



East Devon District Council

Annual Audit Letter 2008-09

November 2009

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1 Introduction and key messages

Purpose of this letter

- 1.1 This annual audit letter summarises the key issues arising from the work that we have carried out at East Devon District Council ('the Council') during our 2008-09 audit. The letter is written in an accessible style, designed to communicate our key messages to the Council and external stakeholders, including members of the public. The letter will be published on the Council's website.

Responsibilities of the external auditors and the Council

- 1.2 This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).
- 1.3 We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.
- 1.4 Our annual work programme is set in accordance with the Code of Audit Practice issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our Code of Audit Practice conclusions.
- 1.5 It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

What this letter covers

- 1.6 This letter covers our 2008-09 Code audit, including key messages and conclusions from our work in:
- auditing the 2008-09 year end accounts (section 2); and
 - assessing the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources (section 3).
- 1.7 We have not repeated the recommendations agreed with the Council during the year in this letter. A list of the reports that contain these recommendations can be found at appendix A. Appendix B sets out our actual and budgeted fees for 2008-09.

Key messages for the Council

- 1.8 We issued an unqualified audit opinion on the Council's financial statements. We commended the Council for their overall improvement in the accounts preparation process. Whilst a number of amendments were identified, the Council has made good progress to improve the accuracy of their accounts, and to ensure that these amendments were processed in 2008-09. We will continue to work with the Council to continue this progress.
- 1.9 We issued a qualified audit opinion on the Council's arrangements to secure value for money. Whilst in the main, the Council performed well under this new assessment, the arrangements around risk management and internal control were not adequate. The key factors contributing to this were:
- the corporate risk register has not been formally updated or monitored by members during the 2008-09 financial year;
 - there is limited proactive fraud work carried out due to the resource pressures faced by Internal Audit; and
 - there have been continued problems faced in delivering the internal audit service due to resourcing issues.
- 1.10 For 2009-10, the Council needs to focus on the areas for improvement as well as build on its use of resources scores and increase the focus on demonstrating clear outcomes.
- 1.11 The context for these key messages can be found in this letter and management has agreed to implement our recommendations in these areas.

2 Audit of accounts

Introduction

- 2.1 We issued an unqualified opinion on the Council's 2008-09 accounts on 29 September 2009, in line with statutory requirements. Our opinion confirms that the accounts for the Council present fairly the financial position of the Council as at 31 March 2009 and its income and expenditure for the year then ended.
- 2.2 Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to "those charged with governance" (which is the Audit and Governance Committee at the Council). We presented our annual report to those charged with governance to the Audit and Governance Committee on 29 September 2009 and summarise only the key messages in this letter.

Audit of the accounts

- 2.3 We commended the Council for their overall improvement in the accounts preparation process. Whilst a number of amendments were identified, the Council has made good progress to improve the accuracy of their accounts, and to ensure that these amendments were processed in 2008-09. We will continue to work with the Council to continue this progress.
- 2.4 The key recommendations identified from our work relate to classification within various statements, affecting working capital, the statement of movement in general fund balance and cash flow statement. In addition the disclosure of a number of notes to the accounts could be improved and we are working with the Council to support continued progress in this area.
- 2.5 As a result of our audit, as reported to those charged with governance, a number of amendments were made to the accounts prior to their re-approval by the Audit and Governance Committee on 29 September 2009. In particular:
- reclassification of £3.2 million from earmarked reserves to the general fund for balances which did not meet the accounting requirements of earmarked reserves;
 - decrease in expenditure of £0.25 million for a loan which had been treated as expenditure; and
 - revision of the cash flow statement which contained a number of errors.
- 2.6 Our annual report to those charged with governance reported one unadjusted item which would have decreased the deficit in the income and expenditure account by £358,000, as this did not materially affect the accounts. This related to the valuation of the pension assets in the pension fund administered by Devon County Council, whose auditors confirmed the estimated valuation performed by the actuary to be

understated. Due to the difference in timing between the preparation of the accounts and our subsequent audit and the availability of information in relation to the pension fund, it is not unusual for a difference to arise as finalised information is available in time for the audit.

