

Annual Audit Letter

Cornwall Council

Audit 2008/09

December 2009



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Key messages

This report summarises the findings from my 2008/09 audit of Cornwall County Council and is reported to Cornwall Council as the relevant successor organisation. 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.

Overall context

- 1 Local Government in Cornwall was the subject of a fundamental restructuring in 2009 with the demise of the County and District Councils and creation of a new unitary authority which has taken on significant new responsibilities.
- 2 It is important to recognise that this letter relates to my audit of Cornwall County Council during 2008/09 and is being reported to the new Cornwall Council as it is the relevant successor organisation. Also note that the conclusions from the audits of the District Councils have been separately reported to Cornwall Council, as it is also the relevant successor body for those organisations. The conclusions from the work at the District Councils are not repeated in this letter.
- 3 The newly established Council faces major challenges. My reviews of the County Council's performance in 2008/09 showed that arrangements and outcomes were weak in a number of key areas. As well as addressing historic issues, the new organisation faces the challenge of implementing its own ambitious plans to transform local government services.
- 4 On a wider level, the national economic position requires all parts of the public sector to prepare plans to address the effects of the recession.
- 5 The new Council recognises that it faces challenges on many fronts including addressing the historic weaknesses from the old County Council as identified during my audit, but it is committed to realising significant change. There is a real opportunity to reshape local services and to establish a new organisation that is fit for the challenges of the future. The new Council is developing and implementing plans to reshape the new organisation to enable it meet the demands and challenges it faces. My 2009/10 audit will examine these changes and their impact on improving outcomes in the area.

Audit opinion

- 6 I issued an unqualified opinion on the financial statements. However, my audit identified a significant number of errors in the draft accounts. This has been a long-standing problem for Cornwall County Council, as was reported in 2006/07 and 2007/08 audits. Although the errors were corrected in the final version of the accounts, I concluded that the quality of the accounts did not meet the minimum expected standards.

Value for money

- 7 I identified significant weaknesses in the Council's arrangements for securing effective use of its resources and, as a result, issued a qualified value for money conclusion. I concluded that:
- arrangements for preparing the accounts were not adequate;
 - the organisation did not have a sound understanding of its costs and performance;
 - commissioning and procurement practices were inadequate;
 - the Council did not produce relevant and reliable information which effectively supported decision making; and
 - an effective system of risk management or internal control was not in place.
- 8 Additionally, I concluded that arrangements within the Council's Fire and Rescue Service did not achieve the minimum standards in many of the areas assessed.

Key recommendations

- 9 I would highlight the following areas as requiring sustained focus and effort by the Council in the coming year:
- Obtain assurance that the required improvements in financial accounting arrangements are being delivered.
 - Address the significant weaknesses in the use of resources arrangements to ensure that minimum standards of acceptable performance are achieved.
 - Ensure effective progress in delivering the transformational change programme.
 - Maintain close scrutiny of the Council's financial plans and position.
 - Closely monitor service delivery and the associated financial pressures within Adult Social Care.

Key messages

Audit fee

- 10** Table 1 compares the planned and actual audit fees for my work in 2008/09. There were no changes to the original plan.

Table 1 Audit fees

The actual 2008/09 audit fee was consistent with the planned audit fee

Description	Actual fee	Planned fee
Financial statements and annual governance statement	£172,688	£172,688
Value for money	£141,387	£141,387
Total audit fee	£314,075	£314,075

Independence

- 11** 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 financial statements and annual governance statement are an important means by which Councils account for their stewardship of public funds. Whilst I issued an unqualified opinion on Cornwall County Council's accounts for 2008/09, I identified significant weaknesses in the Council's financial reporting arrangements which need to be addressed in the new Council.

Significant issues arising from the audit

- 12** I issued an unqualified audit opinion on 29 September 2009. However, my audit identified a significant number of errors that required amendment. These were corrected and the accounts were re-approved by the Council's Audit Committee. As a result of the range and significance of the errors found I concluded that the accounts did not meet the minimum expected standards.
- 13** My work on the financial statements of Cornwall County Council is complete with the exception of reviewing the pension fund annual report (as opposed to the pension fund financial statements, which I have already audited). This work will be completed in November 2009, once the draft annual report is available for my review. This will allow me to issue my final certificate of completion for the audit.

Material weaknesses in internal control

- 14** I did not identify any material weaknesses in internal control during my work but I am mindful that the County Council's annual governance statement set out a large number of significant control issues which present a risk to the new organisation. I am, however, pleased to note that these are receiving ongoing scrutiny by the newly-established Council.

Accounting practice and financial reporting

- 15** I reported weaknesses in the County Council's accounting practices in my detailed report on the Council's financial statements. These issues are important as they ultimately affect the quality of the financial accounts. In particular, I made a number of recommendations to improve the effectiveness of corporate and service accounting processes.

