

# Annual Audit Letter

Cotswold District Council

Audit 2008/09

December 2009



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# Contents

<b>Key messages</b>	<b>3</b>
<b>Financial statements and annual governance statement</b>	<b>5</b>
<b>Value for money and use of resources</b>	<b>7</b>
<b>Closing remarks</b>	<b>9</b>
<b>Appendix 1 – Use of resources key findings and conclusions</b>	<b>10</b>
<b>Appendix 2 – Action plan</b>	<b>17</b>

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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 members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

**This report summarises the findings from my 2008/09 audit. It includes messages arising from the audit of the Council's financial statements and the results of the work I have undertaken to assess the Council's arrangements to secure value for money in its use of resources.**

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## Audit opinion

- 1 I issued an unqualified opinion on the financial statements on 29 September 2009.
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## Financial statements

- 2 The financial statements submitted for audit contained three significant errors which were corrected prior to us giving my opinion - only one affected the outturn position of the Council by reducing the overall deficit by £7,500 but there was no impact on the General Fund balance.
  - 3 In early September 2009, an update to Local Authority Accounting Panel bulletin 82 was issued in respect of accounting for the impairment of investments with Icelandic banks. In applying this new guidance, the net adjustment to the Council's 2008/09 accounts was a charge of £1,338 to the Income and Expenditure Account, which meant that the Council's reserves position was improved by £137,140 from the original reported position.
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## Value for money

- 4 I issued a qualified conclusion on the Council's arrangements for securing value for money in the use of resources during 2008/09. This was due to the fact that formal workforce planning, which is a new key line of enquiry this year, was underdeveloped in 2008/09. The Council did not have an HR strategy or workforce plan but I am aware that both are due for development in 2009/10 following the Council's management restructure.

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## Audit fees

5 There has been no change to my planned audit fees.

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**Table 1      Audit fees**

	Actual
Financial statements and annual governance statement	£52,325
Value for money	£36,435
<b>Total audit fees</b>	<b>£88,760</b>
Certification of claims and returns *	£29,750
Non-audit work	--
<b>Total</b>	<b>£118,510</b>

\* Estimate only as work not yet completed

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## Actions

6 The key action arising from my 2008/09 work was the need for the Council to produce an action plan to address the weaknesses identified in its value for money arrangements. In particular there is a need for the Council to implement an HR strategy and workforce plan.

### Recommendation

**R1** The Council should draw up an action plan to address weaknesses identified in its value for money arrangements. Progress against the actions in the action plan should be monitored by Members.

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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 I issued an unqualified opinion on the 2008/09 financial statements. The financial statements submitted for audit contained three significant errors which were corrected prior to my opinion. Only one error affected the outturn position of the Council by reducing the overall deficit by £7,500 but there was no impact on the General Fund balance.
  - 9 In early September 2009, an update to Local Authority Accounting Panel bulletin 82 was issued in respect of accounting for the impairment of investments with Icelandic banks. In applying this new guidance, the net adjustment to the Council's 2008/09 accounts was a charge of £1,338 to the Income and Expenditure Account, which meant that the Council's reserves position was improved by £137,140 from the original reported position.
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## Material weaknesses in internal control

- 10 I did not identify any significant weaknesses in the Council's internal control arrangements.
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## Accounting practice and financial reporting

- 11 I considered the qualitative aspects of the Council's financial reporting. There are no issues to report to Members...
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## Economic downturn

- 12 In August 2009, the Audit Commission published a national report on the impact of the economic downturn and the response of local authorities - *When it comes to the crunch - how councils are responding to the recession*. The economic downturn and banking crisis is having a significant impact on public finances. The impact on treasury management strategies has been immediate but there are likely to be wider and more fundamental impacts on the ability of public sector bodies to fund services and capital building programmes. The impact on the local economy and job market might impact on local authority income streams and benefit payments.
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- 13** In November 2009, the Council reported that the economic conditions were continuing to put pressure on the Council's ability to generate income from fees and charges. At the end of September 2009 the Council had an overspend of £206,889 against the profiled budget. However, £80,000 of this related to one-off redundancy costs. The Council expects the position over the next six months to improve as changes, such as the impact of the pay award (1 per cent rather than the original projected 2.5 per cent) and efficiency savings in the waste service are able to be recognised in budget monitoring reports. Initial forecasts suggest that the Council will be within its planned deficit of £511,000 at the end of the 2009/10 financial year.
- 14** In my review of the Council's value for money arrangements in 2008/09, I noted that the Council has a good level of awareness of the efficiencies it needs to make in the medium term. For 2009/10 the target has been set at £500,000 and budgets have been reduced to reflect this. The Council is looking at innovative ways of obtaining efficiencies such as the shared Chief Executive with West Oxfordshire District Council. It is anticipated that further efficiencies will be made through the management restructure, further sharing of senior posts and services with West Oxfordshire District Council, internal audit joint working arrangements with a neighbouring district council and the proposed pay freeze.

