



PUBLIC SECTOR

Annual Audit Letter 2008/09

Fylde Borough Council
December 2009

AUDIT

Content

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1. Audit reports issued

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 Trevor Rees, who is the engagement partner to the Authority, telephone 0161 246 4063, email trevor.rees@kpmg.co.uk who will try to resolve your complaint. Trevor is also the national contact partner for all of KPMG's work with the Audit Commission. If you are 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 Fylde Borough 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. Throughout our audit we have highlighted areas of good performance and also provided recommendations to help you improve performance. 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 1.

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 two; and
- *accounts* – the Financial Statements and the Annual Governance Statement, summarised in section three.

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 had sound processes in place for most elements of the assessment. However, we identified some weaknesses during our audit affecting aspects of each of the themes. These weaknesses had a specific impact on our assessment of the Council's arrangements for understanding costs, commissioning and procurement, and workforce planning. Despite the identification of such weaknesses, we concluded that the Council had for the most part made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
- Our value for money conclusion was not qualified, but on the basis of these weaknesses we issued an 'except for' opinion. We identified no significant issues in the course of the financial statements audit and we issued an unqualified audit opinion on the Council's financial statements for 2008/09.

Comprehensive Area Assessment framework

The Audit Commission and the other public service inspectorates introduced a new assessment framework during 2009, Comprehensive Area Assessment (CAA). CAA is a new way of assessing local public services in England. It examines how well councils are working together with other public bodies to meet the needs of the people they serve. It is a joint assessment made by a group of six independent watchdogs. Assessments will be made publicly available every year and will provide an annual snapshot of quality of life in the area. The first results will appear on a new 'Oneplace' website.

Work in this area is being led by the local Comprehensive Area Assessment Lead (CAAL). The CAAL has shared draft findings with officers and he is due to formally report in December 2009. Alongside the CAA report, the organisational assessment will be issued which combines the judgements on your use of resources and managing performance assessments.

Any issues arising will be discussed with you and planned into future years audit and assessment activity.

Executive summary (continued)

Financial standing

The last year has seen the country enter a significant economic recession. The consequence locally is an increasing demand for public services and the likelihood of reduced levels of central government funding. Together, these provide a significant challenge for local councils as they seek to continue to provide services to local residents, whilst maintaining a sound financial position.

The Council has taken a number of steps to strengthen its financial position and has recently refreshed its medium term financial strategy. The reserves level has increased following a Capitalisation directive for £705,000 in 2008/09. There are still some stretching savings targets that need to be achieved through 2009/10 and beyond. Should there be a reduction in government funding, the Council recognises that the current level of service provision is not sustainable and a critical evaluation of services will need to be undertaken.

Fylde Borough Council had no investments in Icelandic financial institutions which suffered at the start of the economic downturn. The Council has a robust investment policy which limits exposure to higher risk financial organisations.

The impacts of the recession will continue to present a challenge to the Council in the coming financial year. We will continue to monitor the Council's response and actions in this key area.

Future issues

- From 2010/11 local government bodies are required to prepare their financial statements under International Financial Reporting Standards (IFRS) and therefore the Council will need to be preparing for this transition.
- 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 huge opportunities in addressing sustainability with clear cost reduction opportunities from saving energy which will become more and 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 now to implement new information gathering processes.
- Public expenditure forecasts indicate that there will be significant pressure on local authorities' funding in the medium term. Future financial settlements will be extremely 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 needs to establish robust financial plans to deliver the levels of savings required for the future.

Fees

Our fee for the audit is £125,000. In addition, our fee for the certification of grants will be approximately £21,000.

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.
- *Specific risk based work* – we carry out specific reviews of issues facing you, based on a risk assessment and from risks raised with us from various sources. This year we undertook a review of the Council’s financial planning and management arrangements.

The findings from this work are summarised below.

