



PUBLIC SECTOR

Annual Audit Letter 2008/09

Dorset County Council
November 2009

AUDIT

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact June Awty, who is the engagement partner to the Authority, telephone 02703111769, email june.awty@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4000, email trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

Executive Summary

Purpose

This Annual Audit Letter (the letter) summarises the key issues arising from our 2008/09 audit at Dorset County Council (the Council). Although this letter is addressed to the Members of the Council, it is also intended to communicate these issues to key external stakeholders, including members of the public. The letter will also be published on the Audit Commission website at www.audit-commission.gov.uk. It is the responsibility of the Council to publish the letter on its website at www.dorsetforyou.com. Throughout our audit we have highlighted areas of good performance and also provided recommendations to help you improve performance. A summary of our key recommendations is set out in Appendix 1. We have reported all the conclusions in this letter to you throughout the year and a list of all reports we have issued is provided in Appendix 2.

Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998. Our main responsibility is to carry out an audit that meets the requirements of the Audit Commission's *Code of Audit Practice* (the *Code*) which requires us to review and report on your:

- *use of resources* - whether you have made proper arrangements for securing economy, efficiency and effectiveness ('value for money') in your use of resources (UoR). Our work in this area is summarised in section 2; and
- *accounts* – the Financial Statements and the Annual Governance Statement, summarised in section 3.

Key Messages

The key areas which we draw to your attention to are:

- Our use of resources assessment, the first under the Audit Commission's new UoR regime, demonstrated that the Council has sound processes in place and is achieving positive outcomes in all three themes (managing finances, governing the business and managing resources). The Council has been assessed as level 3 (performing well) against each of these themes.
- We identified no issues in the course of the financial statements audit that are considered to be material and we issued unqualified audit opinions on the Council's financial statements and on its arrangements for securing value for money conclusion in 2008/09. We also issued an unqualified opinion on the Pension Fund's accounts.

Future Issues

- From 2010/11 local government bodies are required to prepare their financial statements under International Financial Reporting Standards (IFRS), which contains a number of significant differences from the current financial reporting regime. The Council has started preparing for this transition, although as with all local authorities there remains much to be done to identify the full impact of IFRS on its accounting arrangements and to make the necessary changes.
- Those local authorities in the Carbon Reduction Commitment scheme will need to start reporting their usage from 1 April 2010 and recording these transactions within their financial statements with effect from 1 April 2011. There will be implications for cash flow, energy bills, and investment decisions and these could be significant. There are opportunities in addressing sustainability with clear cost reduction opportunities from saving energy which will become more significant over time. There are also opportunities to use the sustainability agenda to support the achievement of business challenges. It puts carbon reduction firmly amongst your corporate priorities.
- Sustainability performance - The Treasury is developing guidance for 2010/2011 which will require all public sector bodies to report publicly on sustainability performance in annual reports. CIPFA is in discussion with the Treasury about when and in what form this requirement will be formalised for local authorities. The reported information will be subject to audit and scrutiny. Sustainability reporting will be difficult to implement and many organisations will need to act quickly to implement new information gathering processes.

Executive Summary (continued)

Future Issues (continued)

- Public expenditure forecasts indicate that there will be significant pressure on local authorities' funding in the medium term. Future financial settlements will be tight, increasing the need for local authorities to have comprehensive efficiency programmes supported by sound financial management arrangements. It is likely that bold measures will be required to generate sufficient savings to mitigate the impact on priority services. More than ever before, officers and Members will need to focus on identifying these significant savings measures and ensuring that robust arrangements are in place to monitor their delivery to ensure they are realised. The Council has a good track record in delivering such efficiency and savings targets and already has major programmes in place such as *Fit for Future*. It will, however, be necessary to revisit and update the Council's plans to ensure that you can deliver the levels of savings required for the future.
- The Council is introducing a new SAP system in the current financial year, replacing its current general ledger and other related financial systems. This is a major project and the Council has dedicated significant IT, finance and other resources to manage the process of implementation. Our 2009/10 audit includes a significant audit project to consider aspects of the SAP system implementation process.

Fees

Our fee for the audit is £158,500. In addition, we charged £70,000 for the Dorset Pension Fund Audit. Both of these fees were in line with the fee proposed to you in our audit plan.

Acknowledgement

This has been KPMG's second year as the Council's external auditor following our appointment by the Audit Commission in 2007. We would like to thank the Council's management and staff for the help, support and co-operation they have provided throughout our audit. We recently agreed our audit plan for our 2009/10 audit and look forward to working closely with the Council in the coming year to deliver this programme of work.

