

# Annual Audit Letter

Elmbridge Borough Council

Audit 2008/09

October 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

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

- 2 The financial statements were of a high standard. Working papers supporting the statements were provided on a timely basis, were clearly presented and of a good quality. The finance team have been very helpful and responded quickly to our queries.
  - 3 The arrangements for the production of the Council's financial statements are sound.
  - 4 Our work did not identify any errors of a material nature and management agreed to amend the financial statements for the relatively small number of non material errors which were identified.
  - 5 There was one issue which arose during our audit which related to the Council's decision not to impair assets that were valued as at 1 April 2008. Evidence was provided by the Council which demonstrated that this did not have a material impact on the financial statements, however this evidence was not provided as promptly as we would have expected and resulted in some delays to our work. As the valuation of these assets in 2008/09 the Council would have been better advised to have obtained valuations as at 31 March 2009.
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## Value for money

- 6 On the 29 September I issued an unqualified value for money conclusion stating that the Council has adequate arrangements for securing economy, efficiency and effectiveness in the use of resources in all areas in the year.
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## Economic downturn and pressure on the public sector

- 7 The Council has a history of strong financial management and a proven history of managing its finances effectively against budgets. This linked with the efficiencies that have been created by its programme of value for money reviews means that the Council is in a relatively strong financial position to manage current economic downturn.
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- 8 There are a number of examples of actions taken by the Council which demonstrate a prudent approach to financial planning and management. The creation of an interest equalisation reserve to smooth the impact of fluctuating interest rates over the medium term is a good example of a measure taken by the Council to ensure financial security over the medium to long term. During 2008/09 the Council identified that major variances in certain key budgets would have a disproportionate effect on its overall financial position. Corporate Management Board now monitor these budgets more closely, looking in particular at the forecast out-turn for the year.
- 9 The Council has also taken action to help the local area during the economic downturn, for example earmarking £1m of reserves as a civic improvement fund which can be used to pump prime the local economy.
- 10 The Council has also recognised that it cannot stand still and is embarking on a new programme of reviews which will use business processes re-engineering to drive efficiency and improvements to services for local people. As part of this process the Council will need to ensure that its medium and long term financial plans take account of the increasing financial challenges. Critical to this will be identifying worst case scenarios and planning counter measures to mitigate these within the financial plans. It will also be essential the Council remains responsive and flexible to changing financial challenges and requirements as the wider economy responds to the economic and political situation

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### Treasury management

- 11 As part of our Use of Resources assessment we carried out a review of the Council's treasury management activity. The Council has closely monitored its counterparty list in light of the economic downturn, and adapted it accordingly. By delegating authority to 'Individual Cabinet Decision Making' the Council has been able to respond quickly to changes in credit ratings of institutions on its counter-party list.
- 12 The Council has achieved a balance in the risk it exposes itself to, and the level of return that it receives during the current uncertainty created by the current economic climate. Returns on investments are benchmarked against other authorities, and the Council has proven that it consistently achieves good standings in such comparisons.
- 13 There are plans to provide member training on treasury management during 2010. This will enable members to scrutinise more closely the treasury management activities of the Council.

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### Preparation for International Financial Reporting Standards

- 14 From 2010/11 Local Authorities will prepare their accounts in line with International Financial Reporting Standards (IFRS). One of the important lessons to be learnt, both from the private sector's experience of implementing IFRS, and the experience of other parts of the public sector that are in the process of implementing IFRS for 2009/10, is that early planning and preparation are essential to ensure a smooth transition.

## Key messages

- 15** The Council has responded well and has already taken a number of steps to manage the transition to IFRS. A report was taken to Audit and Standards in March 2009 which highlighted the major changes to financial reporting caused by IFRS. The Council has put in place an International Accounting Standards Working Group with a view to anticipating the impact of the changes on the Council's financial reporting arrangements, this includes a planned exercise to restate prior year balances in an IFRS compliant format.
- 16** At a very early stage we were approached by the Head of Finance and have already established a dialogue regarding some of the key areas of accounting judgement that may result as part of the transition to IFRS. The actions already taken and the Council's previous successes in managing changes to the financial reporting framework mean that the Council is well placed to manage the transition to IFRS.