Element of work	Key findings								
Use of Resources	<p>Our assessment of Fylde Borough Council against the three themes resulted in the following scores on a scale of one (inadequate) to four (performing strongly):</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="background-color: #003366; color: white;">Area</th> <th style="background-color: #003366; color: white;">Score</th> </tr> </thead> <tbody> <tr> <td style="background-color: #a6c9ec;">Managing money</td> <td style="background-color: #a6c9ec; text-align: center;">2</td> </tr> <tr> <td style="background-color: #a6c9ec;">Governing the business</td> <td style="background-color: #a6c9ec; text-align: center;">2</td> </tr> <tr> <td style="background-color: #a6c9ec;">Managing resources</td> <td style="background-color: #a6c9ec; text-align: center;">1</td> </tr> </tbody> </table> <p>These scores build on last year’s UoR assessment when the Council scored level 2 (performing adequately). 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. For example, for district councils the Managing Resources assessment focused this year only on workforce planning arrangements, an area not formerly considered by the previous UoR framework. The issues leading to the level 1 score had therefore not been covered by previous audit work.</p> <p>In achieving level 2 for the other themes, the Council has been able to prove that overall it has adequate arrangements in place. However, there are elements of both themes where we identified specific weaknesses which were scored at level 1 at a more detailed assessment level. For Managing Money, this related to understanding costs. For Governing the Business, the issues related to aspects of the Council’s commissioning and procurement processes. In all these cases the Council is taking steps to strengthen its arrangements</p>	Area	Score	Managing money	2	Governing the business	2	Managing resources	1
Area	Score								
Managing money	2								
Governing the business	2								
Managing resources	1								
Value for money conclusion	<p>We issued an ‘except for’ value for money conclusion for 2008/09. This means that we concluded that the Council had appropriate arrangements in place to ensure the effective use of its resources, except for specific weaknesses that were identified during our audit which impact on our assessment of the Council’s arrangements for:</p> <ul style="list-style-type: none"> ● understanding costs and performance; ● commissioning and procurement; and ● workforce planning. 								
Specific risk based work	<p>As part of this year’s audit we undertook a specific review of the Council’s arrangements for financial planning and management. This concluded that processes have improved and sound building blocks have been put in place. Nevertheless, there remains much to be done to improve financial management across the Council. The Council has put into place an action plan to address the recommendations in the report which was presented to Audit Committee in September 2009.</p>								

Audit opinion

We issued an unqualified opinion on your accounts on 29 September 2009. This means that we believe the accounts give a true and fair view of the financial affairs of the Council and of the income and expenditure recorded during the year.

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 Committee meeting on the 29 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 the 30 June deadline supported by working papers that showed a marked improvement compared with the previous year.
- Our audit identified three audit adjustment which were material in nature to the financial statements but these had no impact on the general fund. Four other errors were identified but these were not significant in value and were therefore not amended. A number of other amendments identified were of a presentational nature.
- Our audit resulted in two recommendations regarding financial controls. The detail of these was set out in our ISA260 report presented to the Audit Committee on 29 September 2009.

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

Future issues

From 2010/11 local government bodies are required to prepare their financial statements under International Financial Reporting Standards (IFRS). There is a transitional process that needs to be followed, starting with assessing the areas where IFRS will require re-statement of prior year financial statements in order to comply with the new standards. The Council will need to effectively manage this transition, ensuring that its financial systems and procedures have been reviewed and updated as necessary and that finance staff receive necessary training in order to continue its good track record of producing timely, complete and materially accurate financial statements.

Areas where particular focus will be required include:

- Leases – Collation of records for all current lease contracts and establishing whether these should be classified as operating or finance leases.
- Private Finance Initiative (PFI) – Obtaining models that the Council will use to model the accounting impact of their PFI schemes and generate the appropriate accounting entries.
- Property Plant and Equipment – Ensuring procedures are in place to revalue assets as and when required. The Council will need to agree whether valuations for component assets will be provided through the formal valuation process or by using internal information as and when valuations are completed.
- Employee benefits – Establishing an acceptable methodology which is agreed with the Councils auditors for calculating employee benefit accruals in relation to untaken annual leave, flexi-time and time off in lieu. This should be applied to calculate an opening accrual as at April 2009.

The Council is using the services of a Consultant to assist with the management of this process. Audit Committee members have been briefed on the impact of the implementation and the Council's preparations for this are in line with the timetable in place. We will continue to liaise with the Council, ensuring that its plans are sufficiently progressed to meet the expected reporting requirements.

Appendix 1: 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	June 2008
Annual Audit Fee letter 2009/10	April 2009
Report to those charged with governance 2008/09	September 2009
Review of Financial Planning and Management	September 2009