

Annual Audit Letter

Doncaster Metropolitan Borough Council

Audit 2008/09

November 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.

Audit Opinion

- 1 I issued an unqualified opinion on the financial statements for 2008/09 on 30 September 2009, following agreed amendments to material mis-statements.
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Financial Statements

- 2 I am pleased to report that there was a marked improvement in the quality of the accounts this year. However, some errors were identified although they were largely presentational and did not impact on the reported financial position of the Council. The main changes, as last year, related to the capital accounts.
 - 3 Your capital accounting arrangements still do not facilitate the efficient production of financial statements. You made material corrections and other amendments to various fixed asset figures and other presentational aspects of your accounts. Procedures for valuations, impairment, and accounting for capital fell short of the required standard, and resulted in detailed and lengthy audit queries beyond what should normally be necessary. We are however, working closely with officers so that, wherever possible, suitable controls are put in place to assist the Authority and make the audit more efficient, including the introduction of a new system (Technology Forge).
 - 4 There were a number of other non-material items which have not been amended but we met our responsibilities by reporting these to the Audit Committee.
-

Economic downturn and the pressure on the public sector

- 5 The economic downturn and banking crisis is having a very 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 all 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.
 - 6 The downturn impacts on the audit and, as part of my responsibility, I reflect later in this letter on what is being done to mitigate the impact of the recession on local people and businesses, and also the impact on treasury management and asset values.
-

Value for money

- 7** Overall we concluded that the Authority had adequate arrangements in place to manage and use its resources to deliver value for money ie level 2 out of a possible maximum score of 4. Within this assessment, however, two areas were scored at level 1 as shortcomings were highlighted relating to the need to strengthen child protection arrangements.
- 8** It should be stressed that this was the first year of a new harder regime for the Use of Resources assessment which, this year, was broader and more challenging in its scope than in previous years.
- 9** To progress from the current assessed level, the Authority will need to continue to improve its procedures and to demonstrate the achievement of outcomes which are required for level 3. There are a number of areas where we are looking for improvement to be made, which are detailed in our separate report.

Comprehensive area assessment

- 10** We have assessed how well local public services are working together to improve quality of life for people in Doncaster, both now and in the future (CAA). We have also assessed the Authority to see how well it is improving services, contributing to local priorities and providing value for money (organisational assessment).
- 11** This Letter should be read along with these other assessments. They are available on the Oneplace website: www.directgov.uk/oneplace from 10 December 2009.

Audit fees

- 12** Table 1 below shows our audit fees for 2008/09 and reflects the additional work on the final accounts, which is partially offset by a review of adult services which was superseded by the work of other agencies.

Table 1 Audit fees

	Actual £	Proposed £	Variance £
Financial statements and annual governance statement	281,800	262,300	+ 19,500
Value for money	78,000	88,000	- 10,000
Total audit fees	359,800	350,300	+ 9,500
Non-audit work	0	0	0
Total	359,800	350,300	+ 9,500

Key messages

Actions

- 13** Recommendations are shown within the body of this report and have been agreed with the Authority.
-

Independence

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

Significant issues arising from the audit

- 15 It is pleasing to report there was a marked improvement in the quality of the accounts this year. However, some errors were identified, of which some are material, although these were largely presentational and did not impact on the reported financial position of the Council.
- 16 Once again, capital accounting has been challenging for both officers and our audit. We reported in our Annual Governance Report on the improvements required in order to strengthen the approach to collating the various information to produce accurate accounts, but also to facilitate a good audit trail and clear working papers.
- 17 We also raised a number of other presentational matters where the accounts do not reflect the requirements of the Statement of Recommended Practice and/or in other ways fall short of the required standard. In most cases these were amended, though some matters proved difficult to resolve by the deadline of 30 September 2009. Reflective of this, the matters arising from the audit were reported to members of the Audit Committee in three separate governance reports.

Material weaknesses in internal control

- 18 As part of our audit work, we are required to bring to your attention weaknesses in key systems. As reported in the Council's Annual Governance Statement, some controls in the payroll system are not operating effectively, and there are weaknesses in the capital accounting arrangements (referred to above). As a new approach requires us to place reliance on systems controls in future, for 2009/10 we will need to seek assurance from other tests as payroll controls have not been effective for at least the first half of the year.

