

Annual Audit Letter

Harrogate Borough 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 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.

Audit Opinion

- 1 I gave an unqualified opinion on the Council's 2008/09 financial statements on 29 September 2009.
-

Financial Statements

- 2 The draft financial statements presented for audit were completed to the high standard achieved in previous years. The statements were supported by high quality working papers, and there were only a small number of minor amendments required to the draft financial statements.
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Value for money (VfM)

- 3 I gave an unqualified opinion on the Council's value for money arrangements in 2008/09.
 - 4 The Council's overall use of resources score for 2008/09 is level 2, meeting minimum standards and representing adequate performance. Within this score there are elements of stronger performance in some areas, particularly on the Council's arrangements for financial reporting and risk management.
 - 5 The Council has embarked on a challenging Business Transformation Programme to deliver significant improvements across the Council's operations. Continuing to invest in this programme, to enable its successful delivery will allow the Council to demonstrate improved outcomes for local people, leading to improvements in future use of resources assessments.
-

Future challenges

- 6 The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. The impact on cash management has been immediate, but there are potentially wider and more fundamental impacts on the ability of all public sector bodies to fund service delivery and capital programmes, including pressure on income streams. There are likely to be further challenges for policy priorities where patterns of demand for services are changing.
- 7 The Medium Term Financial Strategy acknowledges the challenges the Council faces, and the Business Transformation Programme has been designed to improve the delivery of services, whilst improving efficiency and effectiveness.
- 8 I have taken the Council's plans and progress into account in my VfM conclusion and use of resources assessment, and will continue to assess progress during 2009/10 as part of my audit.
- 9 From 2010/11 the Council's financial statements will need to be prepared in accordance with International Financial Reporting Standards (IFRS). This requirement does impact on the 2009/10 statements, as they will need to be restated to an IFRS basis, and hence there is a need for the Council to have completed its implementation during 2009/10. From my discussions with officers the Council appears to have made good progress in identifying where the major issues are and what action is needed to address them. The Council is making good progress implementing its IFRS project plan, and the steering group has been proactive in leading the Council's response.

Audit fees

- 10 The fee for undertaking our audit in 2008/09 was £109,220 (plus VAT), which was in line with the proposed fee. The 2008/09 fee analysis is contained in Appendix 1.

Actions

- 11 Recommendations are shown within the body of this report and have been agreed with Council officers.

Independence

- 12 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 it accounts for its stewardship of public funds.

Significant issues arising from the audit

- 13 The Council again delivered high quality draft financial statements for audit, in advance of the 30 June deadline, and the statements were supported by good quality comprehensive working papers.
 - 14 I reported the findings of my audit to members of the Governance Panel and General Purposes Committee in September 2009, and concluded that there were no significant issues arising from my audit work.
-

Material weaknesses in internal control

- 15 I did not identify any significant weaknesses in your internal control arrangements.
-

Accounting Practice and financial reporting

- 16 I considered the qualitative aspects of your financial reporting.
- 17 I reported in my Annual Governance Report that the financial statements included adjustments to the prior period accounting entries which were not material. The financial reporting standards require that these adjustments are only made where they are material.

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

- 18 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.
- 19 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. However, the 2008/09 assessment is very different from previous assessments. Judgements are now much more strategic and less detailed, with a focus on outcomes rather than processes. The standard required to achieve a level two assessment has been raised and is now much more demanding.
- 20 The Council's 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 2.

Table 1 Use of resources theme scores

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

Value for money and use of resources

- 21 In setting the context for these scores it is important to note that the Use of Resources assessments this year under Comprehensive Area Assessment are focused more on outcomes and outputs, and are more strategic than detailed. As a result the standard required to demonstrate level three performance has been raised, and it is difficult to make accurate comparisons with the Council's scores last year.
- 22 Key messages from the work were:
- external financial reporting maintained its strong performance, and the Council is well placed to deal with the future financial reporting challenges;
 - risk management arrangements are strong and embedded in the Council's business; and
 - the council has recognised a need to invest in its business transformation programme, and this programme is likely to deliver improvements and demonstrate improved outcomes across a range of use of resources areas in future years.

VfM Conclusion

- 23 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 2.
- 24 I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Recommendation
R1 Produce and implement action plans arising from the use of resources assessments and value for money work.

