

# Annual Audit Letter

Gloucestershire County Council

Audit 2008/09

November 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 my 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.

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## Financial Statements

- 1 The Council's financial statements were complete, free from material error and published on time. I highlighted a small number of matters from my audit of the financial statements and the Council has agreed to review these matters in 2009/10.
  - 2 The Council were caught by the collapse in Icelandic banks in October 2008. The Council had invested £12.5 million and has made provision in its financial statements for a potential loss of £1.7 million. But the Council has built up sufficient financial reserves in previous years so that there is little risk to council services.
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## Value for money

- 3 I concluded that the Council had adequate or better arrangements in place to achieve value for money from its use of resources in all the areas that I examined. In a significantly harder test this year, I reviewed three themes in Managing Finances, Governing the Business and Managing Resources. The Council is performing consistently above minimum standards, performing well, in respect of Managing Finances and Governing the Business and adequately for Managing Resources.
- 4 I have undertaken two risk based reviews in the year and my main findings are as follows.
  - **Reducing Health Inequalities** - health outcomes are generally good in Gloucestershire but the outcomes are not uniform across the county. The Council and Gloucestershire Primary Care Trust (PCT) have established a partnership to address health inequalities. I concluded that the Gloucestershire Health and Community Wellbeing Partnership (GHCWP) has established a sound basis for partnership working to reduce health inequalities in Gloucestershire. However, the GHCWP has not yet developed an effective role in directing, coordinating and managing work across the county to maximise the impact of local activities to reduce health inequality.
  - **Joint Workforce Planning** - I considered the effectiveness of workforce planning for social and health care provided jointly by the Council and the PCT. This covers services such as dementia care and services for people with learning disabilities. I concluded that the current arrangements incorporate elements of good practice and have delivered good results in some areas, providing a sound basis on which to build. But the Council and PCT's current arrangements are not adequate to ensure that joint workforce planning addresses the challenges facing both

organisations in the future. These challenges include, for example, new patterns of service delivery as a result of the introduction of personal budgets in health and social care.

## Audit fees

5 There has been no change to my planned audit fees for 2008/09; as follows.

**Table 1 Audit fees**

	£
Financial statements and annual governance statement	133,023
Value for money	89,684
Total audit fees	222,707
Certification of claims and returns (estimate)	27,600
Extra fee work*	21,998
Total	272,305

\* Extra fee work includes my view on the Council's accounting treatment for the proposed waste disposal PFI project, the provision of technical guidance to the Council's finance staff, the Keynes Country Park investigation, my consideration of the duplicate payments letter and work to date on the objection of unlawful expenditure by Marling School.

## Actions

6 Recommendations from my reports are agreed with the Council and are contained within the reports listed in Table 4. I have not reproduced them again in this letter. However, I believe the Council would value a management response to the matters raised in this letter.

### Recommendation

**R1** Management should report to the Audit Committee on the issues highlighted in this letter.

## Independence

7 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.**

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## Financial Statements

- 8 The financial statements were published on time by the Council. In my opinion, the Council's 2008/09 financial statements present fairly the Council's financial position and its income and expenditure for the year.
- 9 I reported the main findings from my audit of the financial statements to the Council's Audit Committee on the 23 September 2009. I reported that the Council's financial systems were generally sound but I highlighted:
- weaknesses in the arrangements for authorising starters, leavers and changes to payroll personal data; and
  - weaknesses in the system of journal accounting, that is, an internal system for moving income and expenditure from one heading to another.

The Council has agreed to review all these matters in 2009/10.