### Treasury management strategy

- 15** In response to the economic downturn, the Council has made amendments to its treasury management strategy including bringing the management of its funds back in-house. In addition the Council will now also consider using a wider range of investment instruments such as gilts, Euro sterling bonds and bonds issued by banks where the bonds are guaranteed by the UK Government.

### Icelandic investments

- 16** The Council has £2 million invested in an Icelandic bank (Glitnir) which was invested in accordance with the Council's treasury management policy in January 2007 prior to any warnings regarding Icelandic banks. The Council accounted for the investment in the 2008/09 statement of accounts in accordance with relevant guidance.
- 17** The Local Government Association produces monthly briefings for local authorities updating them on progress in recovering deposits held by UK authorities in Icelandic banks. The latest briefing (October 2009) states that agreement on the terms of compensation from the new bank (Islandsbanki) to old Glitnir bank was reached in September 2009. The conclusion of these agreements enables the insolvency to move onto the next stage of winding up, realising assets and paying off creditors. Full recovery of the investment and interest due up to April 2009 is therefore likely to be achieved.

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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

- 18** 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.
- 19** 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.
- 20** The Council's use of resources theme scores are shown in Table 2. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 1.

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**Table 2** Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	2
Managing resources	1

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- 21** As in previous years, the Council's management of its finances is good. However improvements should be made in to the Council's arrangements for managing resources by implementing an HR strategy and workforce plan.
- 22** The Council could improve further its arrangements for governing the business by:
- addressing weaknesses noted in Internal Audit work; and
  - ensuring that project management arrangements are consistently good throughout the organisation.

**Recommendation**

**R1** The Council should draw up an action plan to address the weaknesses identified in its value for money arrangements. Progress against the actions in the action plan should be monitored by Members.

**VFM conclusion**

- 23** I assessed the Council's arrangements to secure economy, efficiency and effectiveness in its 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.
- 24** I issued a qualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources, except for planning, organising and developing its workforce effectively to support the achievement of its strategic priorities.

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# Closing remarks

- 25** I have discussed and agreed this letter with the Chief Executive and the Chief Finance Officer. I will present this letter at the Audit Committee on 25 February 2009 and will provide copies to all Members.
- 26** 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**

Report	Date issued
Audit Plan	May 2008
Opinion audit plan	May 2009
Use of Resources	September 2009
Annual Governance Report	September 2009
Opinion on accounts and VFM conclusion	September 2009
Whole of Government Accounts opinion	September 2009

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- 27** 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.

Richard Lott  
District Auditor  
December 2009

# Appendix 1 – Use of resources key findings and conclusions

28 The following tables summarise the key findings and conclusions for each of the three use of resources themes.

## Managing finances

<b>Theme score</b>	<b>3</b>
<b>Key findings and conclusions</b>	
<p>The Council integrates financial planning with its strategic and service planning processes. The Council has sufficient resources to ensure it is financially viable in 2009/10 but is facing budget gaps which it is working hard to address. The Council understands the correlation between costs and performance and has a good understanding of its costs and the local factors that influence these. The Council has given high priority to achieving value for money and is taking a strategic longer term approach to delivering efficiencies. The Council produces good quality financial monitoring and forecasting information. Preparation of the accounts is good and there are good budgetary control processes in place.</p>	

