

# Annual Audit Letter

Daventry District 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 and financial statements

- 1** I gave an unqualified opinion on your 2008/09 financial statements on 30 September 2009. My audit report included an 'emphasis of matter' paragraph, which refers to the ongoing £2.4m dispute with Daventry and District Housing (DDH). I needed to include this because the amount of money being disputed is large enough potentially to make a difference to anyone who reads the accounts.
  - 2** The ongoing dispute with DDH also means that I cannot yet give my certificate to close my audit, because I am still looking at what happened.
  - 3** The financial statements that you gave me to audit included some misstatements, including one that was material. I have agreed the changes that you made.
  - 4** You again improved the way that you prepared your financial statements and your working papers. The main aspect that you need to work on is making sure that there is a complete link from your accounting records to the financial statements.
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## Value for money

- 5** We measure how well you provide value for money, and this year we made the test harder than before. We call it the 'Use of Resources' assessment, and although it was a tougher test, you managed to keep your score the same as last year, at 2 out of 4. This means that we think you meet the minimum requirements and perform adequately.
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## Financial position

- 6** You have recognised the need to take action to review your finances. The difficult economic conditions meant that people need your services more, but at the same time your income levels have dropped. You updated your financial plans because of the changes in circumstances, and because you predicted that if you didn't take action, the money you hold in reserve to help deal with problems would run out by 2013/14.
  - 7** You have reviewed options to save money, and identified ways to improve your financial position. This gives you a good start, but you recognise that it will be challenging to deliver your plans in practice.
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### Organisational assessment

- 8 You perform adequately overall. You are making positive progress in delivering the things that matter to the community; a cleaner place to live, protecting the environment, tackling crime and creating employment opportunities. But there are some areas where progress is slow or minimal and the need to make financial savings will make it much harder for you to improve things.

# 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

- 9 Your financial statements contained one material and several non-trivial misstatements which you corrected. We also agreed a number of presentational amendments which we have summarised in a report to your officers.
  - 10 In addition there were four unadjusted misstatements, and these were detailed in our Annual Governance Report presented to the Corporate Governance Committee in September. The Committee agreed with your officers' proposals not to make these amendments, and I was satisfied that they did not represent a material misstatement in the accounts.
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## Material weaknesses in internal control

- 11 I did not identify any significant weaknesses in your internal control arrangements.
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## Accounting Practice and financial reporting

- 12 I considered the qualitative aspects of your financial reporting, and highlighted the following issues in my Annual Governance Report.
    - You were failing to reconcile the cash you received with your debtors' records, firstly on a daily basis, and then you also did not do the annual reconciliation. This is a matter that has been raised with you before, and so I was disappointed to see a recurrence. Officers did perform the reconciliation during my audit, and you have assured me that this will now be monitored actively.
    - You were unable to reconcile fully either the Non-Domestic Rate or the Council Tax systems with your general ledger, but the differences did not have a material impact on your accounts.
    - We found errors in your commercial rent records but I was able to obtain the necessary assurances by doing additional work.
  - 13 I know that you are currently planning for the mandatory introduction of International Financial Reporting Standards (IFRS) to local government. This is likely to involve a significant amount of analysis of financial and operational data, and it is vital for success that the project is owned by all departments and not seen as a finance responsibility.
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### Financial position

- 14 The last year has seen the country enter a significant economic recession. The consequence locally is an increasing demand for public services and the likelihood of reduced levels of central government funding.
- 15 Like many other Councils, you have found that your spending plans have been affected, and you have seen a reduction in income from your investments because of reduced interest rates. You have looked again at your spending plans for 2009/10 and found some areas where spending can be reduced, whilst prioritising the quality of services.
- 16 You recognised that you needed to look at your spending over the next few years as well, as there was a real danger that you would run out of the reserves of money that normally help to deal with unexpected costs. You formed a group of Members as the 'Business Transformation Task Panel', to look ways to save money. The Panel asked officers for suggestions, and has reviewed your spending and considered how it linked into the Council's priorities. The Panel has made recommendations for savings that you are using to help set your budget for 2010/11 and beyond.
- 17 You had £8 million invested with Icelandic Banks that collapsed in October 2008, and it isn't clear how much you will get back. Your latest estimate is that you will get £5.149m. Any losses may reduce the money you have available to meet your day to day costs.
- 18 The impacts of the recession will continue to present you with a challenge. I will continue to monitor your response and actions in this key area, and in particular it is vital that the savings plans that you have developed are kept up-to-date and delivered in practice.