Financial performance

- 2.7 The Council has managed a challenging financial position during 2008-09, with reducing income across a number of services during the economic downturn. The Council delivered its general fund service plans for a total net cost of £54.1 million which included a reduction in asset values of £34.3 million. Net expenditure on services was £15.6 million and the general fund balance increased from £3.7 million to £7.5 million as at 31 March 2009, principally as a result of a reclassification of other reserves.. This balance is equivalent to 37% of the original net budget for 2008-09.
- 2.8 The budget for net expenditure on services was set for the 2009-10 financial year at £14.7 million by the Council in February 2009.
- 2.9 Our review of the latest quarterly revenue outturn report, to the end of month six (September 2009), shows the Council is forecasting an under spend of £576,000 against this budget. This forecast underspend primarily relates to:
- additional grant income for benefits administration of £109,000; and
 - pay award savings of £198,000.
- 2.10 The estimated general fund balance at 31 March 2010 is £3.0 million after use of earmarked reserves of £1.8 million. However, this does not take account of the transfer of reserves to the general fund as a result of our accounts audit. We will continue to monitor the Council's financial standing and its performance against budgets throughout the year.

Financial systems

- 2.11 We undertake sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Our evaluation of the Council's key financial control systems did not identify any control issues that present a material risk to the accuracy of the financial statements.
- 2.12 We completed a full review of Internal Audit in 2007-08, to assess its overall level of compliance against the CIPFA internal audit standards, and refreshed this in 2008-09. Whilst the overall arrangements in place for the delivery of the Internal Audit programme are considered to be meeting minimum standards, there are a number of significant opportunities for improvement which have been identified, in particular the achievement of the Internal Audit Plan.
- 2.13 Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal control system, and concluded that, there are no material weaknesses which could adversely impact on

the council's financial statements. No material weaknesses have been identified through our review of the key financial systems.

- 2.14 We followed up the action plan arising from the 2007-08 interim and final accounts audits and concluded that good progress had been made in addressing previous audit recommendations.

Annual Governance Statement

- 2.15 We have reviewed the Council's arrangements and process for compiling the Annual Governance Statement (AGS). In addition, we read the AGS and consider whether the statement is in accordance with our knowledge of the Council. Our review has confirmed the statement to be satisfactory although would be enhanced through the disclosure or weaknesses in relation to accuracy of performance indicators following completion of internal audit work in this area and re-inclusion of licensing administration from the 2007-08 AGS action plan which had not been implemented. In addition we requested further disclosure around the weakness in risk management arrangements. All of the changes were processed in the final version of the AGS presented approved in September 2009.

Dealing with the public.

- 2.16 We have received a number of queries from local residents and interested parties throughout the year and have undertaken appropriate work in order to consider any issues that we considered were relevant to our statutory responsibilities. We reported as part of last year's annual audit letter issues relating to the local government review and have been satisfied that the Council has acted appropriately following our comments. There have been no other issues that impacted upon our final accounts work or audit opinion for 2008-09.

International Financial Reporting Standards

- 2.17 From 2010-11, the Council is required to prepare their Statement of Accounts under International Financial Reporting Standard (IFRS) based on an IFRS Code of Practice on Local Authority Accounting prepared by CIPFA. We have had initial discussions with relevant officers regarding the Council's readiness for conversion to IFRS and the preparation they have undertaken to date.
- 2.18 We are pleased to note that the Council are making positive steps towards conversion and in working in partnership with other Councils locally through the Devon Accounting Group for IFRS implementation, led by Devon County Council. However the Council has not presented an action plan or set out the potential implications of IFRS to the Audit and Governance Committee, or any other committee.
- 2.19 We will continue to liaise with Council officers during the year to provide advice and support to the Council on the required accounting treatments under IFRS, where this will not compromise our independence, through sharing our experiences of IFRS transition from other public sector bodies and providing our views on the Council's interpretation of the draft IFRS Code of Practice, which will

form the basis for the preparation of the Council's first set of IFRS accounts in 2010-11.