- 10 I have received one 'objection' to the financial statements from a member of public. The objection is that the Council's financial statements include unlawful expenditure by a Foundation School. The objection is currently under my review.
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## Icelandic Bank investments

- 11 The Council has £12.5 million of investments in Icelandic Banks and has made provision in its financial statements for a potential loss of £1.7 million. But the Council has built up sufficient financial reserves in previous years so that there is little risk to council services.
- 12 In March 2009 the Audit Commission published a national report (*Risk and Return*) on local authority treasury management with a specific focus on the Icelandic Banks collapse in October 2008. This report identified that some local authorities had not reacted to warning signals about Icelandic banks and continued to place investments. I found that the Council acted quickly on warning signals and ceased to make investments in Icelandic banks.

### Economic downturn

- 13** 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.
- 14** The Council has recognised that the economic downturn may drive changes in levels of funding and in services provided and in how they are provided. The Council has already set out an ambitious programme - *'Building our Future'* - to transform services and deliver £30 million of efficiencies in the medium term (3-5 years) whilst maintaining the quality of service delivery. I plan to review the Council's programme in 2010.

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# 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.

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## Use of resources judgements

- 15** 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.
- 16** This methodology replaces earlier Use of Resources assessments. It is not comparable with previous scores because it is now a much harder test and I now:
- take account of different factors; the scope is wider;
  - put less emphasis on the arrangements in place and more emphasis on their impact - it assesses organisational effectiveness; and
  - recognise that the use of resources is broader than financial resources, embracing the use of natural, physical, human and technological resources.
- 17** I have 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.

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## Use of resources - the Council

- 18** The Council's use of resources theme scores are shown in Table 2 below. The scores for the underlying KLOEs are shown in Appendix 1.

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**Table 2 Use of resources theme scores**

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	3
Managing resources	2

- 19 The detailed findings were reported to the Council in September 2009. The Audit Commission will notify councils on 10 December 2009 of their overall score for Use of Resources and publish the scores for all councils on the Audit Commission website.
- 20 The Council is performing consistently above minimum standards, performing well, in respect of Managing Finances and Governing the Business and adequately for Managing Resources. A brief summary of my findings are as follows.

### Managing finances

- 21 **Financial Planning** - The Council has effective financial planning arrangements in place that ensures strategic priorities are fully integrated into its annual and medium term budgets. The Council has a history of managing spending with budget and effectively engages with stakeholders to inform financial planning decisions.
- 22 **Understanding Costs** -The Council has a good understanding of its costs and how they compare with others. This information is used to inform decision making, ensuring decisions are based on complete and accurate information. The Council has focused on the need to make efficiencies, has achieved significant savings over the last few years and has plans in place to monitor their achievement in the future.
- 23 **Financial Reporting** - The Council has effective arrangements in place to manage its budget. Internal financial monitoring and reporting during the year is relevant, understandable and accruals based, ensuring a clear link between the budget, in-year forecasts and actual year-end position. The 2008/09 annual accounts were materially correct and produced in accordance with statutory deadlines.

### Governing the business

- 24 **Commissioning and Procurement** - A strategic procurement framework has improved systems to ensure consistency in approach whilst encouraging innovative service design. However, outcomes are not always routinely measured either because the projects are too new or feedback mechanisms have not been built into the process.
- 25 **Data Quality** - Arrangements for ensuring data quality are strong, with the Council producing high quality, relevant and reliable data and information to support decision making. My audit of three Local Area Agreement (a agreement setting out the priorities for Gloucestershire) National Indicators has identified that all are being collated in accordance with their definitions and accurately reflect the performance of the Council.
- 26 **Good Governance** - The Council's leadership has a vision of what it wants to achieve for its local communities and this vision is reflected in its priorities. There are positive working relationships between members, management and officers.
- 27 **Risk Management and Internal Control** -The Council also has strong risk management arrangements that include numerous examples of innovative and best practice. The arrangements for prevention of fraud and corruption are good and internal control is effective.

