

Annual Audit Letter

Hartlepool Borough Council

Audit 2008/09

December 2009



Contents

Key messages	3
Financial statements and annual governance statement	6
Value for money and use of resources	8
Closing remarks	12
Appendix 1 – Audit fees	13
Appendix 2 – Action Plan	14

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.
-

Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Audit Opinion

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

Financial Statements

- 2 The quality of the financial statements has significantly improved from last year, prepared in line with the statutory deadline of 30 June and supported by comprehensive working papers.
 - 3 The key issues identified at audit related to inappropriate changes to balances brought forward from last year's audited accounts, which are not permitted in Accounting Standards, and errors in the pension fund figures provided by the actuary. This issue affected all authorities within the Teesside Pension Fund.
-

Use of resources

- 4 The Council performs adequately at managing finances, addressing a challenging budget position, identifying future efficiencies and improving financial reporting. The Council can identify improved outputs as a result of policy decisions but does not always clearly identify outcomes.
- 5 The Council performs well at governing the business. There is an informed approach to commissioning and procuring services and supplies which is resulting in tailored services for local needs. The Council monitors performance against priorities and targets and manages under performance effectively. There are good governance and risk management arrangements in place and a sound system of internal control.
- 6 The Council performs well at managing resources with a good understanding of its current impact on natural resources and action plans in place to make improvements. There are plans in place to develop asset management arrangements to link to strategic priorities and service needs.

Recommendation

- R1** The Council should produce and implement action plans arising from the use of resources assessments and value for money work to support continuing improvement.

Future challenges

- 7 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.
- 8 The Council has responded to the challenging economic climate, reviewing the medium term financial plan and assessing what action can be taken to support local people and businesses. Actions taken include partnership working with the credit unions to provide an e-banking facility and early payments to local suppliers.

Health inequalities

- 9 Progress is being made in tackling the significant health inequalities in the North East through leadership from regional agencies, partnership working between public sector bodies and the voluntary sector at the local level, and by increasing or prioritising funding. More action is needed to progress further and faster.

Recommendation
<p>R2 The Council should work with partners, using the recommendations in our health inequalities reports to improve targeting and performance management, making effective use of the voluntary sector and community views.</p>

Comprehensive Area Assessment

- 10 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, on outcomes achieved for the community, rather than the process, and on prospects for the future.
- 11 The Authority's use of resources assessment will inform the area assessment element of CAA and help to illustrate how well public services in the area are addressing their local priorities. The joint assessment for the area will be published on the OnePlace website. The first reporting of the findings of CAA will be published on 9 December 2009.

Audit fees

- 12 The fee for undertaking our audit in 2008/09 was £253,605 (plus VAT), which was in line with the proposed fee. More details on fees, including comparatives for 2007/08, are shown in Appendix 1.

Key messages

Actions

- 13 Recommendations are shown within the body of this report and have been agreed with the audited body.
-

Independence

- 14 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

- 15 We issued an audit report including an unqualified opinion on the financial statements on 30 September 2009. Amendments were made to the accounts in four areas:
- the Council made changes to figures brought forward from last year's audited accounts which were not permitted in Accounting Standards. These changes were reversed to correctly reflect last year's audited figures, affecting the brought forward figures for the pension fund reserve and liability (£2.3m) and the Income and Expenditure Account (£83k). A number of other balances and notes had also been adjusted to correct non-material errors identified in brought forward balances from last year's audited accounts. The relevant financial reporting standard only permits changes to previous year figures if the affects are material.
 - the fixed assets analysis to move £111,000 of assets under construction where work had been completed, reclassifying them as community assets;
 - a recent court ruling relating to equal pay is likely to affect future payments under equal pay legislation. This happened after the accounts were prepared and the effect of the ruling is not yet clear. A post balance sheet event was disclosed in the financial statements; and
 - the draft accounts generally complied with the Statement of Recommended Practice (SoRP) but some of the notes to the accounts required by the SoRP were not included and others did not contain enough detail. Additional disclosures were made to correct these.
- 16 The following errors were not corrected:
- the pension fund Actuary wrote to the Council on 21 September 2009 informing them of an error in the interest rate used by the actuary to calculate pension fund interest costs. The impact of the error would have been to increase charges to the Income and Expenditure Account by £3.5m which would then be reversed out through the Statement of Total Recognised Gains and Losses to avoid impact on Council Tax;
 - the Actuary uses estimated investment values to allow earlier reporting of pension fund information to the Council and other admitted bodies. The pension fund auditor identified a difference between the estimated and actual investment values at the year end. The pension fund auditor estimated that the impact of the error would result in an estimated decrease of £484,000 to the pension fund deficit of £54.703m;

Financial statements and annual governance statement

- the Council's asset register does not separately identify the value of land and buildings, including a combined value instead. Building values are subject to depreciation in year but land values are not. The Council is likely to be charging too much depreciation and may be understating asset values, but cannot quantify the impact of this on the basis of current valuation information. Depreciation is reversed out through the Statement in Movement of General Fund to avoid impact on Council Tax. Work was done to establish that the impact would not be material;
- the Council use the CIPFA system to produce the cash flow statement. Testing of cash flow statement entries identified an unexplained difference of £206,000 when compared to the entries in the other financial statements;
- trust fund balances of £176,000 which do not belong to the Council were included in the financial statements; and
- potential liabilities relating to land tribunal cases totalling £123,000 have been shown as a contingent liability, but meet the financial reporting standard for recognition as a provision, given that they can be quantified, and as such should have been charged to income and expenditure.