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

<p><b>KLOE 1.1 (financial planning)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>	<p><b>3</b></p> <p><b>Yes</b></p>
<p><b>Key findings and conclusions</b></p> <p>The Council integrates financial planning with its strategic and service planning processes. The corporate strategy describes the Council's medium term priorities and objectives for the district and makes explicit reference to the financial situation of the Council and other strategies and plans such as the Medium Term Financial Plan (MTFP).</p> <p>The Council engages with local communities and stakeholders. The Council engaged with the public when formulating its budget proposals and as a result has introduced charges for some services.</p> <p>The Council manages its spending within available resources. The Council has sufficient resources to ensure it is financially viable in 2009/10 but is facing budget gaps which it is working hard to address at all levels within the Council.</p> <p>The Council has £2 million invested in an Icelandic bank (Glitnir) which was invested in accordance with the Council's treasury management policy in January 2007 - well before any early warnings about Icelandic banks. The Council has accounted for the investment in the 2008/09 statement of accounts in accordance with CIPFA guidance.</p>	
<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>3</b></p> <p><b>Yes</b></p>
<p><b>Key findings and conclusions</b></p> <p>The Council understands the correlation between costs and performance and has a good understanding of its costs and the local factors that influence these. Costs and performance are evaluated when making decisions in line with the MTFP and local and partnership priorities. Costs are routinely monitored in relation to how well services perform. The Council maintains its understanding of the factors that contribute to costs through detailed benchmarking with other councils based on a variety of criteria. The Council has given high priority to achieving value for money and is taking a strategic longer term approach to delivering efficiencies. Targeted strategies and well managed projects are improving the Council's performance and reducing costs. The Council has a good level of awareness of the efficiencies it needs to make in the medium term. For 2009/10 the target has been set at £500,000 and budgets have been reduced to reflect this. The Council considers the impact of its long term costs and benefits when making key policy decisions.</p>	

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

<b>KLOE 1.3 (financial reporting)</b>	
<b>Score</b>	<b>2</b>
<b>VFM criterion met</b>	<b>Yes</b>
<b>Key findings and conclusions</b>	
<p>The Council produces good quality financial monitoring and forecasting information. The Cabinet receives regular reports on performance which are linked to finance and set out achievements and underachievement for that period. Financial reports are fit for purpose. There are good budgetary control processes in place. All budget holders have access to the financial information system to make enquiries and run reports.</p> <p>Preparation of the accounts is good. Our work on the 2008/09 statement of accounts has shown that it is in accordance with statutory requirements and contained no material errors. Working papers provided to audit were good and officers are quick to respond to any audit queries.</p> <p>There is effective financial reporting in place. Financial reports are accessible to stakeholders and the Council has sought feedback on the format/content. However the Council could do more to demonstrate how it seeks the views of stakeholders about what information is required in its external reporting and how it has tailored reporting accordingly.</p>	

### Governing the business

<b>Theme score</b>	<b>2</b>
<b>Key findings and conclusions</b>	
<p>The Council's priorities are based on an understanding of the needs of the local area. The Council has a well established strategic approach to consultation and engagement. The Council has a focussed approach to achieving savings through procurement. Top level commitment is driving improvement in performance management arrangements and data quality. Arrangements are generally in place to ensure staff have the necessary skills and knowledge to secure data quality.</p> <p>The Council has adopted the principles of good governance and has a strong ethical framework although there is limited evidence of ongoing training for Councillors. The Council has procedures in place to ensure that its partnerships are well run and it gets VFM from them.</p> <p>The Council has risk management processes in place which include partnership working and arrangements are in place to minimise fraud and corruption. The Council has a generally sound system of internal control although business continuity plans have only been implemented across the Council during 2008/09. In addition Internal Audit identified weaknesses in the payroll, car parking and licensing systems.</p>	

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

<p><b>KLOE 2.1 (commissioning and procurement)</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><b>Key findings and conclusions</b></p> <p>The Council's priorities take account of the priorities identified in the Sustainable Community Strategy and the LAA. The refresh of the Council's priorities also had regard to socio economic and other data relating to the district.</p> <p>The Council through its commissioning role within key strategic partnerships is ensuring that outcomes are being delivered for local people. The Council's priorities are aligned with those of the strategic partnerships.</p> <p>The Council has a well established strategic approach to consultation and engagement and is developing its understanding of the main equalities issues affecting the district.</p> <p>The Council has a focussed approach to achieving savings through procurement. Joint procurement with other local authorities for high volume, low spend items such as stationery and printing paper has also achieved savings.</p> <p>Service redesign has been used to improve the customer experience and value for money of the planning, heritage and design services.</p> <p>Project management within the Council is variable. Internal Audit identified issues in the Council's project management arrangements in two major schemes - the waste redesign project and also the refurbishment of the public conveniences.</p>	
<p><b>KLOE 2.2 (data quality and use of information)</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><b>Key findings and conclusions</b></p> <p>Top level commitment is driving improvement in performance management arrangements and data quality. However recent Internal Audit work which assessed the data quality controls in place for the generation of performance indicators (PIs) gave only limited assurance concluding that there were weaknesses in the reliability of the source data and a lack of audit trails for some PIs.</p> <p>Arrangements are generally in place to ensure staff have the necessary skills and knowledge to ensure data quality. Targeted training is being used to fill gaps in knowledge which have been identified through internal audit reports and other ad hoc reviews.</p> <p>Effective performance management is embedded in the Council's governance processes. Reporting mechanisms ensure that performance management of the Council's delivery of its priorities is happening. The Council has invested in improving its performance management processes and has further strengthened managers' accountability. The Council has a clear set of national and local performance indicators with links to local priorities. Performance information is clearly laid out so that decision makers can monitor progress against priorities on a quarterly basis and address under performance.</p>	