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## Audit fee

- 17** In our initial plan we set out a proposed fee for completing the audit of £98,189. At that stage I stated that I would keep the fee under review. In my Annual Governance Report I highlighted that some of the work undertaken this year took longer than anticipated, in particular work surrounding the impairment of the Council's assets. However it is rare for us to experience difficulties of this nature at Elmbridge and I will not be raising any additional fee in respect of the 2008/09 audit plan. This is reflected in table 1 below.

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**Table 1      Audit fees**

	Actual	Proposed	Variance
Financial statements and annual governance statement	68,329	68,329	-
Value for money	29,860	29,860	-
<b>Total</b>	<b>98,189</b>	<b>98,189</b>	<b>-</b>

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## Independence

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

# Financial statements and annual governance statement

**The Council 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

- 19** I issued an unqualified opinion on the Council's financial statements on 29 September and I did not identify any material errors in the financial statements provided for audit. The number of non trivial errors identified was small and all of these were amended by management during the audit.
  - 20** There was one issue which arose during our audit which surrounded the Council's decision not to impair assets that were valued during 2008/09 with a valuation date of the 1 April 2008. Given that the revaluation exercise was undertaken during the financial year the Council may have been better advised to have valued these assets as at 31 March 2009. The decision not to impair these assets was based on an assumption that build costs in the area had not significantly changed during 2008/09. The Council was able to provide evidence to support this assumption during the audit but this process did take longer than might reasonably have been expected and could have been avoided had the assets been valued to the 31 March in the first instance.
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## Material weaknesses in internal control

- 21** I did not identify any weaknesses in the design or operation of internal control that might result in a material error in your financial statements of which you were not already aware. The weaknesses in the operation of controls in the Housing and Council Tax Benefit system were reported by the Council's Internal Audit department. I am satisfied that appropriate recommendations were made and that the proposed management actions are appropriate.
- 22** I do not provide a comprehensive statement of all weaknesses which may exist in internal control, or of all improvements which may be made. I only report on those matters which have come to our attention because of the audit procedures that have been performed.

### Accounting Practice and financial reporting

- 23** I considered the qualitative aspects of your financial reporting.
- 24** Our review of the fixed asset register identified a number of assets which have nil net book values but are still owned and used by the Council. Whilst this does not pose a material risk to the Council's financial reporting arrangements, a review of the asset register to ensure that it accurately reflects its asset base would align the Council's processes with best practice in respect of asset management. This should include a reassessment of useful economic lives and where appropriate revisiting depreciation charges.

# 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.

## Use of resources judgements

- 25** 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.
- 26** 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.
- 27** The Council's final 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.

**Table 2** Use of resources theme scores

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

- 28** My overall assessment of the organisation is that it is performing well above minimum standards in its Use of Resources and has scored a 3 out of a possible 4. Detailed findings have been included in Appendix 4.

### VFM conclusion

- 29** 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.
- 30** I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

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# Closing remarks

- 31** I have discussed and agreed this letter with the Chief Executive and the Strategic Director - Resources. I will present this letter at the Audit and Standards Committee on 18 November 2009 and will provide copies to all members.
- 32** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

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**Table 3**

Report	Date issued
Audit and Inspection Plan	June 2008
Review of Internal Audit	June 2009
Annual Governance Report	September 2009
Opinion on the Financial Statements	September 2009
Value for Money Conclusion	September 2009

- 33** The Council has taken a positive and constructive approach to our audit. I wish to thank the Council's staff and members for their support and co-operation during the audit.

Paul Grady  
District Auditor  
October 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.

