

# Annual Audit Letter

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Christchurch Borough Council

Audit 2008/2009

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 We issued an unqualified audit opinion on the financial statements for 2008/09 on 23 September 2009.

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## Financial statements

- 2 The financial statements were prepared promptly and supporting working papers were of a reasonable standard.
- 3 Our audit identified one material error and a number of non-material errors, each of which was amended before we issued our audit opinion (with one relatively minor exception).

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## Value for money

- 4 My audit report of 23 September 2009 included a qualified value for money conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources, except for the adequacy of its risk management arrangements and its arrangements for business continuity planning.

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## Audit Fee

- 5 Our audit fee for 2008/09 is set out in table 1 below.

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**Table 1**      **Audit fees**

	<b>Actual</b>	<b>Planned</b>	<b>Variance</b>
Financial statements and annual governance statement	61,091	61,091	0
Value for money	25,657	25,657	0
<b>Total audit fees</b>	86,748	86,748	0
<b>Non-audit work</b>	0	0	0

### Actions

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

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### Independence

- 7 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

# Financial statements and annual governance statement

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

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## Significant issues arising from the audit

- 8 Our audit identified one material error which related to the impairment of fixed assets. The Council opted to use the results of the five year revaluation process which were not available at the time of approval of the accounts in June 2009.
- 9 This approach led to the need for significant impairments to some land and property asset valuations as disclosed in the initial draft financial statements, affecting both operational and non operational investment property. The final financial statements were amended to reflect these impairments.
- 10 The impairments reduced the value of operational assets held in the balance sheet and in Note 20 to the accounts by £2.3 million. They also increased net operating expenditure for the year by £1.9 million, but the balance on the general fund remained unchanged as the adjustment to the income and expenditure account was reversed out through the Statement of Movement on the General Fund Balance.
- 11 The Council decided to reflect the impairment in non operational investment property of £1.8 million through a newly-established separate Revaluation Reserve for Investment Properties, in accordance with the SORP. This does not affect the income and expenditure amount.
- 12 The amendments as a result of the impairment of fixed assets had no impact on the charge to council tax payers.
- 13 In addition we identified a number of non-material errors. All were amended by management except for a prior period adjustment (PPA) relating to the revaluation of the pension fund.
- 14 Officers took the view that the way they had chosen to disclose of the PPA was more informative. The amount was not material although technically the PPA should not have been applied.

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## Material weaknesses in internal control

- 15 As part of our audit work across Dorset and to aid consistency, we have discussed the controls over journal transfers with the Head of Financial management and her staff. We consider that controls throughout the year are adequate but internal control could be improved if year end journals were authorised. At the moment, year end journals are not reviewed or considered by anyone other than the preparer.

### Recommendation

- R1** We recommend that year end journal transfers of over £100,000 are reviewed by the Head of Financial management to improve internal control. The date of the review should be recorded.

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### Accounting Practice and financial reporting

- 16** I considered the qualitative aspects of your financial reporting.
- 17** Officers have agreed that the Council will improve the referencing and audit trail of its supporting working papers, which should help us improve the efficiency of our audit and reduce the need for supplementary follow up enquiries of officers.

### Recommendation

- R2** The referencing and audit trail of supporting working papers to the accounts should be improved.

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### International Financial Reporting Standards (IFRS)

- 18** The Council's financial statements for 2010/11 will for the first time be produced under IFRS. This has significant implications for the Council in terms of the need to restate a number of complicated features of its accounts such as leases to meet the new requirements.
- 19** The Council has started the process of identifying the impact of these new accounting standards on its accounts. However at the current time the Council has not developed a project plan to identify what it needs to do, especially in terms of assessing its leases.
- 20** In practice the Council has already started to collect the necessary data such as details of untaken employee leave at 1 April 2009 to help it prepare for the restatement of opening balances. It will need to do more over the next year and should set some milestones for obtaining and analysing key information and how it reports progress to Members.

### Recommendation

- R3** The Council should set milestones for the implementation of IFRS, and should periodically report progress to Members.

### Financial Health

- 21** The economic downturn and banking crisis are having a significant impact on public finances and the bodies that manage them. The impact on treasury management strategies has been immediate, but there are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams. There are further challenges for policy priorities where patterns of demand for services are changing.
- 22** This impacts on the audit. As part of my responsibilities I have reflected on the wider environment, specific issues and risks. While the Council has not suffered impairment of the value of its investments it will need to remain vigilant and to keep its treasury management under review.

