <ul style="list-style-type: none"> <li>• Work with partners to procure more cost effective services for the people of East Kent?</li> </ul>	
<b>KLOE 2.2 (data quality and use of information)</b>	<b>Score 2</b>
<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• The Council has sound policies and systems in place to produce relevant and accurate data</li> <li>• Performance reports are used in the decision making process when service improvements are planned</li> <li>• Data security arrangements are sound and effective training has been provided for staff.</li> </ul> <p><b>Issues to consider</b></p> <ul style="list-style-type: none"> <li>• How can data quality protocols be extended to cover local partners?</li> </ul>	
<b>KLOE 2.3 (good governance)</b>	<b>Score 2</b>
<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Established constitution with clearly defined roles and responsibilities</li> <li>• Codes of conduct for members and officers which follow best practice</li> <li>• Robust audit committee</li> </ul> <p><b>Issues to consider</b></p> <ul style="list-style-type: none"> <li>• How well do the governance and scrutiny arrangements for partnership working enable the potential efficiencies and service outcomes to be realised?</li> <li>• To what extent can members demonstrate visibly the values of good governance? (National issue - lack of public trust)</li> </ul>	

<b>KLOE 2.4 (risk management and internal control)</b>	<b>Score 3</b>
<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Good risk management and internal control arrangements</li> <li>• Significant partnership risks are proactively managed</li> <li>• Joint internal audit function across East Kent is resulting in shared good practice and efficiencies</li> <li>• Strong anti-fraud culture in place - benefits fraud cases publicised</li> </ul> <p><b>Issues to consider</b></p> <ul style="list-style-type: none"> <li>• How does the Audit Committee gain assurance that agreed actions are implemented?</li> </ul>	

## Managing resources

<b>Theme score - 3</b>	
<b>Key findings and conclusions</b>	
<p>Workforce: The Council's workforce planning is effective. Competencies have been identified and are used to inform service planning. Recruitment arrangements are sound. Performance is appraised, and sickness absence managed effectively. There are good mechanisms in place to support organisational change, and staff suggestions are acted upon and have generated savings and improvements. Staff survey results are positive. Workforce development plans for the medium term have been developed and will be updated in partnership across East Kent.</p>	
<b>KLOE 3.3 (workforce planning)</b>	<b>Score - 3</b>
<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Workforce planning has been used effectively to reduce skill and capacity gaps and to improve staff satisfaction</li> <li>• Effective management has led to a reduction in days lost due to sickness</li> <li>• Improvement suggestions from staff led to efficiency savings of £1.3m in 2008/09</li> </ul> <p><b>Issues to consider</b></p> <ul style="list-style-type: none"> <li>• How resilient are staff resources? Is capacity sufficient to deliver all long term plans?</li> <li>• Is workforce planning sufficiently robust to deal with the many uncertainties and changes facing local government nationally, and Canterbury locally, notably the impact of the recession, reduced government funding and the impact of increased partnership working?</li> </ul>	

# Appendix 3 – Action plan

Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Annual Audit Letter 2008/09 Recommendations</b>					
R1 Continue work with partners to develop arrangements for joint working across East Kent, ensuring that appropriate governance arrangements are in place and that the new arrangements are used as a platform to deliver better services for local people.	2	Colin Carmichael	Yes	<p>Canterbury continues to play a key role in the development of shared services – the Chief Executive chairs the East Kent Chief Executives Forum and two officers take part in the project group developing the strategic case for shared services.</p> <p>Milestones planned.</p> <ul style="list-style-type: none"> <li>• Report to EKJAC on hosted shared services – 18 December 2009.</li> <li>• Report to each council's Executive and Council - Feb to Mar 2010.</li> <li>• Report by consultant on review of shared services arrangements provided to Canterbury's Head of Legal and Democratic Services. Key recommendation related to speedier decision making and this has been incorporated into the report on hosted shared services.</li> <li>• Head of Legal and Democratic Services to report other elements to EKJAC by March 2010.</li> </ul>	Continuing

Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
R2 Ensure financial management continues to be sufficiently robust to deal with the uncertainties and changes facing local government nationally and Canterbury locally.	2	Colin Carmichael and Jim McDonald	Yes	Milestones planned. <ul style="list-style-type: none"> <li>• Balanced budget and projected budget for 2010/11 and 2011/12 to be approved by council in February 2010.</li> <li>• Budget monitoring reported to Executive on a quarterly basis.</li> </ul>	Continuing

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# Appendix 4 – Audit fee

1 The table below reports the projected outturn fee against the 2008/09 audit plan.

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## 2008/09 audit fees

<b>Audit area</b>	<b>Planned fee 2008/09</b> <b>£</b>	<b>Actual fee 2008/09</b> <b>£</b>
Financial statements	81,233	81,233
Use of resources	27,263	27,263
Total audit fee	108,496	108,496
Total inspection fee	6,569	6,569
Total audit and inspection fee	115,065	115,065

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# 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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