Use of resources and links to Comprehensive Area Assessment

- 25 Comprehensive Area Assessment (CAA) is a new mechanism for assessing locally delivered public services. CAA brings together judgments from the Audit Commission, Care Quality Commission, HM Inspectorates of Constabulary, Prisons and Probation, and Ofsted into one coordinated view of public services in an area. The primary focus of CAA is on the place and not organisations, and on outcomes achieved for the community rather than the process.
- 26 The Council's use of resources assessment will feed into the organisational assessment element and help to illustrate how well the Council's services are addressing local priorities. The organisational assessment for the Council will be published on the CAA website. The first reporting of the findings of CAA will be published on 10 December 2009.

Closing remarks

- 27 I have discussed and agreed this letter with the Chief Executive and the Executive Director of Resources. I will present this letter to the General Purposes Committee and it will be made available to all members.
- 28 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.

Table 2 **Reports issued in 2008/09**

Report	Date issued
Audit and Inspection Plan	June 2008
Review of data quality arrangements	March 2009
Annual Governance report	September 2009
Use of Resources report	September 2009

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

Cameron Waddell
 District Auditor
 November 2009

Appendix 1 – Audit fees 2008/09

	Actual	Proposed	Variance
Financial statements and annual governance statement	74,480	74,480	0
Value for money	34,740	34,740	0
Total audit fees	109,220	109,220	0
Non-audit work	0	0	0
Total	109,220	109,220	0

Appendix 2 – 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
KLOE 1.1 (financial planning)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
<p>The Council's medium term financial strategy (MTFS) clearly sets out the Council's financial demands over a three-year period and the implications for the annual budget. It links to both the strategic plan and corporate improvement plan, and the Council uses it to focus on how it will manage its financial position. There are examples of the Council shifting resources to priority areas, though the MTFS is not used to comprehensively challenge service provision.</p> <p>The annual budget is prepared in a timely manner and approved by Cabinet, before the start of the financial year. The budget includes the impact of known developments, such as increased payments to bus operators from the concessionary fare scheme. The budget is very focused on the medium term and is closely linked to the MTFS. A significant focus of both the budget and the MTFS is on delivering savings and efficiencies.</p>	

Appendix 2 – Use of resources key findings and conclusions

Theme score	2
<p>The Council has a very good track record for operating within its annual budget and regularly delivering a small underspend, but without adversely affecting service delivery.</p> <p>With regards to Treasury Management it is risk aware, and takes action to ensure risks are well managed, and this is reflected in the Treasury Management strategy. It ensures investments are spread across a number of institutions to reduce the risk of financial loss, and only invests in approved UK institutions. The Council had not invested in Icelandic banks.</p>	
KLOE 1.2 (understanding costs and achieving efficiencies)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
<p>The Council has clear information on its costs and how these compare to others. Managers and senior members use this information to review and challenge value for money (VFM). However there is limited information on transaction and unit costs which could help the Council drive further efficiencies. There are some VFM targets in service plans but this is not embedded across all plans.</p> <p>Although service planning includes both financial and performance information the links between them to further improve performance are not yet systematically considered throughout the performance management process.</p> <p>The Business Transformation Programme (BTP), currently under development, is an ambitious and comprehensive programme with plans which include improved integration of the management of costs and performance and a better understanding of unit/transaction costs and their impact.</p>	

<p>KLOE 1.3 (financial reporting)</p> <p>Score</p> <p>VFM criterion met</p>	<p>3</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>Internal financial monitoring reports contain detailed information relating to the overall financial position and the reasons for the specific variations to the budget. The information reported is clear, and forms a basis for determining action or decision making. The reports produced to monitor the financial position during the year have an element of forecasting included.</p> <p>The unaudited accounts issued by the Council are produced to a very high standard. The working papers provided by the Council are of an excellent standard and staff respond promptly to additional queries. The Council are proactive regarding changes in the accounting requirements and are already preparing for the requirements of International Financial Reporting Standards in 2009/10 and 2010/11. To improve member scrutiny of the accounts officers produced a 'Member's guide to scrutinising the accounts' in February 2008.</p> <p>The statement of accounts are published promptly on the Council website, although locating them is not straightforward. Other reports are published on the website in a timely manner. The Council does make some allowance for alternative formats of reports published, including large font and audio formats. This information is included on the back of all the reports. Some publications, such as the Summary of Accounts state at the bottom that they can be provided in other languages. The Council has an arrangement with an interpreting company who can interpret any of the Council's reports into a different language should that be requested. Some Council offices display prominent signs in a variety of languages to enable non-English speakers to identify their language and allow Council staff to arrange interpretation.</p> <p>In general, the Council's website could be improved to allow individuals to access the information they need more easily and quickly. More work could be done by the Council to find out what the needs of the community are, such as what facilities they require on the website, which languages are most commonly used in the district, and this information would enable the Council to know that it is delivering access to information that meets the needs of the diverse community.</p>	

