

Annual Audit Letter

Forest of Dean District Council

Audit 2008/09

December 2009



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to Councillors or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any 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 the Council's financial statements and the results of the work I have undertaken to assess the Council's arrangements to secure value for money in its use of resources.

Audit Opinion

- 1 I issued an unqualified opinion on the financial statements on 30 September 2009.
-

Financial Statements

- 2 The financial statements submitted for audit contained three significant but not material errors which were corrected. None of these corrections significantly affected the income and expenditure outturn of the Council.
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Housing benefit subsidy claim

- 3 Our audit of the Council's housing benefit subsidy claim again identified weaknesses in the arrangements to classify overpayments. Some improvement has been made since last year and as a result we were able to certify the claim without qualification but the remaining weaknesses need to be addressed urgently.
-

Value for money

- 4 I issued a qualified conclusion on the Council's arrangements for securing value for money in the use of resources during 2008/09. This was due to weaknesses in the Council's arrangements during 2008/09 to:
 - understand its costs and performance and achieve efficiencies in its activities;
 - commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money;
 - produce relevant and reliable data and information to support decision making and manage performance;
 - manage its risks and maintain a sound system of internal control; and
 - plan, organise and develop its workforce effectively to support the achievement of its strategic priorities.
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Audit fees

- 5 The audit fees for 2008/09 are set out in Table 1. I undertook some additional work to support my 2008/09 use of resources assessment which involved reviewing the Council's arrangements for ensuring good governance and value for money when considering the re-awarding of the kerbside recycling and garden waste collection contract worth some £1.1 million per annum. The cost of this work was £25,400.

Table 1 Audit fees

	Actual	Planned	Variance
Financial statements and annual governance statement	£61,181	£61,181	--
Value for money	£66,031	£40,631	£25,400
Total audit fees	£127,212	£101,812	£25,400
Non-audit work	--	--	--
Certification of claims and returns *	£29,750	£29,750	--
Total	£156,962	£131,562	£25,400

* Estimate only as work not yet completed

Actions

- 6 The key action arising from our 2008/09 work is the need for the Council to produce an action plan to address the weaknesses identified in its value for money arrangements as set out in paragraph 4.
- 7 The Council also needs to continue to address the weaknesses identified in its arrangements for assessing housing benefit.

Recommendations

- R1** The Council should draw up an action plan to address weaknesses identified in the Council's value for money arrangements. Progress against the actions in the action plan should be monitored by Councillors.
- R2** Address the weaknesses in arrangements to classify housing benefit overpayments.

Key messages

Independence

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

Significant issues arising from the audit

- 9 I issued an unqualified opinion on the financial statements on 30 September 2009. The financial statements submitted for audit contained three significant but not material errors which were corrected. None of the corrections significantly affected the income and expenditure outturn of the Council.

Economic downturn

- 10 In August 2009, the Audit Commission published a national report on the impact of the economic downturn and the response of local authorities - *When it comes to the crunch - how councils are responding to the recession*. The economic downturn and banking crisis is having a significant impact on public finances. The impact on treasury management strategies has been immediate but there are likely to be wider and more fundamental impacts on the ability of public sector bodies to fund services and capital building programmes. The impact on the local economy and job market might impact on local authority income streams and benefit payments.
- 11 The Council is taking a number of measures as a result of the economic downturn including:
- strengthening its communication with employers across the Forest of Dean by:
 - improving the business and regeneration section of the Council's website to give businesses more access and signposting to the help they need; and
 - developing a regular electronic newsletter to enable businesses to keep up to date with advances, funding and training opportunities and examples of best practice and developments across the district; and
 - monitoring the impact of the downturn on local businesses and working with partners through the Local Strategic Partnership and Gloucestershire First's Economic Task Force to minimize the impact on the local economy. The aim is to ensure that local people who are experiencing hardship or have become unemployed can also access the support they need.
- 12 The direct impact on the Council of the downturn in the economy has largely been on income, for example, from planning application fees. Longer-term investments at interest rates before the banking collapse in September 2008 have safeguarded investment income.