Value for money and use of resources

I considered how well Cornwall County Council managed its resources to deliver value for money and better and sustainable outcomes for local people, and gave scored use of resources judgements. 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

- 16** For 2008/09 there was a new approach to my use of resources work, including the introduction of new key lines of enquiry (KLOE). This means that comparison with assessments made in previous years is not appropriate. Also, the new approach focuses more on outcomes and achievements rather than systems and processes. Thus, it is a harder test as organisations need to demonstrate both that systems are in place to manage their activities and that the outcomes achieved are measurable and significant.
- 17** In forming my scored use of resources judgements, I have used the methodology set out in the Audit Commission's use of resources framework. I have also taken into account, where appropriate, findings from previous use of resources assessments and any other relevant audit work. Note that my work covers the year ending March 2009 and cannot take account of later developments in a significant way. However, I am aware of many aspects of the new Council's arrangements that are currently under development. These will be considered during my audit work in the 2009/10 period.
- 18** Separate assessments have been made on the arrangements in place for the Council and the Fire and Rescue Service as this is recognised nationally as a separate area of responsibility. Judgements have been made for each KLOE and theme using a four point scale as follows:
- Level 1 - failure to meet minimum requirements.
 - Level 2 - meets minimum requirements (performing adequately).
 - Level 3 - exceeds minimum requirements (performing well).
 - Level 4 - significantly exceeds minimum requirements (performing excellently).
- 19** My scores for the Council's arrangements are shown in Table 2 and is followed by a supporting narrative for each of the themes.

Table 2 Use of resources (Cornwall County Council)

The Council failed to achieve minimum standards in two of the three themes

Description		KLOE score	Theme score
Managing finances			
1.1	Financial planning and financial health	2	1
1.2	Understanding costs and performance	1	
1.3	Financial monitoring and reporting	1	
Governing the business			
2.1	Commissioning and procurement	1	1
2.2	Data quality and use of information	1	
2.3	Good governance and ethical behaviour	2	
2.4	Risk management and internal control	1	
Managing resources			
3.1	Natural resources	2	2
3.2	Strategic asset management	2	
3.3	Workforce (not applicable in 2008/09)	-	

Managing finances

- 20** Historically, medium term financial planning within the Council has been adequate, taking account of corporate priorities and including the expected key elements such as capital plans and treasury management plans, although some issues relating to treasury management activities were raised in previous audits. There was evidence of Member challenge of financial performance. Financial delivery generally reflected plans although pressures were evident, including a 2 per cent budget overspend plus additional costs of reorganisation.
- 21** However, I concluded that the Council did not have a comprehensive understanding of the costs incurred in delivering services, how these compare to others and the factors that influence these costs. There was limited information provided to officers or Members linking costs and performance information.
- 22** My audit of the financial statements found a number of significant errors and I concluded that the preparation of the accounts for Cornwall County Council did not achieve minimum standards in 2008/09. This finding is consistent with the audit reports to Cornwall County Council in both 2006/07 and 2007/08 which also concluded that arrangements were not adequate, thus reflecting a long-standing issue within the organisation. Financial monitoring reports were timely and understandable but could be developed further, such as in relation to the financial performance of partnerships and in relation to integrating financial and performance reporting.

Governing the business

- 23** The Council's approach to commissioning and procurement did not provide evidence that services and supplies were being procured to meet local needs or that they were being tailored to deliver sustainable outcomes and value for money. Overall, the approach to procurement was decentralised, fragmented and the monitoring of compliance was also inadequate. Additionally, the approach to contract management was also fragmented. The Council recognises the issue and towards the end of 2008/09 arrangements started to move forward through projects initiated as part of Local Government Re-organisation which aimed to strengthen procurement within the new Council. I will review the new approach in my work in 2009/10.
- 24** The Council could not demonstrate that it produced relevant and reliable data or information that effectively supported decision making and helped to manage performance. I concluded that arrangements for ensuring data quality were not complete and that performance management arrangements were weak.
- 25** There was an appropriate governance framework in place, including taking account of ethical considerations and the vision and purpose of the organisation had been articulated. However, governance arrangements for the Council's partnerships were weak.
- 26** The Council did not have an effective risk management system or internal control framework in place in 2008/09. The Council itself recognised this issue via its annual governance statement, as presented to the Audit Committee in June 2009, which identified 11 internal control issues of sufficient significance to merit individual reporting and subsequent monitoring.

Managing resources

- 27** The Council made good progress towards making effective use of natural resources. It worked with staff, partners and other stakeholders to manage environmental risks, including undertaking a number of initiatives to reduce its environmental impact. These included a number of sustainable new buildings and a hydro-electric turbine that generates electricity for the National Grid.
- 28** During 2008/09 the Council developed an interim property strategy designed to provide a framework for the transition between Cornwall County Council and Cornwall Council. A 10 year property maintenance strategy was also in place. A sound asset management system was in operation and a Council-wide option appraisal process was being used. During the transition phase, a County-wide asset management group was in place bringing together the former district councils and health organisations.