Recommendations	
R1	Payroll system controls should be strengthened in order that they operate effectively.
R2	System controls should be identified and implemented in order to strengthen capital accounting arrangements.

Treasury Management

- 19** Our review of treasury management arrangements, in response to the financial crisis and national losses in Icelandic banks, did not identify any significant areas of concern, though we have suggested that spot checks should be undertaken - perhaps by Internal audit - on transactions. The Authority had £3 million deposited in Icelandic banks at the time of the crisis; the latest estimate is that £2.5 million is likely to be recoverable.
- 20** The Authority responded to the crisis by further tightening its arrangements especially the credit ratings and limits relating to the investment of funds. These measures sought to reduce the risks to which future investments will be exposed. The Audit Commission's report in response to the crisis 'Risk and Return' (paragraph 51) reminds all local authorities that they should invest prudently, and should primarily seek to safeguard public funds rather than maximise returns.

Accounting practice and financial reporting

- 21** I considered the qualitative aspects of your financial reporting, and reported various issues to the Audit Committee, the more significant of which are discussed below.
- 22** We have previously commented on the inadequacies of the manual approach to collating capital accounting records and the timing of finalisation of the asset register, and this again led to a number of errors in the accounts. The current process is cumbersome and not conducive to producing a good audit trail. Working papers on capital need to be improved, and there needs to be far more robust arrangements across the whole area of capital accounting.
- 23** Officers are already aware the Authority will be required to prepare its published accounts in compliance with International Financial reporting Standards from 1 April 2010, or possibly from 1 April 2009 for PFI schemes. Compliance will involve significant amounts of work, for example re-analysing all leases. The Council has appointed a project manager to lead on this area, and we will work closely with him and other officers to act as a critical friend during the process. In this connection a survey is to be made of the progress being made by all local authorities, following which the Audit Commission will issue a national report.

Value for money and use of resources

I considered how well the Authority 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 Authority 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

- 24** 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.
- 25** 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.
- 26** 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. These scores have been subject to the Audit Commission's national processes for checking consistency with assessments at other authorities.

Table 2 Use of resources theme scores

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

- 27** A separate detailed report covers our findings on the Use of Resources, and therefore just the key messages are shown below.

Value for money and use of resources

- 28** We have assessed the Council at level 2 overall, and also in most of the individual key lines of enquiry (KLOEs). While we have seen some examples of level 3 performance in certain areas, this performance was not demonstrated consistently across the full scope of the KLOE. In some cases arrangements are sound but this is still only sufficient for level 2 - more evidence is needed to demonstrate good outcomes in order to reach level 3.
- 29** We recognise that many parts of adults and young people services within the Council were operating effectively in 2008/09 and adequately looking after those in its care. Nevertheless we have taken into account weaknesses relating to a particular area of Children and Young People, namely the safeguarding of vulnerable children. My responsibility for 2008/09 is to consider whether the Council's arrangements were sufficiently robust to safeguard all vulnerable children as far as is reasonably possible.
- 30** Whilst certain steps were taken in conjunction with the Government Office, and action plans have been prepared, it is our overall judgement that the governance and internal control needed to protect vulnerable children still fell short of what is required and should impact on our use of resources assessment. As a comprehensive action plan was still being developed during 2008/09 and reflects significant weaknesses that had still to be fully addressed, in my view, these suggested that both governance (KLOE 2.3) and internal control (KLOE 2.4) should be scored at level 1.
- 31** We are fully aware of the Council's strong determination to respond to the problems, including implementing an action plan for all care agencies. The Council is working closely with the Doncaster Children's Services Improvement Board and the Doncaster Safeguarding Children Board to address the staffing and management difficulties which it still faces. Whilst this provides a robust approach, many of these issues will inevitably take a considerable time to achieve the high standards you are now seeking. However, it should be possible to quickly achieve significant improvements in certain key areas this year, building on the progress that has recently been made. (More details are provided in our Use of Resources report.)