Certification of grant claims

- 2.20 In addition to our Code responsibilities, we are required, acting as agents of the Audit Commission, to certify a the Council's grant claims and returns, in accordance with the following arrangements:
- claims below £100,000 are not subject to certification;
 - claims between £100,000 and £500,000 are subject to a reduced, 'light – touch' certification; and
 - claims over £500,000 will be subject to a certification approach determined by the auditor's assessment of the control environment and management preparation of claims.
- 2.21 We have already completed the certification of the majority of claims for the Council relating to the 2008-09 financial year and have met all government department deadlines set under these arrangements so far. Our certification work is expected to be complete by the end of December 2009 after which we will prepare a separate grants report, summarising issues from the 2008-09 work, to facilitate continuous improvement.
- 2.22 Based on the work completed to date, the Council has shown a significant improvement in the accuracy of the claims submitted and, as a result, there has been a reduction in both amendments to claims and qualifications.

3 Use of resources

Introduction

- 3.1 We issued our annual VFM conclusion on 29 September 2009, at the same time as our accounts opinion, in line with statutory requirements. We concluded that, for 2008-09, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009, with the exception of managing risks and maintaining a sound system of internal control.

2008-09 Value for money conclusion and use of resources assessment

- 3.2 Auditors inform and limit their value for money conclusion by reference to relevant criteria under the Audit Commission Code of Audit Practice. These criteria cover particular areas of audited bodies' arrangements specified by the Audit Commission under the Code of Audit Practice. From 2008-09, the key lines of enquiry for the scored use of resources assessment also form the criteria for the value for money conclusion, together with any other relevant knowledge that we had gathered as a part of our audit. Failure to achieve an 'adequate' assessment in any one or more area results in either an "except for" or "adverse" overall conclusion, in respect of those specific areas.
- 3.3 We assessed the Council as achieving level two in all of the areas covered by our use of resources assessment and that resulted in 'adequate' conclusions for the relevant criteria within our overall value for money conclusion, with the exception of managing risks and maintain a sound system of internal control which received an 'inadequate' conclusion.
- 3.4 The key factors contributing to this were:
- the corporate risk register has not been formally updated or monitored by members during the 2008-09 financial year;
 - there is limited proactive fraud work carried out due to the resource pressures faced by Internal Audit; and
 - there have been continued problems faced in delivering the internal audit service due to resourcing issues.
- 3.5 These assessments, and their impact on the overall 2008-09 conclusion for the Council, are summarised in table 1.

Table 1: Components of value for money conclusion 2008-09

Area	Source of evidence	Use of resources Score	Arrangements adequate?
Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	KLoE 1.1	2	Yes
Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	KLoE 1.2	2	Yes
Is the organisation's financial reporting timely, reliable and does it meet the of internal users, stakeholders and local people?	KLoE 1.3	2	Yes
Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	KLoE 2.1	2	Yes
Does the organisation produce relevant and reliable data and information to support decision making and manage performance?	KLoE 2.2	2	Yes
Does the organisation promote and demonstrate the principles and values of good governance?	KLoE 2.3	2	Yes
Does the organisation manage its risks and maintain a sound system of internal control?	KLoE 2.4	1	No
Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?	KLoE 3.3	2	Yes

Key for KLoE scores:
1 - Below minimum requirements - inadequate performance
2 - Meets minimum requirements – performs adequately
3 - Exceeds minimum requirements – performs well
4 - Significantly exceeds minimum requirements – performing excellently

Note that KLoE 3.1 'Managing natural resources' and KLoE 3.2 'Managing assets' were not applicable to the Council for 2008-09

3.5 The provisional findings from our 2008-09 use of resources assessment were reported to the Audit and Governance Committee in September 2009, as part of our report to those charged with governance (ISA260 report). We are pleased to report that, subsequent to our ISA260 report, these provision scores were confirmed following the Audit Commission's national quality control.