### Plans for developing Daventry

- 19 You still have large scale plans for improvements to the Daventry Town area, but you haven't been able to progress them as quickly as you had hoped because of the economic conditions. It is important that when you are able to make progress, you take into account your overall financial position and do not overstretch your finances. You will also need to ensure that your dispute with DDH does not affect the way you work together in partnership to deliver the objectives of transferring your housing stock to it, which are important for aspects of the improvement plans.

#### Recommendations

- |           |  |
|-----------|--|
| <b>R1</b> | Ensure that IFRS is delivered effectively, with all departments providing the operational and financial data needed.   |
| <b>R2</b> | Monitor your financial position and ensure that financial and operational plans are co-ordinated, and regularly refreshed to reflect the changing economic conditions. |
| <b>R3</b> | Ensure that effective working relationships with DDH in order jointly to achieve the objectives of the transfer.   |

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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

- 20** In forming my scored use of resources judgements, I have used the methodology set out in the use of resources framework. I have made judgements 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.
- 21** 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.
- 22** Your use of resources theme scores are shown in Table 3 below. The key findings and conclusions for the three themes and the underlying KLOE are summarised in Appendix 1.

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**Table 1** Use of resources theme scores

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

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- 23** Your overall score was 2. These means that your arrangements are consistent with established practice and guidance, meet statutory requirements and operate adequately.
- 24** This year's assessment is more challenging, with a greater focus on outcomes. Whilst all KLOEs have been assessed as 2 there are, within these, some stronger aspects of performance, such as the commissioning of youth projects in close consultation with the Youth Forum. There are also areas where further improvement is required. We will discuss the way forward with officers in preparation for the 2009/10 assessment.

**Recommendation**

**R4** Ensure that you can demonstrate that your arrangements result in improved outcomes consistent with your aims and those of your key partners.

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**VFM conclusion**

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

# Managing performance and Organisational Assessment

**The Comprehensive Area Assessment Lead has used my use of resources assessment along with an assessment of how well the Council manages its performance to come to an overall assessment for the Council. This is known as the organisational assessment.**

- 27** The Audit Commission assesses how well you manage and improve your services and contribute to wider community outcomes. The assessment considers how successful you are in delivering your corporate priorities. The priorities have been drawn from what matters most to local people.
- 28** You score 2 out of 4 for managing performance. You understand the community's needs and are making reasonable progress towards meeting those needs. You are also working well, both on your own, and with partners such as other councils and businesses, to make sure that improvement is likely to continue.
- 29** More progress has been made in improving the local economy, but has understandably been restricted by the recession. Plans to make the town centre better are beginning to move forward, with a focus on more choice for shoppers. The speed at dealing with planning applications for large developments has been slow in previous years, but is now getting better.
- 30** The amount of waste recycled is very high and getting better. The overall amount of waste collected is going down. People are getting help to reduce their heating costs and you are working well with local businesses to protect the environment. The district is becoming a cleaner place. There is virtually no graffiti and less litter. A tough stance is taken with people who dump rubbish illegally.
- 31** It is getting easier to use council services, with more service points around the district, although access could be improved further. People with housing problems are receiving help and more affordable homes have been provided, but still not enough to meet demand. Housing benefits are being paid to more people, making the service provided slower. Use of leisure facilities is strongly encouraged and activities for children and young people are good. Crime levels are comparatively low, but some types of crime are on the increase, such as burglary and acts of serious violence. Anti-social behaviour is the public's biggest concern and some good work has been very effective in reducing it. A recent official survey shows that people from different backgrounds get on well together, but there is a concern about people not showing each other enough consideration and respect.