**Table 1**      **Managing finances**

<p><b>Theme score - 3</b></p> <p>The Council has a history of strong financial management and is in a sound financial position heading into the current economic downturn. The council's business planning processes are integrated so that the expenditure on services is aligned to the council's corporate vision and top priorities. Local people are engaged in the process for making decisions about future spending plans and priorities. There are clear links between the budget, planned services and the Council's overall vision. The council is able to demonstrate that investment in services has resulted in improved outcomes and performance.</p> <p>The Council has a proven history of managing its finances well against its budgets. The creation of an interest equalisation reserve to smooth the impact of fluctuating interest rates over the medium term is a good example of a measure taken by the Council to ensure financial security over the medium to long term. The Council has also taken action to help the local area during the economic downturn, for example earmarking £1m of reserves as a civic improvement fund which can be used to pump prime the local economy.</p> <p>There is an open and transparent culture at the Council which allows a robust challenge of financial planning, assumptions and performance. Senior Officers and members are involved in the budget process from the outset. Strong leadership that welcomes robust challenge from staff and members enables more effective and relevant financial decision and accountability.</p> <p>The Council uses benchmarking regularly throughout the year to monitor both costs and performance, and remedial action is taken where there is a suggestion that value for money is not being achieved. The Council has also recognised that it cannot stand still and is embarking on a new programme of reviews which will use business processes re-engineering to drive efficiency and improvements to services for local people.</p>
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<b>Theme score - 3</b>	
<p>The rolling programme of value for money reviews which was completed in 2009 has allowed the Council to consider how each service contributes to the achievement of its objectives, how the service should be delivered and what efficiencies might exist within a service. They have provided the Council with significant savings, which have been reinvested in priority areas enabling service improvements whilst keeping overall funding at the same level. These reviews have been acknowledged as an example of best practice by the audit commission and IDeA.</p> <p>The Council has sound budget monitoring arrangements in place and the quality of financial information provided to users is robust. Budget monitoring information is reported to members alongside key performance indicators enabling members to monitor progress against the Council's key objectives as well as the financial position; during 2008/09 these performance reports have been expanded to include key information in respect of HR and staff management. During 2008/09 the Council identified that its overall financial position can be significantly affected by a number of key budgets, as any major variance in these key budgets has a disproportionate effect on the overall financial position. Corporate Management Board now monitor these budgets more closely, looking in particular at the forecast out-turn for the year.</p> <p>The council has a history of producing good accounts with a limited number of errors. Work completed to date suggests that this year's accounts will follow this trend. The council publishes simplified version of its accounts in the annual report published in the Council's magazine, The Elmbridge Review.</p>	
<p>KLOE 1.1 Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?</p> <p>Score VFM criterion met</p>	<p>3 Yes</p>
<p>KLOE 1.2 Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?</p> <p>Score VFM criterion met</p>	<p>3 Yes</p>

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

<b>Theme score - 3</b>	
<p>KLOE 1.3 Is the organisation’s financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?</p> <p>Score</p> <p>VFM criterion met</p>	<p>3</p> <p>Yes</p>

**Table 2      Governing the business**

<b>Theme score - 3</b>
<p>The Council has a strong culture that supports continuous challenge of service costs and value for money. The Council is proactive about identifying and implementing new ways of delivering services. The value for money reviews have been used to reduce costs whilst maintaining high levels of performance and securing improvements against local priorities. The Council can demonstrate the links between costs and performance. Where high costs are not in line with corporate priorities the Council takes action to address this.</p> <p>The Council has also worked alongside local partners to identify savings and provide more effective services, examples include successful joint service delivery via choice based lettings and rationalising non service functions such as IA and procurement by sharing posts with other districts and boroughs. The Council is working with partners to procure and commission goods and services. This is underpinned by the joint appointment of a Head of Procurement to ensure a joint approach to procurement and commissioning providing benefits for both authorities.</p> <p>The Council is developing arrangements to better understand the supply market and influence it, a procurement partnership has been established with the other Surrey Districts and IESE, the purpose of which is to make savings through effective procurement and explore shared services and regional purchasing arrangements. In addition it has identified options for joint procurement including framework agreements for the use of Bailiffs and potential partnership arrangements for waste collection.</p>

**Theme score - 3**

The Council's decision making processes are underpinned by strong performance management arrangements which monitor progress against corporate objectives and priorities. One of the key strengths in the Council's performance monitoring arrangements is the balance between national and local performance indicators. The use of relevant local indicators means that the Council is able to measure progress against its objectives more effectively.