Financial statements and annual governance statement

- 13 The October 2009 Cabinet report showed a potential overspend of £295,000 at the end of the 2009/10 financial year. Officers across the Council have worked together to identify ways of eliminating this overspend. A report detailing how the overspend is to be eliminated was presented to the November 2009 Cabinet.
- 14 The Council has experienced an increase of over 10 per cent in the number of housing benefit applications and has used additional funding from the Department for Work and Pensions to appoint benefit assessors on temporary contracts. However using new staff has resulted in an increase in the times taken to assess a claim whilst they are being trained. Consequently the Council is not meeting its targets for the speed of dealing with benefits claims.

Treasury management

- 15 The Council did not have any funds invested in Icelandic banks at the time of their collapse. It has tightened its counterparty policy to reduce the risk of possible financial loss to the Council as far as possible.

Housing benefits subsidy claim

- 16 Each year we audit the Council's annual claim to the Department for Work and Pensions (DWP) for housing benefits subsidy. In our 2007/08 Annual Audit and Inspection Letter, we drew Councillors' attention to serious weaknesses in the Council's arrangements for assessing benefit.
- 17 This year we have noted some improvement in arrangements and we were able to certify the 2008/09 claim, after a small net amendment, without the need for any form of qualification. The small amendment does however mask the high level of error on overpayment classification we found during our audit. Therefore there remains a need for more effective arrangements to ensure that overpayments are correctly classified as these affect the subsidy from the DWP.
- 18 We are concerned that the arrangements which gave rise to the errors we detected in 2008/09 are still in place and that we will find similar high levels of errors in overpayment classification in 2009/10.
- 19 We will be undertaking a housing benefit inspection in Spring 2010.

Recommendation
Address the weaknesses in arrangements to classify housing benefit overpayments.

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

- 20** 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.
- 21** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 22** The Council's use of resources theme scores are shown in Table 2. 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	2
Governing the business	1
Managing resources	1

Value for money and use of resources

23 The Council's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2009 have been assessed as Level 1, which indicates that minimum requirements have not been met. It is clear that officers and Councillors are fully committed to improving arrangements and that progress has continued to be made since the year end to address gaps in the Council's arrangements which include:

- not having a full understanding of all costs and value for money of main services;
- weak project management of the re-awarding of a major contract and insufficient information to Councillors at various stages of the process;
- inadequate risk management arrangements; and
- lack of workforce plans.

Further detail on these gaps is included in Appendix 1.

24 In October 2008, we issued a formal recommendation to the Council that it should make urgent improvements to its governance arrangements in a number of areas including the procurement of goods and services and financial responsibilities and accountabilities. In response to this, the Council drew up a governance action plan which has been monitored regularly by the Audit Committee.

25 Governance arrangements have improved during 2008/09 with the corporate governance group overseeing the implementation of the governance action plan. Improvements include a better approach to procurement with a new procurement strategy and updated contract procedure rules. These improvements have continued in 2009/10 with the launch of the Council's new governance intranet site which went live in May 2009.

26 In 2008/09, the Council also made a number of improvements to the planning of its finances. There are now better, more transparent links between strategic and financial planning. The Council is working on developing more ways to inform its budget process and the Value for Money Task Group is looking to produce a framework to help with that development and to benchmark the Council's service performance against other comparable councils.

27 The structure of the Council's Improvement Board has been changed to help build ownership by all Councillors of the improvement agenda. The Council has an Improvement Plan and is on track with many actions completed. Under the direction of the Improvement Board there has been an improved approach to performance and project management demonstrated by, for example, an improved planning service and the opening of the new reception area on time.

Recommendation

The Council should draw up an action plan to address weaknesses identified in its value for money arrangements. Progress against the actions in the action plan should be monitored by Councillors.