3.6 The Council's use of resources scores in the three themes, drawn from the scores above, are summarised in table 2.

Table 2: Use of resources scores

Theme	2009
1 Managing finances	2
2 Governing the business	2
3 Managing resources	2

- 3.7 We assessed the Council as performing adequately (level two) in the 'managing finances', 'governing the business' and 'managing resources' themes. These scores are representative of the assessments of Councils nationally. This is a result of the new, more demanding assessment criteria which require, amongst other things, demonstration of improved service delivery outcomes, rather than simply robust arrangements and improved outputs, which allowed Councils to achieve higher assessment ratings in the past.
- 3.8 The key achievements for the Council identified in our assessment, include:
- there are established performance management arrangements in place with regular reporting to members with performance data being used effectively to make decisions about future service delivery;
 - a commitment to improve the quality of services provided across the Council, by implementing systems reviews in underperforming services and identifying opportunities to develop existing processes; and
 - members provide effective challenge to the Council and, through the use of personal development plans, are developing the skills that are needed to better perform their individual roles.
- 3.9 The key actions for the Council, arising from our assessment, include:
- demonstrating integration of corporate documents with clearer links to the corporate priorities and showing how individual services contribute to the delivery of corporate priorities;
 - developing robust arrangements for risk management, including a corporate risk register and consideration of partnership risks; and
 - improving the management of the workforce, in particular that initiatives to reduce staff absences are effective.
- 3.9 We have agreed an action plan with management to implement these and our other detailed recommendations and will follow-up the progress on the implementation of these as part of our 2009-10 audit.
- 3.10 A summary of our detailed finding for each theme area is provided in the following paragraphs. This highlights the key areas, or characteristics, where the Council is

performing well as well as those areas where it needs to focus in order for it to improve its assessment.

Managing finances

- 3.11 This theme focuses on sound strategic and financial management, that is, whether the Council plans its finances to deliver its priorities, the extent to which it has a sound understanding of its costs and performance, and whether its financial reporting is timely, reliable and meets the needs of its population. We assessed the council as achieving level two, adequate performance, in this area.
- 3.12 The Council's corporate strategy sets out its seven corporate priorities which were developed in consultation with stakeholders and interested parties. The strategy is supported by service plans, although links between the strategy and service plans could be made clearer through the introduction of corporate priority delivery plans, which demonstrate how the work and achievements of services contribute to the delivery of the priorities. The resources to deliver the strategy are set out in the financial strategy and annual budgets, as well as in the service plans, which is underpinned by a robust budget setting process.
- 3.13 There is a sound understanding of the performance of services in priority areas, and performance information is presented to members on a quarterly basis. This has informed the systems reviews that have been focussed on those areas where performance improvements are required. These service reviews have been undertaken within the planning, benefits and housing service areas and, whilst the benefits have not yet been fully realised, there has been a considerable improvement in performance. The Council has developed a challenging three year efficiency target for the period 2008-11 and has successfully delivered the first years targets. The Council will need to continue its robust budget and planning approach if the full target is to be achieved.
- 3.14 Each month, budget monitoring reports are presented to the Executive Board and include explanations for variances identified in service areas. Following feedback from members, the Council have formed a review group to revise the format and content of these budget monitoring reports and are using this opportunity to better integrate financial and performance information to aid the decision making process and ensure funds are allocated to priority areas. The Council has made good progress in improving the overall quality of the statement of accounts and the process for preparing them, both in terms of their accuracy and working papers which support them.

Governing the business

- 3.15 This theme focuses on strategic commissioning and good governance, in particular how well the Council governs itself and commissions services that provide value for money and deliver better outcomes for local people. We assessed the Council as achieving an overall theme score of two, adequate performance.