Appendix 2 – Use of resources key findings and conclusions

Governing the business

Theme score	2
KLOE 2.1 (commissioning and procurement)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
<p>The Council has improved its procurement practices and has achieved reductions in, for example, the cost of energy, agency staff, travel needs and concessionary fares, and purchasing of printing, bulk paper and travel and accommodation. On-line purchasing had resulted in better control and value of low cost high number purchases which are purchased by staff throughout the Council.</p> <p>The Council has developed a new procurement strategy for 2009/11 which takes account of good practice such as encouraging smaller local businesses to tender for business.</p> <p>The Council is in the process of adopting the county wide procurement manual and it is continuing to benchmark to improve its procurement activity. It is making some use of partnerships to improve value for money and has some understanding of the total resources at their disposal.</p>	

<p>KLOE 2.2 (data quality and use of information)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>Information to support decision making is well presented and is based on good quality data. Quarterly performance reports contain information on risks, performance and actions. Full contextual information is provided in reports to detail where performance is below target. However the Council is at an early stage in holding comprehensive information on diversity and equality issues such as spend across geographic areas but there are some areas of good practice in relation to customer profiling but this is not across the whole range of services yet.</p> <p>The Council's approach to data security is adequate. It has met the Government Connect Standard, this partly complies with the ISO27001 and all staff are trained for this. There are very few severe security incidents.</p> <p>The Council has not yet integrated performance management with management of resources so resources follow priorities. There are some examples of the Council using information creatively to identify gaps in service provision and model future developments which are fed into strategic planning.</p>	
<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 has all the expected policies and strategies for good governance and these are publicised on the website, and evidence suggests that these are adhered to. The strategic policies, plans and development plans concentrate on the agreed corporate priorities and vision determined through consultation with members, business and the public. There are good working relationships between officers and members.</p> <p>Member training occurs throughout the year on a range of topics, but the Council has not adopted personal development plans for members, that would enable them to show that training is matching the needs, and members are controlling their own development.</p>	

Appendix 2 – Use of resources key findings and conclusions

KLOE 2.4 (risk management and internal control)	
Score	3
VFM criterion met	Yes
Key findings and conclusions	
<p>The Council continues to demonstrate good risk management. At the corporate level it is good at identifying risks and actively managing/reporting them. Reports are presented regularly to senior management and members, and these reports have been improved in 2008/09 to ensure that the information is sufficient to enable officers and members to discharge their responsibilities</p> <p>Partnership risks are included in the Council's risk register, and for 2008/09 a detailed strategic review of partnerships has taken place, recording all partnerships but focusing on the most significant to record the partnerships, effectiveness of them, governance arrangements and the outworking of the assessment is still underway with Cabinet to review and report on whether some partnerships are no longer effective and the Council needs to withdraw.</p> <p>Risks continue to be managed actively and satisfactorily, and there is no evidence of risks coming to fruition, without appropriate management action and reporting. From the strategic risk register reported to the Governance Panel there is evidence of reducing risks and the Covalent system is being regularly monitored and updated as actions are undertaken. Members have real-time access to the risk management system and well as the ongoing reports from the Registers and have all had training on risk management in prior years.</p>	

Managing resources

Theme score	2
KLOE 3.3 (workforce planning)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
<p>The Council is working towards having a productive and skilled workforce and can demonstrate that it can deliver its current plans but it does not yet have all the process in place to ensure it will have the capacity to meet its priorities in the future. The Council is at an early stage in developing a Business Transformation Programme (BTP) part of which is aimed at putting in the plans and processes to address the gaps.</p> <p>It has completed the Job Evaluation process as part of achieving Single Status. Skills and training needs identified through staff appraisals in 2008/09 were used to inform the Council's corporate programme on learning and development.</p>	

Appendix 3 – Action Plan

Pg no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Audit Letter 2008/09 Recommendations						
7	R1 Produce and implement action plans arising from the use of resources assessments and value for money work.	3		Yes		

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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