# 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

- 23** 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.
- 24** 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.
- 25** The Council's use of resources theme scores are shown in Table 2 below. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 1.

**Table 2** Use of resources theme scores

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

- 26** The Council has sound financial management policies and procedures. It integrates its financial and corporate planning processes with strategic planning, and the treasury management policy achieves a balance between liquidity, security, and yield.

## Value for money and use of resources

- 27** The Council demonstrates the principles of good governance with the exception of the need to improve its risk management procedures. It has a good understanding of its communities and overall delivers services within a low Council tax environment and with high levels of public satisfaction.
- 28** Only one theme has been assessed this year under managing resources and this is workforce planning. We concluded that the Council actively manages its workforce skills.

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### VFM Conclusion

- 29** 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 1.
- 30** I identified weaknesses in the Council's arrangements for risk management. The risk register needs to be updated and risk management policies improved. The Council has accepted the need for this and has begun the process of making improvements, but more work needs to be done to implement these.
- 31** I therefore issued a qualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources except in the areas relating to risk management and the business continuity plan.

Recommendation
<b>R4</b> The Council should improve its risk management procedures in accordance with its plans.

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### Partnership working

- 32** Dorset councils are working together as part of the Pathfinder programme which is intended to improve efficiency and resilience and reduce costs of service delivery across the public sector organisations in the county.
- 33** Christchurch Borough Council is already involved in successful partnership working with other local authorities in respect of Internal Audit. It has also been working toward a shared revenues and benefits service with North Dorset and East Dorset District Councils which is expected to commence on 1 October 2010. There has also been some progress towards a joint waste partnership and procurement approach across Dorset.
- 34** Tangible outcomes across the whole county on a larger scale have however so far been slow to develop.

- 35** In recognising this and against an increasingly challenging financial background and recently-assigned 'Total Place' status, leaders and chief executives of the County Council and the six Dorset districts have met recently to discuss options for more radical solutions.
- 36** The recommended option was for a two 'cluster' model of shared managerial arrangements and officer structures. Under current proposals, Christchurch Borough Council would form part of the Eastern cluster with North Dorset and East Dorset District Councils. Dorset County Council structures will remain as at present. The county-wide savings target is currently set at £4.5m in each year from 2013/14, with significant efficiencies likely from 2011/12.

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# Closing remarks

- 37** I have discussed and agreed this letter with the Chief Executive and the Head of Finance. I will present this letter at the Resources Committee on 10 February 2010 and will ask for copies to be provided to all elected members.
- 38** 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.

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**Table 3**

<b>Report</b>	<b>Date issued</b>
Audit plan 2008-2009	25/06/2008
Annual governance report	23/09/2009

- 
- 39** 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.

Martin Robinson  
District Auditor  
December 2009

# Appendix 1 – Use of resources 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 = 2</b>	
Key findings and conclusions	
The Council has sound financial management policies and procedures. It integrates its financial and corporate planning processes with strategic planning and treasury management achieves a balance between liquidity, security, and yield	
<b>KLOE 1.1 (financial planning)</b>	
<b>Score</b>	<b>2</b>
<b>VFM criterion met</b>	<b>Yes</b>
Key findings and conclusions	
The Council integrates financial and corporate planning processes with strategic planning covering income, assets, capital, IT and HR. The medium term financial strategy (MTFS) matches the priorities identified within the corporate business plan with resources available. The 2009/10 budget, approved on 11 February, was comprehensive, balanced and realistic and was supported by achievable savings plans.	
Treasury management (TM) balances liquidity, security, and yield. Performance is monitored against the TM strategy and outcomes match benchmarks set out in the strategy. TM was reviewed by Resources Committee in February 2009. CBC tightened its lending criteria nearly two years ago to exclude the Icelandic banks.	
The financial planning process details the need for adequate reserves determined by a risk assessment carried out by the Head of Financial Services. The Council demonstrates outcomes of a good financial planning process including timely and efficient completion and approval of the annual budget.	