## Value for money and use of resources

### Managing resources

- 28 Natural Resources** - The Council's approach to understanding and quantifying its use of natural resources is inconsistent. It has worked well with the Carbon Trust to identify a baseline for its energy use and carbon dioxide emissions but has not created a baseline or risk assessment for the whole range of environmental issues such as environmental legal compliance and bio-diversity. The Council is at an early stage of implementing a corporate approach to managing performance to reduce impact on the environment and managing environmental risks.
- 29 Asset Management** - The Council holds up to date and complete information on its asset base. This information is supplemented by a traffic light based system for demonstrating the suitability of assets and a method of transparent project appraisal for capital bids. The Council has clear plans in place to ensure that investment focuses on areas of likely demand for services in the future. Specifically, the Council is assessing future demand for services into the long term and recognises that the asset portfolio required to deliver quality services in the future will be different and is working to ensure this is realised.

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### Use of resources - Gloucestershire Fire and Rescue Authority (GFRA)

- 30** I also considered how well GFRA 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.
- 31** GFRA's use of resources theme scores are shown in Table 3 below. The scores for the underlying KLOEs are shown in Appendix 1.

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**Table 3 Use of resources theme scores**

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	3
Managing resources	2

- 32** The detailed findings were reported to the Council in September 2009. The Audit Commission will notify fire and rescue authorities on 10 December 2009 of their overall score for Use of Resources and publish the scores for all fire and rescue authorities on the Audit Commission website.
- 33** GFRA is performing consistently above minimum standards, performing well, in respect of Managing Finances and Governing the Business and adequately for Managing Resources.

**34** The judgements for GFRA draw heavily on the Council's corporate arrangements although these are amended or supplemented to reflect the particular nature of the service. The most significant differences between GFRA and the Council are as follows.

### Governing the business

**35 Commissioning and Procurement** - GFRA arrangements in this area are stronger than the Council as a whole. GFRA is collaborating regionally to generate procurement and commissioning efficiencies. Severn Park the joint fire fighting training centre with Somerset and Avon, the tripartite control room working with police and ambulance services at Quedgeley and the Gloucestershire Life Skills Centre are three excellent examples of joint collaboration and procurement by GFRA. GFRA has also improved capacity and generated financial savings through full involvement in the South West Regional Collaboration programme, achieving regional efficiencies for 2008/09 of £453,000.

**36 Data Quality** - GFRA arrangements in this area are weaker than those of the Council as a whole. My spot checks of 4 nationally selected fire indicators identified scope for improvements in the arrangements for ensuring the completeness and accuracy of these indicators.

### Managing resources

**37 Workforce Planning** - This KLOE was only undertaken at GFRA for 2008/09. I concluded that GFRA has a productive and skilled workforce. GFRA has well-established and effective policies to support diversity and good people management. However, long-term sickness absence for whole-time fire-fighters although adversely affected by a few with serious illness, remains high in spite of comprehensive absence management. In addition, GFRA's human resources systems are not well integrated, with the existing role model system providing limited management information.

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### VFM Conclusion

**38** I assessed the Council's arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. My conclusions on each of the areas are set out in Appendix 1. I concluded that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

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### Specific risk based work

**39** I also carried out specific risk-based reviews to inform my value for money assessment. This year I carried out reviews in the following areas.

- Reducing Health Inequalities.
- Joint Workforce Planning.

## Value for money and use of resources

### Reducing Health Inequalities

- 40 Health outcomes for Gloucestershire are improving. Life expectancy is increasing, rates of infant mortality are reducing, teenage pregnancy rates have reduced significantly. But, health outcomes are not uniformly good across all areas within Gloucestershire.
- 41 I considered how well the Council worked with the Primary Care Trust (PCT) to reduce health inequalities across Gloucestershire. The Council and the PCT has formed a joint partnership - the Gloucestershire Health and Community Wellbeing Partnership (GHCWP) - in order to tackle health inequalities.
- 42 I concluded that the GHCWP has established a sound basis for partnership working to reduce health inequalities. This should enable the Partnership to make good progress in future.
- 43 However, the GHCWP has not yet developed an effective role in directing, coordinating and managing work across the county to maximise the impact of local activities such as housing provision and community support. I concluded that its underdeveloped role limits its ability to achieve significant reductions in health inequalities.
- 44 My report has been considered by the Council and the PCT and they have jointly agreed an action plan to address the recommendations in my report.