### Overall Organisational Assessment

- 32** The Use of Resources and Managing Performance assessments are combined to give an overall organisational assessment judgement for the Council. The Audit Commission has determined that the organisational assessment judgement for you is that you perform adequately.
- 33** Your Managing Performance and Organisational Assessment are being reported separately by the Audit Commission's Comprehensive Area Assessment Lead for Northamptonshire, Nigel Toms.

# Closing remarks

- 34** I have discussed and agreed this letter with the Managing Director. I will present this letter at the Corporate Governance Committee on 28 January 2010 and will provide copies to all committee members.
- 35** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports we have issued during the year.

**Table 2**

Report	Date issued
Audit Plan	April 2008
Annual Governance Report	September 2009
Audit Opinion	September 2009
Pre and post statements audit report (draft)	December 2009

- 36** We agreed an additional fee to deliver the audit in addition to the fee agreed at the start of the year, as summarised below.

**Table 3      Audit fees**

	Actual £	Proposed £	Variance £
Financial statements and annual governance statement	69,043	63,903	5,140
Value for money	39,904	39,904	nil
<b>Total audit fees</b>	108,947	103,808	5,140
Inspection	5,972	5,972	nil
<b>Total</b>	114,920	109,780	5,140

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**Independence**

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

Tony Crawley  
Engagement Lead  
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</b>	<b>2</b>
Key findings and conclusions	
<p>There is a structured framework in place for integrating financial and service planning. There are not clear and structured processes in place to consult with stakeholders on financial plans but the Council consults effectively on key financial decisions that have notable external impact. The Council has good budget monitoring processes in place. The Council has £8m at risk in Icelandic banks, has undertaken an in depth review of the circumstances leading up to this, and duly revised procedures. The Council is continuing to strengthen its knowledge of the costs of its services through specific reviews. An effective structure is in place to achieve future efficiencies across the Council. The Council's internal financial reporting is timely and meets the needs of internal users. 2008/09 accounts complied with statutory deadlines, and there was some improvement in working papers. There was an improvement in the reliability of the annual accounts in 2008/09 and the accounts approved by council contained one material and a number of non trivial errors.</p>	
<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	
<ul style="list-style-type: none"> <li>• There is a structured framework in place for integrating financial and service planning.</li> <li>• Members are actively involved in financial planning processes.</li> <li>• There are not clear and structured processes in place to consult with stakeholders on financial plans; however more informal consultation occurs.</li> <li>• The Council consults effectively on key financial decisions that have notable external impact.</li> <li>• Good budget monitoring processes are in place.</li> </ul>	

## 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>2</b></p> <p><b>Yes</b></p>
<ul style="list-style-type: none"> <li>• The Council has identified shortfalls in resourcing going forward and has set up a Business Transformation Task Panel to go through its base budget and produce a series of options for savings that can then be assessed against their impact on the Council's priority objectives.</li> <li>• The scrutiny and improvement committee and Board exercise collective responsibility for financial matters, and receive regular reports on financial performance.</li> <li>• Training is given to budget holders to ensure that they have an understanding of their role.</li> <li>• The Council has £8m at risk in Icelandic banks, has undertaken an in-depth review of the circumstances leading up to this, and revised procedures and ensured staff are aware of these.</li> </ul>	
<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> <ul style="list-style-type: none"> <li>• The Council: <ul style="list-style-type: none"> <li>– is continuing to strengthen its knowledge of the costs of its services through specific reviews;</li> <li>– considers whole of life costs when reviewing its assets and service functions;</li> <li>– has effectively identified the comparative costs of various access channels;</li> <li>– is continuing to improve and refine its embedded approach to benchmarking; and</li> <li>– has taken steps to further improve efficiency gains, through the establishment of a member led Business Transformation Panel.</li> </ul> </li> <li>• Monitoring reports, star chamber processes and monthly performance clinics monitor and analyse cost variances.</li> <li>• The Star Chamber process is utilised effectively to identify efficiencies arising from the service planning process.</li> <li>• Additional efficiency savings were made in 2008/09 in addition to those planned, increasing the total savings from 182,000 to 255,000.</li> </ul>	