The Council has developed a draft partnership governance framework that will include protocols on information sharing, data quality and a commitment to joint internal audits of data quality. A partnership governance framework that permits the sharing and reliance of data from other organisations should ensure that data is of good quality and secure.

The Council has a corporate governance framework in place that enables members and chief officers to perform effectively. The Council's constitution clearly sets out the distinction between executive, non-executive and scrutiny functions as well as clear descriptions of the roles and responsibilities of members and chief officers.

The Council's has effective risk management arrangements in place and undertook a review and reimplementation of its risk management strategy during 2008/09. There is a corporate strategic risk register which contains details of significant risks which may affect the Council's ability to achieve its priorities. However, the focus is on managing threats rather than identifying levers and barriers to the achievement of objectives.

In 2008/09 Fraud Awareness sessions were introduced for staff and in 2009/10 these sessions will be mandatory for all staff as part of the new Passport for Training. The Council has put in place a corporate governance group which is comprised of members of staff from finance, legal, organisational improvement and internal audit, this group considers governance issues including the contents of the Annual Governance Statement, this ensures that governance is not seen as purely a finance and audit function.

The triennial review of Internal Audit carried out in 2008/09 found that the Council's Internal Audit function was compliant with the requirements of the standards outlined in the CIPFA Code of Practice for Internal Audit. It is our opinion that the function provides a good internal audit service to the Council.

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

<b>Theme score - 3</b>	
<p>KLOE 2.1 Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?</p> <p>Score VFM criterion met</p>	<p>3 Yes</p>
<p>KLOE 2.2 Does the organisation produce relevant and reliable data and information to support decision making and manage performance?</p> <p>Score VFM criterion met</p>	<p>3 Yes</p>
<p>KLOE 2.3 Does the organisation promote and demonstrate the principles and values of good governance?</p> <p>Score VFM criterion met</p>	<p>2 Yes</p>
<p>KLOE 2.4 Does the organisation manage its risks and maintain a sound system of internal control?</p> <p>Score VFM criterion met</p>	<p>2 Yes</p>

**Table 3**      **Managing resources**

**Theme score - 3**

The Council's performance management framework reflects local priorities effectively. The priorities identified in the sustainable community strategy are adapted by the Council in its top priorities and cascaded down through the corporate plan, service plans to individual staff targets and objectives. This ensures that priorities for local people drive performance of council services. By offering a comprehensive benefits package the Council is demonstrating its commitment to retaining a skilled and productive workforce.

The Council has identified gaps in current skills and training and has plans to address this. A training programme has been developed that identifies the critical skills and training needed for all staff to meet core competencies. Providing appropriate skills and training to staff, results in a skilled productive workforce that can deliver effective services to local people. Recognising and rewarding good performance ensures staff are motivated to achieve and exceed performance targets, leading to improvements in local services that deliver better outcomes for residents.

The Council engages effectively with staff through different mechanisms. These include staff and managers forums to exchange views and share information; a monthly luncheon with the Chief Executive to discuss work issues; the Staff Panel which enables staff to contribute to consultation on corporate priorities as well as a formal consultative process that includes staff and union representatives; regular communications through the intranet site and staff magazine and regular staff surveys that result in action plans to address issues and concerns.

The Council has good people management systems in place. The re-accreditation of the IIP standard in February 2008 identified excellent working practices. Achieving re-accreditation enables the Council to continue to seek improvements in performance. The Council is committed to recruiting and retaining staff.

The Council's progress on equalities issues remains slow. The Council is only meeting level 2 of the current Local Government Equalities Framework. The Council took the decision to postpone the re-assessment until the new equalities framework and the impact of the Equalities Bill was fully understood. It is important that the Council meets its target to secure and 'Achieving' rating under the new standard by March 2010.

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

Theme score - 3	
KLOE 3.3 (workforce planning) Score VFM criterion met	3 Yes

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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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