### Joint workforce planning

- 45 Many people - especially the young, old and vulnerable - receive a combination of health and social care services provided by the Council and the PCT. Changes in demography and an aging population mean that there is an even greater need to plan for the staff resources in order to meet these challenges.
- 46 My review considered the effectiveness of workforce planning for social and health care provided jointly by the Council and the PCT.
- 47 I concluded that current arrangements incorporate elements of good practice and have delivered good results in some areas such as dementia care. These arrangements provide a sound basis on which to build. Specifically the Gloucestershire Care Sector Workforce Development Group, convened and led by the Council has worked with partners to ensure improvements in care provision and this is cited as a model that could be applied more widely.
- 48 The Council and the PCT have some well developed joint workforce planning arrangements in place and some new arrangements that are being developed. However, current arrangements are not comprehensive in scope nor are they integrated across the two organisations. The Local Strategic Partnership's arrangements to plan the workforce across the public sector are at an early stage. In 2008 it set up the Gloucestershire Public Services Employment Partnership to raise the profile of the public sector and make it an employer of choice. But this organisation now needs a robust action plan to deliver its objectives. A joint approach needs to be developed for workforce planning covering the whole of the health and social care workforce that is linked to strategic, financial and service planning.

- 49** Both organisations collect health and social care workforce data. This is beginning to be used to help strategic planning but the data is patchy and a systematic approach to its collection now needs to be developed.
- 50** My report has been considered by the Council and the PCT and they have jointly agreed an action plan to address the recommendations in my report.

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# Closing remarks

- 51** I have discussed and agreed this letter with the Group Director, Business Management. I will present this letter at the Audit Committee on 25 January 2010. The Council should make arrangements for my letter to be copied to all councillors.
- 52** Further detailed findings, conclusions and recommendations in the areas covered by my audit are included in the reports issued to the Council during the year.

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**Table 4**

<b>Report</b>	<b>Date issued</b>
Audit plan	April 2008
Health Inequalities	May 2009
Annual governance report	September 2009
Opinion on the financial statements & the value for money conclusion	September 2009
Whole of government accounts - opinion	September 2009
Joint workforce planning	November 2009
Annual audit letter	November 2009

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

Stephen Malyn  
District Auditor  
November 2009

# Appendix 1 – Use of resources

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

**Table 5 The Council**

Theme/Key Line of Enquiry (KLOE)	Use of Resources score - the Council	Use of Resources score - GFRA	Adequate value for money arrangements
<b>Managing finances</b>	<b>3</b>	<b>3</b>	
- Financial planning	3	3	Yes
- Understanding costs and achieving efficiencies	3	3	Yes
- Financial reporting	3	3	Yes
<b>Governing the business</b>	<b>3</b>	<b>3</b>	
- Commissioning and procurement	2	3	Yes
- Data quality and use of information	3	2	Yes
- Good governance	3	3	Yes
- Risk management and internal control	3	3	Yes
<b>Managing resources</b>	<b>2</b>	<b>2</b>	
- Use of natural resources	2	n/a	Yes
- Strategic asset management	3	n/a	Yes
- Workforce planning	n/a	2	Yes

## Appendix 1 – Use of resources

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### Use of Resources Scoring Framework

Level 1: A failure to meet minimum standards

Level 2: Gets the basics right

Level 3: Performs consistently well – delivers strong outcomes for local people

Level 4: Performs excellently – the highest standards of innovation, best practice, partnership working and focus on value for money resulting in strong outcomes in all areas.

## Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<b>Annual Audit Letter 2008/09 Recommendations</b>					
4	R1 Management should report to the Audit Committee on the issues highlighted in this letter.	3				

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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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