Kerbside recycling and garden waste collection contract

- 28 The Council currently contracts all waste collection and recycling services to the private sector. The contract for the collection of kerbside recycling and garden waste was due to end on 31 July 2009. A number of allegations were made to us by a councillor relating to the arrangements for the re-awarding of this contract. As a consequence, we undertook some additional work to review the Council's arrangements for ensuring good governance and value for money when re-awarding the contract.
- 29 The main findings from this work were:
- insufficient information was provided on a timely basis to Cabinet members responsible for making decisions to ensure that the Council complied with legislation and avoided the risk and expense of any future challenge. In particular this information should have included full details of any possible legislative and financial constraints, risks, or other difficulties and a detailed explanation of the relative value for money of the existing waste collection arrangements; and
 - project planning had been lacking as demonstrated by the need to revisit decisions made in March and July 2009 to provide further information to Cabinet. We did not see any evidence of a project plan for the re-awarding of the recycling contract and given the scale and importance of this contract to the Council, we would have expected to see more regular reporting back to Councillors on progress made against project milestones.
- 30 We have worked with officers to ensure that the final decision making report to Cabinet members in September 2009 covered all necessary information in full and addressed any outstanding concerns we had.

VFM Conclusion

- 31 I assessed the Council's arrangements to secure value for money in its 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.
- 32 During 2008/09, I identified weaknesses in the Council's arrangements to:
- understand its costs and performance and achieve efficiencies in its activities;
 - commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money;
 - produce relevant and reliable data and information to support decision making and manage performance;
 - manage its risks and maintain a sound system of internal control; and
 - plan, organise and develop its workforce effectively to support the achievement of its strategic priorities.

Value for money and use of resources

- 33 I issued an adverse qualification conclusion on 9 December 2009 stating that the Council did not have adequate arrangements for securing economy, efficiency and effectiveness.

Closing remarks

- 34** I have discussed and agreed this letter with the Head of Paid Service and the Group Manager - Finance. I will present this letter at the Audit Committee on 28 January 2010 and will provide copies to all Councillors.
- 35** 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.

Table 3

Report	Date issued
Audit Plan	May 2008
Opinion audit plan	May 2009
Use of Resources	September 2009
Interim Annual Governance Report	September 2009
Opinion on accounts	September 2009
Whole of Government Accounts opinion	September 2009
Re-awarding of the kerbside recycling and garden waste collection contract	October 2009
Final Annual Governance Report	October 2009
VFM conclusion	December 2009

- 36** I wish to thank the Council staff for their co-operation during the audit despite the tensions that have existed because of differences of view about some of the audit findings.

Richard Lott
 District Auditor
 December 2009

Appendix 1 – Use of resources key findings and conclusions

The following tables summarise the key findings and conclusions for each of the three use of resources themes.

Managing finances

Theme score	2
Key findings and conclusions	
<p>The Council manages its finances adequately. The Council does not yet have a full understanding of all its costs but senior Councillors and officers have worked together well to better understand costs and make savings accordingly to meet the budget gap for 2009/10 and future years. The Council has adequate reporting arrangements.</p>	
KLOE 1.1 (financial planning)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
<p>The Council's approach to financial planning is adequate. There are good links between strategic and financial planning and the Council is starting to make better links with service plans.</p> <p>The Council engages the local community in financial planning but recognises that it needs to involve them more to match targets to their aspirations.</p> <p>The Council assesses the impact of its policies and decisions on its diverse communities in compliance with the requirements of equalities legislation. The Council has carried out equality impact assessments to assess the potential impacts of key budget proposals on specific groups.</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>1</p> <p>No</p>
<p>Key findings and conclusions</p> <p>The Council does not yet have a full understanding of all its costs. It has a high level understanding of how costs and performance compare with other district councils by using the Audit Commission's VFM tool.</p> <p>The Council has plans to further refine its understanding and use of cost and performance information. Service plans do not provide a clear basis for understanding the costs of services. They do contain reference to the budget allocated to services and action plans contain a column entitled resources needed but this does not, on the whole, include any meaningful information about the actual cost of taking the action.</p> <p>The Council used its understanding of relative costs in setting its budget for 2009/10. The budget setting process included workshops with the Cabinet to establish priorities and set out initial proposals for cost cutting.</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>The Council's arrangements for financial reporting are adequate. Formal budget monitoring and reporting have been limited in the past with only quarterly reporting. There are plans in place to provide councillors with monthly reporting which will enable them to better monitor spend against budget more promptly.</p> <p>Budgetary reporting is weak as evidenced by Internal Audit's limited assurance on the Council's arrangements in 2008/09. This found that monthly reporting arrangements were inconsistent and that a number of officers did not understand the reports produced for them or stated that the reports did not suit their needs.</p> <p>The Council's preparation of its annual accounts is satisfactory. The working papers provided to support the accounts were of good quality but officers recognise that further improvements could be made to them, for example, by ensuring that there are no errors in spreadsheet formulae.</p>	