Fire and Rescue Service use of resources

- 29** I am also required to complete a use of resources assessment of the Council's Fire and Rescue Service. Where appropriate, my work is informed by the corporate arrangements within the Council but I also take into account specific issues applying to the Fire and Rescue sector. This year, my work was also informed by the Corporate Assessment of the Fire and Rescue Service which was published in January 2009 and assessed the Service as 'poor'.
- 30** My use of resources work concluded that the Fire and Rescue Service failed to achieve the minimum standards in 6 of the 8 applicable KLOE for 2008/09, as set out in Table 3 below.

Table 3 Use of resources (Fire and Rescue Service)

The Service failed to achieve minimum standards in two of the three areas

Description		KLOE score	Theme score
Managing finances			
1.1	Financial planning and financial health	1	1
1.2	Understanding costs and performance	1	
1.3	Financial monitoring and reporting	2	
Governing the business			
2.1	Commissioning and procurement	1	1
2.2	Data quality and use of information	1	
2.3	Good governance and ethical behaviour	1	
2.4	Risk management and internal control	1	
Managing resources			
3.1	Natural resources	-	2
3.2	Strategic asset management	-	
3.3	Workforce	2	

Value for money conclusion for Cornwall County Council (incorporating the Fire and Rescue Service)

- 31** 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.

Value for money and use of resources

- 32** In light of the failure to achieve minimum standards in a significant number of the areas assessed in my use of resources work, I issued an adverse VFM conclusion stating that the Council did not have adequate arrangements to secure economy, efficiency and effectiveness in the use of its resources.
- 33** Specifically, I concluded that there were weaknesses in five of the nine areas assessed, as follows:
- arrangements for preparing the accounts were not adequate;
 - the organisation did not have a sound understanding of its costs and performance;
 - commissioning and procurement practices did not achieve minimum standards;
 - the Council did not produce relevant and reliable information which effectively supporting decision making;
 - an effective system of risk management or internal control was not in place.

Specific risk-based work

- 34** In addition to completing the mandatory use of resources work, I undertook local risk-based reviews to provide additional evidence to inform my VFM conclusion. This risk-based work related to issues identified as part of my initial audit planning.

Local Government reorganisation preparations

- 35** The Council led a process of major organisational restructuring in Cornwall. Preparations for the creation of a new authority, from existing six District Councils and the County Council, were very demanding.
- 36** I worked closely with the One Cornwall team throughout the year, providing feedback in the period leading up to reorganisation. I reported my findings on a quarterly cycle to the key groups responsible for the transition, including the Implementation Executive, Joint Implementation Team, Joint Scrutiny Committee and One Cornwall Management Team.
- 37** During the course of my work I concluded that there was variable evidence of progress against the milestones and targets that had been set for the project. However, towards the end of the year I was pleased to see there was increasing realism about what could be achieved prior to the transition date and also recognition that the broader aims of transforming services would be a much longer term project for the new Council. I will consider the Council's progress in delivering the transformational agenda as part of my 2009/10 audit.

Partnership working

- 38** I reviewed the Council's arrangements for working with Cornwall and Isles of Scilly PCT to improve services for people with Learning Disabilities. I concluded that the Council and the PCT were making progress in this area after a difficult start. I found that sound governance arrangements were in place and there was commitment within both organisations to improve partnership working.
- 39** The Council and the PCT jointly agreed arrangements for the transfer of the responsibility and funding of social care for adults with a learning disability from the NHS to local government by the March 2009 deadline.
- 40** Partnership working between the Council and PCT has been productive. While there have been tensions and challenges for both organisations in identifying an agreed solution to the future of Learning Disability services, partnerships have been strengthened as a result. The multi-agency project group has worked with considerable enthusiasm to progress the development of a joint commissioning framework and to keep service users and stakeholder well informed of planned developments.
- 41** However, there are on-going financial pressures within Adult Social Care. The Council's analysis of financial 'hot spots' produced in August 2009 highlighted a potential overspend in Adult Social Care of £5 million. I understand that prompt management action has been taken to reduce this potential financial risk, and that the position is being closely monitored.

Closing remarks

- 42** I have discussed and agreed this letter with the Chief Executive and the Director for Corporate Support. I will present this letter to the Audit Committee on 26 November 2009.
- 43** Further detailed findings, conclusions and recommendations in the areas covered by my audit are included in the reports issued to the Council during the year as set out in Table 4.

Table 4 Detailed reports issued during the year

Report	Date issued
Audit plan	April 2008
Review of preparations for Local Government Re-organisation	Quarterly reporting from April 2008 to March 2009
Partnership review – Learning Disability services	April 2009
Supplementary opinion audit plan	July 2009
Use of resources report – Cornwall County Council	September 2009
Use of resources report – Fire and Rescue Service	September 2009
Annual governance report	September 2009
Financial Statements report	October 2009

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- 44** The Council has taken a positive and constructive approach to our audit. I wish to thank the Council's staff for their support and co-operation during the audit.

Lee Budge
District Auditor
November 2009

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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