## 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>	
<ul style="list-style-type: none"> <li>• Budget monitoring information is reliable, relevant and understandable, produced on a regular and timely basis, and prompt action is taken to address variances.</li> <li>• There is an integrated approach to collecting and producing both financial and performance data and the service review toolkit ensures a standardised approach.</li> <li>• There was an improvement in the reliability of the annual accounts in 2008/09 and the accounts approved by council contained only one material and a number of non trivial errors.</li> <li>• There were some delays in response to requests for information due to staff absence but explanations were provided promptly to queries when staff were available</li> <li>• Working papers were improved, and but did not always provide clear trails from the ledger to the statements</li> <li>• The published summary statement of accounts is accessible – written in plain English but although this is available in large print, on audiotape or in Braille it is not available in other languages.</li> </ul>	

## Governing the business

<b>Theme score</b>	<b>2</b>
<b>Key findings and conclusions</b>	
<p>There is now a clear corporate approach to delivering savings and efficiencies through procurement. Effective analysis of local needs is used to develop policy and strategy. The Council continues to strengthen its approach to ensuring that its data is accurate and reliable. The Council has established an effective framework for monitoring and managing performance supported by the effective use of data. The Council has established a robust framework of ethical governance. It has conducted an annual review of the effectiveness of its governance framework, including the system of internal control, and reported on this in the Annual Governance Statement. The Council is refining its approach to risk management.</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>Key findings and conclusions</p>	
<ul style="list-style-type: none"> <li>• There is now a clear corporate approach to delivering savings and efficiencies through procurement.</li> <li>• Effective analysis of local needs is used to develop policy and strategy.</li> <li>• Planning Policy is informed by consultation</li> <li>• Understanding of the supply market is demonstrated through the engagement in additional procurement channels, such as local and regional partnerships and also framework contracts; however opportunity to influence and develop the market is strictly limited by the Council's size and level of spending.</li> <li>• The Council has effectively evaluated new options to deliver improved efficiency through procurement.</li> <li>• The council has a sustainable procurement guide and procurement and environmental policies cross over to take into account the long-term impact and benefits from decision-making.</li> </ul>	
<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>Key findings and conclusions</p>	
<ul style="list-style-type: none"> <li>• Positive progress has been made in addressing the recommendations from the previous year's assessment by the Audit Commission, with an effective and risk-based approach being applied.</li> <li>• Internal data quality reviews are being undertaken across a number of national and local indicators and spot checking of indicators confirms there has been improvement.</li> <li>• Supporting robust data quality is a standard line in all job descriptions, is explained as an integral part of the induction process and forms a part of the annual appraisal process for all staff.</li> <li>• The Council has established an effective framework for monitoring and managing performance supported by the effective use of data.</li> <li>• There is a hierarchy of reporting throughout the organisation of progress against national and local targets, which is used to inform decision-making and any potential need to realign resources.</li> <li>• A draft data sharing protocol has been developed at county level, to improve the breadth of information available to inform decision making within partnerships.</li> <li>• Performance in delivering key priorities is measured and reported against the objectives detailed in the Corporate Plan.</li> </ul>	