- 3.16 The Council's corporate priorities have been developed in consultation with local stakeholders and it is working well to deliver these priorities through commissioning and procuring the appropriate services required. Where these are directly within the control of the Council, it can demonstrate how processes are resulting in improved outcomes in key services and, following the systems reviews performed in priority areas during the year, has shown that significant improvement in performance can be delivered. In addition, the Council procures a high proportion of goods and services locally, which also supports its priority around thriving economy.
- 3.17 There are established arrangements in place for performance management, with all performance indicators supporting corporate priorities being reported to members quarterly and the top 20, which are based on risk and priority, being updated and reported monthly. A review of indicators in the bottom quartile has informed the decision as to which services were selected for a detailed systems review and the Council is developing integrated finance and performance reporting to better inform short and medium term decision making. Internal audit test a sample of performance indicators each year to verify the accuracy of data reported by the Council.
- 3.18 The Council has robust governance arrangements in place, setting out the role and responsibilities of individuals and committees in its corporate strategy, which is published on the website, and through codes of conduct. Personal development plans have been introduced and are being effectively used in member development and members provide effective challenge to the Council. There are arrangements in place for whistle blowing and receiving complaints which have operated effectively during the year. A review of partnership arrangements has been started and this has highlighted the need for further work to clarify the Council's role across the range of partnerships that it is involved within, the resources contributed, the governance and performance monitoring arrangements.
- 3.19 Arrangements for risk management and internal control have deteriorated since 2007-08. The corporate risk register has not been formally updated or actively monitored by members, such as the Audit and Governance Committee, during 2008-09. The Council's internal audit service has continued to experience resourcing issues and this has impacted on the delivery of the internal audit plan for the year, resulting in a reduced programme of work. Whilst an anti-fraud forum has been established, there has been limited proactive counter fraud and corruption work performed due to the pressures faced by internal audit. These issues resulted in a score of one for KLoE 2.4 and a qualified use of resources conclusion in respect of the arrangements for risk management and internal control, as reported and discussed with the Council in September 2009. We recognise that significant actions are now being taken to address these areas of concern

Managing resources

- 3.20 This theme considers areas which have not, previously, been assessed on their own in detail, the use of natural resources and capital assets and workforce. As a result, we have only considered the arrangements and outcomes in place to ensure the Council effectively manages its workforce, which we assessed as being adequate, level two.

- 3.21 Use of natural resources and strategic asset management were not assessed in 2008-09 because the Audit Commission has prescribed that the introduction of themes within managing resources themes will be phased over three years.
- 3.22 The Council has a workforce and development strategy, which is supported by a range to human resources policies and succession planning is incorporated into the service planning process. Staff turnover remains low, although the absence rate is the highest in Devon and above the national average, with particularly high long term absence rates. In the Best Councils survey, East Devon achieved a top 25 for place for the sector 'Fair Deal', which assesses whether staff are happy with their salary and benefits, but in the council has yet to achieve level two in the equalities standards.

Looking ahead

- 3.23 We agreed our indicative 2009-10 audit fee with the Council in March 2009. Our fee letter set out our initial assessment of the local risk based use of resources work we plan to carry out to support our VFM conclusion. This comprised:
- a challenging revenue budget with reduced government funding, reduced income streams and increasing demand for services;
 - whether the constitution and other key regulatory documents to remain fit-for-purpose;
 - effectiveness of the internal audit function as a result of staffing issues; and
 - revised processes to document and monitor corporate risks.
- 3.24 Through discussions with the Council, we will confirm whether these risks remain relevant, and whether any new risks need to be considered as part of our use of resources work.

4 Closing remarks

Introduction

- 4.1 This letter was agreed with the Chief Executive and Corporate Director and presented to Audit and Governance Committee on 3 December 2009.
- 4.2 We would like to take this opportunity to express our appreciation for the assistance and cooperation provided during the course of the audit. Our aim is to deliver a high standard of audit, which makes a positive and practical contribution that supports the Council's own agenda. We recognise the value of your co-operation and support.

Grant Thornton UK LLP
November 2009

Appendix A 2008-09 reports issued

Report	Date issued
Audit plan	March 2008
Interim report	June 2009
Annual report to those charged with governance	September 2009
Use of Resources	December 2009
Annual audit letter	December 2009
Grants report	Due January 2010

Appendix B Audit and other fees 2008-09

Audit area	Budget 2008-09	Actual 2008-09
Financial statements *	£62,520	£62,520
VFM conclusion / Use of resources	£39,400	£39,400
Total Code of Practice fee	£101,900	£101,900
Certification of grant claims and returns	£26,000	£TBA
All other services (paid to the Audit Commission)	£5,972	£5,972



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