VFM Conclusion

- 32** 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 our separate Use of Resources report. Generally, arrangements meet at least minimum standards, though the weaknesses referred to above regarding your arrangements for good governance and internal control directly impacts upon the conclusion.
- 33** I issued a qualified conclusion stating that Doncaster MBC had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources except for the areas of governance and internal control (because of issues relating to the safeguarding of vulnerable children).

Financial health and the recession

- 34** The Council has been pro-active by working with partners to try and reduce the negative impact of the recession in Doncaster and seeking to grow the local economy and make it stronger. Good progress was made up to the middle of 2008 in reducing unemployment but the area has been hit hard by the recession. The number of people claiming work-related benefits saw the sixth biggest increase nationally between June 2008 and June 2009.
- 35** Targets have been exceeded for new jobs, and initiatives taken with partners to get people into employment, including those who have recently lost their jobs. This has benefited some of the poorest areas of the Borough. Good use has been made of external funding eg the Local Enterprise Growth Initiative, to increase employment.
- 36** Some large capital projects should help to stabilise Doncaster's economy. These include the Civic and Cultural Quarter, Building Schools for the Future - a £250 million school building programme - and the Waterfront Project, as well as some substantial transport projects (eg White Rose Way).
- 37** There are plans to develop the higher productivity sectors and to shift towards higher skilled jobs. This will mean that substantially more people will be qualified to degree level (or equivalent). The ambition is to have 15,600 more residents of working age in employment by 2025. But it is not clear how local people will get the skills to enable them to take part. Local organisations and businesses have started to identify the future skills they think will be needed but this work is at an early stage.
- 38** Traditional manufacturing is not strong enough to grow and support the number and quality of jobs that will be needed. It is also not clear which sectors will be the most active in the future. Taken together with the skills gap this means the prospects for the economy are still fragile.
- 39** The Borough's long term economic strategy includes some key growth areas such as logistics and industries based on the Robin Hood airport. This presents a possible conflict with other ambitions to protect the environment and reduce carbon emissions. We have not seen a clear view of how these aims will be reconciled.
- 40** The economic downturn has impacted on asset values, with over £200 million being written off the Authority's assets in 2008/09. Whilst reserves remain healthy, careful financial management will be necessary, especially as the latest spending projections for 2009/10 indicate (at best) an overspending of around £1.4 million. The downturn has also had an impact on the Authority's ability to fund its capital programme, (due to lower capital receipts) with progress being slower than anticipated in the early stage of 2009/10. There is an anticipated reduction in spend of £18 million, to £120 million in total, for the year.

Value for money and use of resources

Civic and cultural quarter

- 41 We have previously reported on our consideration of the issues arising from our review of the proposed Civic and Cultural Quarter (CCQ). We have continued to monitor development to assess whether the risks are being appropriately managed by the Council.
- 42 The CCQ is being procured through the EU procedure for works contracts - the 'Competitive Dialogue'. The project is progressing and the development agreement was signed in April 2009. The scheme has been authorised to go ahead by, subject to planning permission, road traffic orders and confirmation of its overall viability.
- 43 The main risk to the project is the viability - particularly the risk of not getting Yorkshire Forward (YF) funding. We understand that the YF decision on funding the £15 million shortfall does not now need to go to the Treasury; an offer has been made by YF and a final decision is expected shortly.
- 44 Our work has not revealed any actions or omissions which provide significant cause for concern or which might detrimentally affect the outcome of the proposed project. However, whilst our role is intended to be constructive, we are not in a position to provide assurance on the efficacy of this project. We understand that officers have provided members with ongoing information with regard to this development. We suggest that members continue to receive information on both expected and actual outcomes throughout the different phases of the project from its officers and advisors.

Closing remarks

- 45** I have discussed and agreed this letter with the Chief Executive and the Director of Resources. I will present this letter at the Audit Committee on 7 December 2009 and copies will be made available to all members.
- 46** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Authority during the year.