Appendix 1 – Use of resources key findings and conclusions

Governing the business

Theme score	1
Key findings and conclusions	
<p>Following problems in 2007/08, the new management team has put in place arrangements to improve governance arrangements. It has done a lot of work to improve its strategic approach to procurement as well as the operational rules for this but there remains more for the Council to do. The Council's approach to ensuring good quality information is variable and there is more work to do on risk management.</p>	
KLOE 2.1 (commissioning and procurement)	
Score	1
VFM criterion met	No
Key findings and conclusions	
<p>The Council has made some improvements to its procurement processes but there is more to do. Following a nil assurance from its internal auditors in 2007/08, the Council developed a new procurement strategy which was approved by Cabinet in January 2009 and at the same time updated its contract procedure rules. The Council now needs to ensure that the strategy and procedures are implemented effectively across the organisation.</p> <p>The Council does not have a systematic approach to evaluating different ways of delivering services to maximise efficiency. It has started to use its understanding of costs to target specific service areas and to apply lean systems thinking – a systematic approach to making services more efficient and customer focussed. The Council has recently adopted a value for money (VFM) strategy that sets out its objectives around VFM and some key actions that it can take to achieve them. But it is too early for the VFM strategy to have an impact on service planning.</p> <p>Project management is lacking. The kerbside recycling and garden waste collection contract expired at the end of July 2009 and there was no evidence of a project plan for the re-awarding of the contract. Given the scale and importance of this contract to the Council we would have expected to see more regular reporting back to all Councillors on progress made against project milestones. In addition the Council's evaluation of kerbside recycling and garden waste collection procurement options has been weak and up until recently (September 2009), the Council did not adequately demonstrate that it was achieving good VFM from its existing supplier and therefore that the intention to continue procuring the service from the same supplier was soundly based.</p> <p>The Council has a clear vision of what it is trying to achieve. Its corporate plan reflects the priorities set out in the sustainable communities plan.</p> <p>The Council is clear about the importance of service users and staff influencing procurement. The Council's new procurement strategy refers to the importance of this in its key principles section.</p> <p>The Council is not yet using IT to deliver savings. The Council has done a lot of work to get IT services fit for purpose including reviewing the structure of the IT section itself and is now looking to see how it can better use IT to support the business including how it can help deliver savings.</p>	

Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 2.2 (data quality and use of information)</p> <p>Score</p> <p>VFM criterion met</p>	<p>1</p> <p>No</p>
<p>Key findings and conclusions</p> <p>The Council does not always provide adequate information to enable Councillors to made effective decisions. Performance reports are clear and the Council is improving the information available to councillors. Our recent work on the re-awarding of the kerbside recycling and garden waste collection contract highlighted that during 2008/09 Councillors did not receive full enough information at certain stages of the process about possible legislative and financial constraints, risks or other difficulties to allow them to properly consider all options in their decision making.</p> <p>The Council takes data quality seriously and has made improvements to its arrangements for producing relevant and reliable data. The Corporate Governance Group recognises the importance of data quality and at its February 2009 meeting identified changes to improve arrangements, for example, inclusion of data quality risks at an operational level in risk management training. There are problems with the data that the Council gets from some partners.</p> <p>The Council monitors performance and is starting to use this information to address underperformance. The Council recognises that it needs to move to a more systematic approach to using its performance information to identify corrective action when it is needed.</p> <p>Improvements are being made to the Council's data security arrangements. A survey undertaken by the Council in March 2009 highlighted that a significant number of staff would describe the Council's IT security as poor or very poor and were not fully aware of the Council's rules about the use of IT resources such as internet, emails and telephones. These weaknesses are now being addressed.</p>	

Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 2.3 (good governance)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p> <p>The Council is serious about improving governance. There is an officer corporate governance group in the Council that has overseen the implementation of an improvement plan to address weaknesses that the Council and others identified in corporate governance arrangements last year.</p> <p>The corporate governance group's work has ensured a sustained focus on improving governance arrangements although it has yet to produce a local code of corporate governance. The Council has worked hard to raise awareness of the importance of governance issues amongst its staff.</p> <p>The Council is starting to embed a strong ethical framework and culture. It has promoted the role of the Standards Committee in the press and internally. Councillors are aware of the standards required of them, although the behaviour of some does not always reflect this.</p> <p>The Council recognises that there is more work to do on the governance arrangements with external organisations but has, rightly, been focussing on getting its own arrangements in order first.</p>	
<p>KLOE 2.4 (risk management and internal control)</p> <p>Score</p> <p>VFM criterion met</p>	<p>1</p> <p>No</p>
<p>Key findings and conclusions</p> <p>The Council's risk management arrangements are developing. All service plans identify risks, although coverage is variable and further work is needed to clearly articulate specific risks and measures to mitigate these.</p> <p>There is a business continuity plan which sets out roles and responsibilities and a priority order of services for delivery in the event of an emergency that reduces the Council's staffing levels.</p> <p>The Council did not fully participate in the Audit Commission's national fraud initiative in 2008/09 and was warned about legal action for non compliance. The Council did not submit two sets of data, one for technical reasons and the other for data protection reasons, by the due deadline.</p> <p>The Council has improved its internal control arrangements. This is indicated by the Head of Internal Audit's satisfactory assurance opinion for 2008/09 compared with the limited assurance opinion for 2007/08. However during 2008/09, there remained some areas for improvement including updating financial procedures to reflect current Council structures and raising staff awareness of financial regulations.</p>	

Managing resources

Theme score	1
Key findings and conclusions	
The Council recognises that its workforce planning is weak and is starting to identify what actions it needs to take to address this. The Council is committed to developing and supporting its staff through a period of significant change and has already made some progress in achieving this aim.	
KLOE 3.1 (use of natural resources)	
Score	Not assessed at district councils in 2008/09
VFM criterion met	Not applicable
KLOE 3.2 (strategic asset management)	
Score	Not assessed at district councils in 2008/09
VFM criterion met	Not applicable

Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 3.3 (workforce planning)</p> <p>Score</p> <p>VFM criterion met</p>	<p>1</p> <p>No</p>
<p>Key findings and conclusions</p>	
<p>There is no workforce plan for the Council and service plans do not consider workforce planning issues. The Council recognises that its training plan is not yet fit for purpose and is working to improve the plan. The Council has only just started the job evaluation process.</p> <p>The Council is good at engaging and supporting staff in a period of significant change for the Council. The Council also produced a clear, open and honest briefing for staff about the budget that included providing them with an opportunity to talk to managers about concerns.</p> <p>The Council is committed to developing the skills of its existing and future staff. There is a strong sense in the Council that the management team is strong and that the Cabinet and senior managers work well together.</p> <p>The Council is also part of the Gloucestershire Public Services Employment Partnership and has committed to signing the skills pledge. This is a voluntary public commitment made by the leadership of an organisation to support all its employees to develop their basic skills and work towards relevant qualifications to at least NVQ level 2.</p> <p>The Council does not have plans in place to ensure that it has the right staff with the right skills in the medium term. The Council's new human resources strategy is not adequate. It does include some key priorities and objectives but it does not contain a robust assessment of the key issues facing the Council.</p> <p>The Council has mechanisms in place to ensure that managers are kept up to speed with the information they need to manage their services. There are monthly meetings of the managers where key performance issues are discussed as well as important items such as absence management, internal control matters and new HR policies.</p>	

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Audit Letter 2008/09 Recommendations						
4	R1 The Council should draw up an action plan to address weaknesses identified in its value for money arrangements. Progress against the actions in the action plan should be monitored by Councillors.	3	Head of Paid Service	Yes	Use of Resources action plan addresses all the weaknesses identified in the value for money arrangements. A draft of the plan has been shared with the Audit Commission and will be monitored by the Audit Committee from its meeting on 28 January 2010.	28 January 2010
4	R2 Address the weaknesses in arrangements to classify overpayments as identified in our work on the housing benefits subsidy claim	3	Revenues and Benefits Performance Manager	Yes	Work is underway to address weaknesses in arrangements to classify overpayments.	30 September 2010

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