Use of resources

The main elements of our use of resources work are:

- *Use of Resources* - from 2008/09, the Audit Commission introduced a new UoR assessment framework which forms part of the Comprehensive Area Assessment (CAA). This replaced the former UoR assessment which was predominantly focused on processes – the scope of the new regime is wider as it also considers whether public bodies have achieved significant and sustainable outcomes. UoR assessment comprises three themes which consider:
 - Managing finances – focusing on sound and strategic financial management;
 - Governing the business – focusing on strategic commissioning and good governance; and
 - Managing resources – focusing on the management of natural resources, assets and people.
- *Value for money conclusion* – we issue a conclusion on whether we are satisfied that you have put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources. This is based on the UoR assessment.

The findings from this work are summarised below.

Element of work	Key findings								
Use of Resources	<p>Our assessment of Dorset County Council against the three themes resulted in the following scores on a scale of one (inadequate) to four (performing strongly):</p> <table border="1"> <thead> <tr> <th>Area</th> <th>Score</th> </tr> </thead> <tbody> <tr> <td>Managing money</td> <td>3</td> </tr> <tr> <td>Governing the business</td> <td>3</td> </tr> <tr> <td>Managing resources</td> <td>3</td> </tr> </tbody> </table> <p>These scores build on last year's UoR assessment when the Council scored level 3 (performing well) against the financial reporting, financial standing, financial management and value for money themes and level 4 against internal control. It should be noted, however, that direct comparisons cannot be made between the previous UoR scores and those awarded this year due to the differences in each assessment framework.</p> <p>In achieving level 3 the Council has been able to prove that it has achieved significant outcomes and outputs which demonstrate that its arrangements are effective and have the intended impact.</p>	Area	Score	Managing money	3	Governing the business	3	Managing resources	3
Area	Score								
Managing money	3								
Governing the business	3								
Managing resources	3								
Value for money conclusion	<p>We issued an unqualified value for money conclusion for 2008/09.</p> <p>This means that we are satisfied that you put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources.</p>								

Financial statements

Audit opinion

We issued an unqualified opinion on your accounts on 28 September 2009. We also issued an unqualified opinion on the Pension Fund accounts.

Before we give our opinion on the accounts, we are required to report to 'those charged with governance' any significant matters identified. We did this in our report to the Audit & Scrutiny Committee meeting on the 22 September 2009 and the key issues are summarised here.

Accounts production and adjustments to the accounts

- We received a complete set of draft accounts by 30 June deadline supported by good quality working papers.
- Our audit identified no audit adjustments which were material to the financial statements.
- Our audit resulted in five recommendations regarding financial controls, of which one had been implemented between our interim and final audits. We also highlighted a further recommendation from the previous year's audit for which management have set a revised target date.
- We note that the Council incurred an impairment charge of £7.8m in the current financial year in relation to the £28.1m deposits in the Icelandic banks that went in to administration in October 2008. The Council appropriately followed the guidance issued to account for this impairment charge within their financial statements.

There were no other material issues raised for the attention of the Audit & Scrutiny Committee.

Future issues

There are two key developments which the Council will need to manage effectively in order to continue its good track record in producing timely, complete and materially accurate financial statements:

- The Council is introducing a new SAP system in the current financial year, replacing its current general ledger and other related financial systems. This is a major project and the Council has dedicated significant IT, finance and other resources to manage the process of implementation. The Council recently deferred the 'go live' date for the new system to allow it additional time to ensure that all necessary preparations had been completed. Our 2009/10 audit includes a significant audit project to consider aspects of the SAP system implementation, including ensuring we obtain sufficient assurance over the completeness and accuracy of the opening balances and other key data transferred into the new system.
- From 2010/11 local government bodies are required to prepare their financial statements under IFRS. There is a transitional process that needs to be followed, starting with assessing the areas where IFRS will require re-statement of aspects of the Council's accounts to comply with IFRS. The Council will need to prepare for this transition and ensure that its financial systems and other arrangements have been reviewed and updated as necessary, and that finance staff receive necessary training.

Appendix 1: Key recommendations

This appendix summarises the main high priority recommendations that we identified during 2008/09, along with your response to them.