## Appendix 1 – Use of resources key findings and conclusions

<p><b>KLOE 1.2 (understanding costs and achieving efficiencies)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>	<p><b>2</b></p> <p><b>Yes</b></p>
<p>Key findings and conclusions</p> <p>The Council has an understanding of its costs and cost drivers. Overall it is a small and efficient organisation that maintains low council tax and achieves high levels of satisfaction. It has sound processes for examining its investment decisions and is able to take account of their wider impact. Budgets and performance management information are monitored on a regular basis and reported to Management Board and committee. Business cases are required to support requests for additional resources to improve performance.</p> <p>Work with the Dorset Pathfinder project is identifying opportunities for greater partnership working and efficiencies but these are largely yet to be delivered.</p> <p>A number of bespoke benchmarking exercises have taken place, but the Council makes limited use of routine benchmarking on costs and performance. The concentration on Dorset Pathfinder initiatives has meant that other services have not yet been benchmarked, including back office services. Information on performance and costs are not being linked consistently.</p>	
<p><b>KLOE 1.3 (financial reporting)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>	<p><b>2</b></p> <p><b>Yes</b></p>
<p>Key findings and conclusions</p> <p>Budget monitoring and forecasting information is reliable, relevant, and understandable. It is produced regularly and on a timely basis throughout the year, and leads to prompt action to address any variances or other issues. Monthly management accounts are not produced. Financial systems enable budget holders to review the position of individual budget headings although monthly management accounts are not produced.</p> <p>Variations in financial performance are identified and forecast financial outturn for the year is determined promptly. Trend analysis is used in a number of ways to produce outturn forecasts, for example in predicting the amount of investment income that will be generated.</p> <p>Accounts are prepared in line with statutory timetables and are supported by working papers. The 2008-09 accounts were better presented than the 2007-08 accounts although some improvements to working papers could be made. Accounts are presented for approval with supporting information and are subject to scrutiny, but an annual report is not produced.</p>	

**Governing the business**

<b>Theme score = 2</b>	
Key findings and conclusions	
The Council demonstrates the core principles of good governance with the exception of the need to improve its risk management procedures. It has a good understanding of its communities and overall delivers services within a low council tax environment and with high levels of public satisfaction.	
<b>KLOE 2.1 (commissioning and procurement)</b>	
<b>Score</b>	<b>2</b>
<b>VFM criterion met</b>	<b>Yes</b>
Key findings and conclusions	
<p>The Council has a good understanding of its communities and overall delivers services within a low tax environment and with high levels of public satisfaction. It is actively involved in the Dorset Pathfinder project which is exploring opportunities for increased efficiencies between the Dorset councils although the Council also remains open to alternative provider arrangements. Revenues and Benefits departments in the west of the county are already working together and the Council intends to join with other districts in the east to form a similar cluster.</p> <p>The Council makes limited use of comparative cost and performance information to measure VFM and improvements over time.</p> <p>A procurement policy is in place but is not yet linked to the sustainable community strategy (SCS) for the County. The Council has adequate processes in place to ensure that major developments are put out to tender. Decisions are made on quality grounds not just cost considerations.</p>	
<b>KLOE 2.2 (data quality and use of information)</b>	
<b>Score</b>	<b>2</b>
<b>VFM criterion met</b>	<b>Yes</b>
Key findings and conclusions	
The Council produces relevant and reliable data and works with partners to secure data quality. It has effective arrangements for data collection, with documented data quality policies and clear responsibilities and robust processes for recording and reviewing data. The Council works well with partners to ensure shared data is reliable and fit-for-purpose. It has signed the county-wide protocol for data sharing.	

## Appendix 1 – Use of resources key findings and conclusions

<p>Members and officers receive fit-for-purpose information to support decision making in the context of a small district council. Scrutiny committee receives routine quarterly and annual reports. The Council used the new national indicator set to refine how it reports on performance. Effective use is made of data to identify poor performance as a basis for actions to improve it. Account is taken of user preferences in presenting information and equalities issues are routinely considered.</p>	
<p><b>KLOE 2.3 (good governance)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>	<p><b>2</b></p> <p><b>Yes</b></p>
<p>Key findings and conclusions</p> <p>The Council demonstrates the core principles of good governance. The constitution describes the roles and responsibilities of council members, the scrutiny function, the chief executive and senior officers, and sets out the scheme of delegation. The constitution is reviewed on a regular basis and updated when required. There is good evidence of constructive working relationships between members, the corporate management team and staff.</p> <p>The Council’s leadership has a clear vision of what it wants to achieve for its local community as set out in the corporate plan. This was developed following consultation with stakeholders and local people including those who are traditionally more difficult to engage with.</p> <p>The corporate plan has seven key themes which have been identified as affecting the quality of life in the Borough. For each theme, specific objectives have been set supported by service plans covering all of the functions of the Council.</p> <p>The council has adopted a code of conduct based on the statutory model for members. The constitution contains policies and actions required of staff. These include standing orders and financial regulations, officers’ code of conduct, protocol for member officer relations, whistle blowing policy, protocol for the monitoring officer, anti-fraud and corruption policy, officer employment procedure rules, complaints procedure, gifts and hospitality protocol.</p>	