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

<b>KLOE 2.3 (good governance)</b>	
<b>Score</b>	<b>2</b>
<b>VFM criterion met</b>	<b>Yes</b>
Key findings and conclusions	
<ul style="list-style-type: none"> <li>• The Council has established a robust framework of ethical governance.</li> <li>• There is effect oversight by members with the Standards Committee’s membership and functions being in accordance with the requirements of the Local Government Act 2000.</li> <li>• Training has been provided to Members and advice given to Members by Monitoring / Deputy Monitoring Officer to support effective local investigations.</li> <li>• A new Business Continuity policy and emergency recovery action plan was approved in August 2008, to ensure that critical services are resilient.</li> <li>• The Council applies its principles of good governance to its key partnerships.</li> <li>• The Council plays an active role in applying the principles of good governance to its partnership working.</li> </ul>	
<b>KLOE 2.4 (risk management and internal control)</b>	
<b>Score</b>	<b>2</b>
<b>VFM criterion met</b>	<b>Yes</b>
Key findings and conclusions	
<ul style="list-style-type: none"> <li>• The Council is continuing to refine its corporate approach to risk management.</li> <li>• Corporate risks are identified and assessed through structured processes, but it is unclear how this is effectively managed for partnership activity.</li> <li>• Risk management is now fully integrated into the service planning process.</li> <li>• The Council has an anti fraud and corruption strategy, last updated in 2006, although the policy states it should be subject to annual review. It does not include reference to partnerships however.</li> <li>• There is a Benefit Fraud Prosecution Policy which was updated in 2007.</li> <li>• Fraud is included as a risk within the accounts area in the Council’s corporate risk register.</li> <li>• The Council has effectively participated in NFI.</li> <li>• Prompt action was taken where fraud was identified.</li> <li>• The Council has an adequate system of internal control</li> <li>• Business continuity arrangements are in place</li> <li>• The Council has arrangements in place in compliance with Civil Contingencies Act, and these were partially tested during the district wide water contamination scare during the summer of 2008.</li> </ul>	

**Managing resources**

<b>Theme score</b>	<b>2</b>
Key findings and conclusions	
Workforce planning is now being integrated into corporate planning processes. The Council has not been fully effective in managing staff sickness absence and sickness levels remain a key concern. The performance management framework has been refined and strengthened to more effectively assess staff performance and to address poor performance. The Council has established and maintained policies and practices to support good people management.	
<b>KLOE 3.3 (workforce planning)</b>	
<b>Score</b>	<b>2</b>
<b>VFM criterion met</b>	<b>Yes</b>
Key findings and conclusions	
<ul style="list-style-type: none"> <li>• Workforce planning is now being integrated into corporate planning processes.</li> <li>• The development of an overarching workforce plan is currently underway.</li> <li>• Potential gaps in skills and remedies to address these have not been clearly identified.</li> <li>• The Council has not conducted a formal skills audit to identify skills shortages or priority development needs.</li> <li>• Sickness levels remain a key concern for the Council, with levels in 2008/09 being in the bottom quartile nationally.</li> <li>• The annual appraisal system is directly related to corporate aims, objectives and priorities, and individual targets reflect this.</li> <li>• Mechanisms are in place to keep staff informed of organisational change projects.</li> <li>• The Council has established and maintained policies and practices to support good people management, and to ensure compliance with equalities legislation and statutory duties.</li> <li>• The Council is receptive to recruiting and retaining staff through increasing workplace flexibility.</li> </ul>	

## 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	R1 Ensure that IFRS is delivered effectively, with all departments providing the operational and financial data needed.	3	Chief Financial Officer	Yes		30 June 2011
6	R2 Monitor your financial position and ensure that financial and operational plans are co-ordinated, and regularly refreshed to reflect the changing economic conditions.	3	Chief Financial Officer	Yes		On-going
6	R3 Ensure that effective working relationships with DDH in order jointly to achieve the objectives of the transfer.	3	Managing Director	Yes		On-going
8	R4 Ensure that you can demonstrate that your arrangements result in improved outcomes consistent with your aims and those of your key partners.	3	Managing Director	Yes		On-going

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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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