Table 3

Report	Date issued
Audit plan	April 2008
Supplementary opinion plan	February 2009
Interim audit work	April 2009
Section 106 (Planning obligations)	June 2009
Opinion on financial statements	September 2009
Value for money conclusion	September 2009
Annual Governance Report, Addendum and second Addendum	September 2009
Use of Resources Assessment 2009	October 2009
Final accounts memorandum	November 2009
Health inequalities follow up (draft)	November 2009
Annual Audit Letter	November 2009

- 47** The Authority has taken a positive and constructive approach to our audit. I wish to thank the Doncaster MBC staff for their support and co-operation during the audit.

John Prentice
District Auditor
November 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

Theme score	2
Key findings and conclusions Overall the Authority has adequate arrangements in place to manage its finances	
KLOE 1.1 (financial planning)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
<p>The Council's financial, strategic and service planning is integrated, with planning focussing on the medium term. The Medium Term Financial Strategy details financial planning for revenue and capital and facilitates realistic annual budgets. The Council has a good financial performance track record, effective budget reporting and financial stability.</p> <p>The areas for further development surround high strategic level links between performance and financial planning, with more evidence in documents such as the community strategy and the corporate plan to show that resource allocation is linked to stated priorities. More work is needed on delivering an outcome based approach, to determine what is expected of services receiving additional targeted financial investment and assess what has been achieved.</p>	

Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 1.2 (understanding costs and achieving efficiencies)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>The Council has invested considerable effort in understanding its costs but its information is not yet complete and it is slow to introduce new ways of working.</p> <p>The annual budget process in late 2008 demonstrated a sound approach based on a clear exposition of the Council's key cost drivers and showed an adequate understanding of costs, of the need for savings and efficiencies and of the need to support core services such as Children's Services.</p> <p>Performance and financial management are not yet fully integrated but links are improving. There is also more to do to ensure that unit/transactional cost information supports decision making. Benchmarking is limited and there are significant performance issues in Safeguarding Children in spite of increased funding.</p>	
<p>KLOE 1.3 (financial reporting)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>Financial reporting meets basic requirements, and has improved from last year, with fewer errors and miss-statements. However, some issues remain in relation to capital, particularly the need to introduce the Technology Forge capital system in order to provide more robust management and accounting capability.</p>	

Appendix 1 – Use of resources key findings and conclusions

Governing the business

Theme score	2
Key findings and conclusions The Authority has some sound arrangements in place across all four sub-areas within this theme. However, the weaknesses relating to safeguarding of vulnerable children remain a concern.	
KLOE 2.1 (commissioning and procurement)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
We have seen examples of good practice relating to workforce matters in contracts and some joint purchasing/commissioning; also, engagement with the market is well-developed in adult social care. However, the strategic approach to procurement is currently weak and dates back to 2002; the Council's strategic aims have not so far informed its approach to procurement and commissioning.	

<p>KLOE 2.2 (data quality and use of information)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>The new DQ strategy and arrangements have the potential for level 3 performance, but they are new and have not yet been tested in practice.</p> <p>The Borough Strategy's objectives and targets are not specific or measurable, but LAA performance measures are framed around the Strategy and drive the Council's performance framework. In our view the Council's longer term resource management is limited by the lack of longer term targets.</p> <p>Reporting of data and data quality issues is improving; new reports are being produced but these were not fully in use in 2008/09.</p>	
<p>KLOE 2.3 (good governance)</p> <p>Score</p> <p>VFM criterion met</p>	<p>1</p> <p>No</p>
<p>Key findings and conclusions</p>	
<p>Sound arrangements exist in many areas within this theme. However, there have been serious weaknesses in arrangements for safeguarding vulnerable children. Risks were identified from incidents in previous years, which have been widely reported, but during 2008/09 weaknesses in arrangements still existed which did not provide sufficient safeguards.</p> <p>Our concern this year is whether there was adequate action to address the weaknesses identified. An initial action plan was only completed in early 2009 but a DCSF review team was not satisfied with the quality of this plan. This led to the Secretary of State directing that the Doncaster Children's Services Improvement Board (DCSIB) should be established from 31 March 2009. They have subsequently prepared a comprehensive action plan by July 2009 which indicates that serious weaknesses in governance arrangements still existed during 2008/09. Therefore we assessed Governance (KLOE 2.3) as level 1.</p>	