## Appendix 1 – Use of resources key findings and conclusions

<p><b>KLOE 2.4 (risk management and internal control)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>	<p><b>1</b></p> <p><b>No</b></p>
<p><b>Key findings and conclusions</b></p> <p>Previous assessments concluded that insufficient progress has been made on risk management (RM). RM scored 1 in the previous UOR assessment. Both the RM strategy and register require reviewing and updating. The council has an 'old' register adopted in 2005 which it continues to consider although an updated risk register is much needed.</p> <p>The Resources Committee approved an updated RM Policy in September 2008 and an external consultant appointed to provide training and guidance on the identification, recording and monitoring of significant risks. At present the Council's RM policies are developing rather than in place. Neither members nor officers have yet had relevant training and guidance in risk management.</p> <p>Risks relating to partnership arrangements are detailed individually and each has its own risk register. The council has an anti-fraud and corruption policy as part of its constitution. The constitution also contains policies and protocols on conduct, gifts &amp; hospitality, whistle blowing and the local code of corporate governance. There is also a policy on combating benefit fraud.</p> <p>The core functions of an audit committee are delivered by the resources and scrutiny committees. The council's local code of governance was revised and updated in early 2008/09 and approved in June 2008. The local code of governance is part of the council's constitution.</p>	

## Appendix 1 – Use of resources key findings and conclusions

### Managing resources

<b>Theme score = 2</b>	
Key findings and conclusions	
Only one theme has been assessed this year and this is workforce planning. We concluded that the Council actively manages its workforce skills.	
<b>KLOE 3.1 (use of natural resources)</b> <b>Score</b> <b>VFM criterion met</b>	<b>Not assessed this year</b>
<b>KLOE 3.2 (strategic asset management)</b> <b>Score</b> <b>VFM criterion met</b>	<b>Not assessed this year</b>
<b>KLOE 3.3 (workforce planning)</b> <b>Score</b> <b>VFM criterion met</b>	<b>2</b> <b>Yes</b>
Key findings and conclusions	
<p>The Council actively manages its workforce skills and it is an liP accredited employer. There are currently no skills or capacity gaps identified through the Staff Review &amp; Development Scheme. It has a well established performance management system reporting regularly against a chosen suite of key PIs. There are effective systems for monitoring and managing levels of sickness absence and this is showing an improving trend.</p> <p>Workforce planning is linked to service planning and to the Council's priorities. Accurate staffing information is drawn from the payroll system. The council understands the local recruitment market and uses a range of recruitment channels including the internet, local jobcentre and agencies. However, as it does not collect routine information on its partners or contractors, understanding of its partnership capacity is limited. Agency staff are used sparingly, Joint workforce planning is limited at present but increasing as the Council takes steps to work more closely with East and North Dorset district councils.</p> <p>There is limited evidence of organisational change management.</p> <p>The Council engages effectively with its staff and their representatives.</p>	

## Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Annual Audit Letter 2008/09 Recommendations</b>						
6	Year end journal transfers of over £100,000 should be reviewed by the Head of Financial Management to improve internal control. The date of the review should be recorded.	2	Head of Financial management	Agreed	Journals over £100,000 will be reviewed and the date of review will be noted	June 2010
6	The referencing and audit trail of supporting working papers to the accounts should be improved.	2	Head of Financial management	Agreed	The Year End Closedown Procedures and Timetable will be updated for 2009/10 to include provision for a Balance Sheet and Income and Expenditure Account fully cross referenced to supporting schedules and reconciliations.	July 2010
6	The Council should set milestones for the implementation of IFRS, and should periodically report progress to Members.	3	Head of Financial management	Agreed	Timetable for implementation to be drawn up and reported to Portfolio Holder for Professional Pride	Jan 2010
9	The Council should improve its risk management procedures in accordance with its plans.	3	Head of Financial management	Agreed	Workshops led by external consultants organised for September 2009 to be followed up by drawing together a strategic Risk Register for the Council.	Jan 2010

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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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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

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