Issue/ Recommendation	Management Response / Timescale for implementation
<p><u>Issue</u></p> <p>The Authority invested monies on behalf of the Pension Fund in the Icelandic banking system. Currently, there is no clear segregation of funds or documented investment responsibilities, making it unclear who is liable for the Fund's potential loss of monies from the banking collapse.</p> <p><u>Recommendation</u></p> <p>Given this ambiguity, it will be important to obtain authoritative legal advice on how any losses are recognised by the Council and/or the Pension Fund.</p>	<p>Opinion has been obtained from Leading Counsel, who has confirmed that the impairment charge should be borne by the County Council. This confirmed that the accounting treatment in the Council's and Pension Fund's accounts was correct. Leading Counsel has also advised that there should be separate bank accounts (with effect from 2 November 2009) and a formal agreement in place between the County Council and Pension Fund detailing respective responsibilities.</p> <p><u>Officer and due date</u></p> <p>Paul Kent (Chief Financial Officer) 18 September 2009</p>
<p><u>Issue</u></p> <p>The nominal roll, which is sent out on a monthly basis to each department to verify the existence of staff being paid, has been performed in the year. However we noted from our sample testing in March 2009 that out of the 26 departments the control is designed for, 9 did not send back the return.</p> <p>The control is therefore not operating effectively, reducing the assurance available that departmental payroll costs are accurate.</p> <p><u>Recommendation</u></p> <p>Ensure that any returns which are not received back by a specified deadline are followed up with the responsible individual within the department.</p>	<p>By September 2009, all but one missing return had been achieved. In April 2009 there was a comprehensive exercise across the organisation to confirm posts, post holders and structures ready for upload in SAP. This reduces the risk arising from incomplete return of nominal rolls. Organisational structure management and establishment control will be brought into the SAP implementation, thereby mitigating future risks</p> <p><u>Officer and due date</u></p> <p>Rowland Hartle Ongoing during SAP implementation</p>
<p><u>Issue</u></p> <p>No formal procedures have been undertaken in the financial year to physically verify the tangible fixed assets, aside from the revaluation of properties.</p> <p>Applying this control would provide greater assurance on the accuracy and completeness of fixed asset records, and that recorded assets remain safeguarded.</p> <p><u>Recommendation</u></p> <p>Undertake procedures to ensure that the assets within the fixed assets register are formally verified in the financial year.</p>	<p>All County Council accommodation and property is verified, including via site visits as part of an ongoing rolling programme of area / service property reviews. In addition efficiency initiatives e.g. Pathfinder, Fit for Future, involve studies and the effective use of such assets to ensure the council achieves best value. When the valuer undertakes his annual valuation, twice in 2008/09 due to the economic environment, the valuation will undertake visits to premises which have undergone any significant alterations or extensions.</p> <p>Directorates are responsible for buildings. Transactions i.e. acquisitions and disposals are progressed through the Council's Property Management Division.</p>

Appendix 1: Key recommendations (continued)

Issue/ Recommendation	Management Response / Timescale for implementation
<p><u>Issue</u></p> <p>There are a large number of administrative users (up to 24) on the IT systems, and in some cases the administrative user password was shared between application support staff. It was also noted that authorisation for access has been granted through informal discussion rather than through an authorised and documented procedure.</p> <p>Staff may have greater access than needed for their job and may lead to inappropriate use of the system capabilities.</p> <p><u>Recommendation</u></p> <p>Review the approach to user administration under the new SAP system. The number of administration and super users on the new SAP system should be confined to a minimum, yet efficient number of users.</p>	<p>The business processes around the administration of Starters and Leavers, as well as the maintenance of system access privileges, are being determined in the coming weeks of the SAP Implementation Project. At present the role of user account maintenance is performed by the SAP Basis team which comprises 2 DCC staff and 3 CapGemini staff. However this role is limited to the creation of the user account which does not then give that user the ability to perform any SAP transaction. The assigning of roles and authorisations to posts is intended to be a subsequent action performed by the Roles and Authorisation manager and his nominated deputies. It is intended that the numbers of staff with the ability to perform this function is to be kept to a minimum, albeit with operational constraints to be borne in mind.</p> <p><u>Officer and due date</u></p> <p>Bernie Dinsdale (ICT Group Manager)</p> <p>Ongoing during SAP implementation</p>
<p><u>Issue</u></p> <p>We noted examples of individuals who had left the authority as still being authorised users on the Abacas (general ledger) system. We also noted that the 'nominal roll' review of user access was not undertaken in the current financial year.</p> <p>There is a potential risk that individuals could have unauthorised access to the IT system. In addition, by failing to perform the 'nominal roll' review, unused user logons will not be identified and removed from the system.</p> <p><u>Recommendation</u></p> <p>Ensure that the user access rights for all leavers are removed promptly from each of the IT systems when staff leave the Authority and that the nominal roll is run on an annual basis.</p>	<p>In April 2009 there was a comprehensive exercise across the organisation to confirm posts, post holders and structures ready for upload in SAP. This reduces the risk arising from incomplete return of nominal rolls. Users who have left the authority and still have access to Abacus can only access Abacus once they have logged on to the DCC network via passwords. Organisational structure management and establishment control will be brought into the SAP implementation, thereby mitigating future risks.</p> <p>IT Services are currently working with the SAP implementation team to ensure that IT are formally notified of any members of staff leaving the authority. This notification will trigger formalised processes to remove all systems access rights and privileges for the exiting members of staff.</p> <p><u>Officer and due date</u></p> <p>Phil Rook (Finance Manager - Corporate Finance)</p> <p>Ongoing during SAP implementation</p>

Appendix 2: Audit reports issued

A summary of the reports issued in the year to date is set out below.

Report	Date issued
Audit and Inspection Plan 2008/09	May 2008
Annual Audit Fee letter 2009/10	April 2009
Interim Audit Report 2008/09	June 2009
Report to those charged with governance 2008/09	September 2009