Appendix 1 – Use of resources key findings and conclusions

KLOE 2.4 (risk management and internal control)	
Score	1
VFM criterion met	No
Key findings and conclusions	
<p>Internal control was also impacted upon by poor management arrangements within the Safeguarding Children section of Children and Young People with too many unallocated cases, inadequate supervision, insufficient staff, a confused structure and poor performance management which existed throughout 2008/09. These weaknesses were considered sufficiently serious to impact upon the score for internal control (KLOE 2.4) which we also assessed as level 1.</p> <p>It is important to recognise that significant progress is now being made in 2009/10 to implement the agreed action plan. Staffing levels and arrangements have improved although permanent appointments are not yet fully complete. This has helped to significantly reduce the backlog of cases and timeliness of initial action. While effective arrangements should be in place for most of 2009/10, we note that it may take three years to achieve the high standards which the action plan seeks to deliver.</p> <p>There are other areas of internal control and governance which are generally strong including much of risk management where evidence exists of good outcomes including sensitive political matters and innovative projects including the planned £100 million town centre development. However these did not sufficiently compensate for the weaknesses identified above.</p>	

Managing resources

Theme score	2
Key findings and conclusions Whilst the Authority has commenced work on both sustainability issues and asset management, there remains scope to develop both areas further.	
KLOE 3.1 (use of natural resources)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
<p>The Council's sustainable community strategy has high level aspirations in relation to the conservation of the natural environment but the underpinning strategies had not been developed to deliver this. A carbon management strategy has only recently been drafted, an environmental strategy had still to be drafted and the procurement strategy (which makes reference to green procurement but is not specific on detail) is seven years old and in need of review.</p> <p>The carbon baseline has been identified and data is collected on energy and water usage with the need for conservation highlighted. National indicator targets have been identified but there is no wider dataset of performance measures in place.</p> <p>There is some evidence of sustainability impact appraisals being undertaken and for eco friendliness to be given a profile in planning consents but they do not go as far as the Merton Rule which requires the use of renewable energy onsite to reduce annual carbon dioxide (CO2) emissions in the built environment.</p>	

Appendix 1 – Use of resources key findings and conclusions

KLOE 3.2 (strategic asset management) Score VFM criterion met	2 Yes
Key findings and conclusions	
<p>There are good arrangements for the management of assets on a corporate basis, which has been strengthened in the past year; furthermore, a corporate team supports a Council-wide officer group and Member roles are clear.</p> <p>However, asset management planning is not currently integrated with the Council's corporate and service planning arrangements (steps towards this are being taken for 2009/10). We also found that a high proportion of the Council's corporate and schools properties are in a 'poor' condition and that the use of benchmarking was limited.</p> <p>We found little use being made of option and whole life appraisal, and the Council's approach to using assets to increase access to services was underdeveloped.</p>	
KLOE 3.3 (workforce planning) Score VFM criterion met	Not assessed in 2008/09

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Audit Letter 2008/09 Recommendations						
6	R1 Payroll system controls should be strengthened in order that they operate effectively.	3	Head of HR	Yes	<p>Payment of Employees - A detailed action plan for improvement has been developed and is being implemented as soon as practically possible, including a quarterly audit of actions. Additional resource has been identified to strengthen the payroll team to improve controls and tackle the main risk areas identified.</p> <p>In addition there will be a review of options over the IT system in the short to medium term.</p> <p>Employee Overpayments - Additional resources has been put in place to pursue this and action has been taken to date to recover overpaid sums.</p>	October 2010

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
					<p>A new system has been implemented by payroll staff from 1 April 2009 to deduct debt at source.</p> <p>Further measures are being taken to deal with and monitor these matters.</p>	
6	R2 System controls should be identified and implemented in order to strengthen capital accounting arrangements.	3	Director of Finance	Yes	<p>The transfer of data on to Technology Forge is progressing and expected to be completed during October. The data will then be tested and reports produced to ensure that the data reconciles to the information held in the 2008/09 accounts. The data will then be updated for changes arising in 2009/10 enabling it to be fully operational for the production of 2009/10 accounts and disclosures.</p>	December 2009

The Audit Commission

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