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

<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><b>Key findings and conclusions</b></p>	
<p>The Council has adopted the principles of good governance and Councillors have had training in governance. The Council has a clear focus on its purpose and vision and has refreshed its priorities as necessary.</p> <p>The Council has a strong ethical framework. There is though limited evidence of ongoing training for Councillors and the use of individual development plans for Councillors that identify skills gaps and inform the training plans for the year ahead.</p> <p>The Council has procedures in place to ensure that its partnerships are well run and it gets value for money from them. This is demonstrated by its Partnership Framework and Toolkit and its application throughout the Council.</p>	
<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>2</b></p> <p><b>Yes</b></p>
<p><b>Key findings and conclusions</b></p>	
<p>The Council has risk management processes in place which include partnership working.</p> <p>The Council has arrangements in place to minimise fraud and corruption. The Council has an anti-fraud and corruption strategy which is regularly updated to reflect change in legislation.</p> <p>The Council has a generally sound system of internal control. The Head of Internal Audit's opinion on the system of internal control in 2008/09 was satisfactory although he did note weaknesses in the car parking system and licensing. Work by Internal Audit on the payroll system in place during 2008/09 identified the following weaknesses:</p> <p>the payroll system is unlikely to be resilient in the event that the Payroll Officer is absent; and</p> <p>some mileage and subsistence claims and timesheets have been authorised by 'unauthorised' personnel and some claims have been made for inappropriate items.</p> <p>In previous years we have criticised the Council for not having a Business Continuity Plan (BCP) in place. There is evidence of the BCP being implemented across the Council during 2008/09 however it was not formally approved by Cabinet until May 2009 and the Council's 2008/09 Annual Governance Statement highlighted the need to fully implement/roll out the BCP as a significant internal control risk.</p>	

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

### Managing resources

<b>Theme score</b>	<b>1</b>
<b>Key findings and conclusions</b>	
The Council does not currently have plans in place to ensure that it has the right staff with the right skills in the medium term. This is evidenced by the lack of an HR strategy and a workforce plan. These are due for development once the Council's management restructure has taken place later in 2009. Processes are in place for two way communications with staff. The Council is focussing on improving equalities both externally and internally.	
<b>KLOE 3.1 (use of natural resources)</b> <b>Score</b> <b>VFM criterion met</b>	<b>Not assessed at district councils in 2008/09</b> <b>Not applicable</b>
<b>KLOE 3.2 (strategic asset management)</b> <b>Score</b> <b>VFM criterion met</b>	<b>Not assessed at district councils in 2008/09</b> <b>Not applicable</b>

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

<p><b>KLOE 3.3 (workforce planning)</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>Formal workforce planning is currently underdeveloped. The Council does not currently have an HR strategy or workforce plan but these are due for development once the Council's management restructure has taken place later in 2009.</p> <p>Processes are in place to manage underperformance, absence and skills development. There is an annual appraisal scheme which is aligned to staff competencies and skills gaps are identified through this process.</p> <p>Effective internal communications is ensuring staff are kept up to date with key organisational changes. Team briefings and one off events are used by the Council to disseminate information and provide a forum for staff to raise issues.</p> <p>Staff are involved in major redesign projects. Internally managed process reengineering programmes have led to efficiencies in benefits and planning services.</p> <p>The Council is focussing on improving equalities both externally and internally. Staff have received training on equalities and staff attitudes are captured in the Values Survey which includes questions relating to equalities issues. The survey showed a general level of satisfaction with the Council's approach to diversity. The Council has achieved Level 2 (out of 5) of the Equalities standard and has an action plan in place to get to the next level.</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>						
4	R1 The Council should draw up an action plan to address weaknesses identified in its value for money arrangements. Progress against the actions in the action plan should be monitored by Members.	3	Chief Financial Officer/Corporate Planning Manager	Yes	Already done.	November 2009

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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.

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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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