Material weaknesses in internal control

- 17 We did not identify any material weaknesses in internal control to bring to your attention.
- 18 We completed our three yearly detailed review of internal audit against the CIPFA standards for internal audit and have not identified any issues to bring to your attention.

Accounting Practice and financial reporting

- 19 Our review of the explanatory foreword and annual report identified some inconsistencies between financial information disclosed and the financial statements, which were corrected.

International Financial Reporting Standards

- 20 The Council's financial statements will be prepared under International Financial Reporting Standards (IFRS) for the first time in 2010/11.
- 21 IFRS imposes significant additional reporting and disclosure requirements and the Council will need to collect and collate additional or new data to meet these requirements. The key areas of change are likely to be private finance initiative, leases, employee benefits, and property, plant and equipment.
- 22 The Council is aware of the new requirements and has plans in place to collect the additional information needed.

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

- 23** 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.
- 24** 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.
- 25** The Council's use of resources theme scores are shown in Table 2 below.

Table 1 Use of resources theme scores

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

Managing finances

- 26** A challenging budget position has been addressed effectively, with the Council investing additional resources for service priorities. The Council has a good track record of engaging with local communities and other stakeholders. Sound medium term financial planning has created a service planning environment allowing the Council to sustain its focus on achieving priorities and improving services. Looking to the future, the Council faces a challenging financial position as, in common with many other councils, costs are rising faster than resources. To address the shortfall in resources the Council is implementing a business transformation programme which is

Value for money and use of resources

aimed at delivering £5.96m of efficiencies. Further reductions may be required and a strategy for achieving the remaining reductions is being developed.

- 27 The Council understands its costs and how local context and policy decisions impact on both costs and performance at the operational level, but this is less evident at the strategic level. There is room for improvement in the medium term financial strategy in demonstrating the relationship between cost and performance. The Business Transformation Programme is the primary basis for delivery of efficiencies. The Council can identify improved outputs as a result of policy decisions but does not always clearly identify outcomes. Benchmarking is used as a tool for challenge but there is still scope to further develop this in delivering improved value for money.
- 28 Monthly financial management reports are issued to departments on the first working day after the month end. The corporate and financial management report shows progress on a quarterly basis using a 'traffic light' system. The quality of the financial statements and supporting working papers and detailed budget monitoring reports has improved in 2008/09. Information is circulated to householders in the regular 'Hartbeat' summary.
- 29 The Council has well established treasury management arrangement, including appropriate controls over investments and borrowing. The Council has also reviewed the recommendations in the Audit Commission report 'Risk and Return' and is taking appropriate action.

Governing the business

- 30 The Council has an informed approach to commissioning and procuring services and supplies and is tailoring services to meet local needs. There are some good examples of procurement delivering value for money in its broadest sense in specific procurement exercises, but a corporate approach is still developing and is yet to demonstrate the extent to which overall objectives are being achieved and successfully delivering positive outcomes.
- 31 The Council has improved performance across a range of measures. There is evidence of good outcomes from the use of information to support decision-making and manage performance. The arrangements for performance information systems are robust. The Council monitors performance against its priorities and targets and manages under-performance effectively. Planned efficiencies are achieved.
- 32 The Council has good governance arrangements in place. Progress has continued against the Audit Commission's Ethical Governance report, which highlighted strong awareness of the ethical agenda and good leadership. The Council maintains a clear focus on its vision and priorities. There are good relationships between the Chief Executive, the Mayor and members, which contributes to the open culture and the achievement of their strategic priorities. The Council ensures each of its significant partnerships has an appropriate form of governance that is formally documented.
- 33 The Council has good risk management arrangements, including working with partners to drive improvement and deliver outcomes. No significant internal control issues or cases of fraud and corruption have been identified during the year. The Council is also proactive in working with key partners to reduce fraud.

- 34 There is a sound system of internal control, including an effective Internal Audit function. A business continuity plan is in place, which has been tested. The Council has arrangements in place to control member expenses payments and these are tested on a cyclical basis by Internal Audit.

Managing resources

- 35 The Council has a good understanding of its current impact on natural resources and action plans are in place to make improvements. Progress on sustainability matters is being made through a range of initiatives and although not all have clear and comprehensive targets, most can demonstrate impact.
- 36 The Council has good plans in place to develop its asset management and to link it to its strategic priorities and service needs, particularly in relation to partnership working. The foundations are in place with potential to demonstrate improving outcomes in 2009/10 onwards.

VFM Conclusion

- 37 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.
- 38 I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Health inequalities

- 39 Our review, completed jointly by the Audit Commission and Deloitte has involved public sector bodies across the North East, as well as the voluntary sector, looking at how organisations are working together to tackle health inequalities.
- 40 Addressing such a major issue is not the preserve of any one organisation but must be addressed through co-operation and a shared commitment to action. We found that good progress is being made in tackling health inequalities through leadership from regional agencies, partnership working between public sector bodies and the voluntary sector at the local level, and by increasing or prioritising funding.
- 41 Life expectancy is increasing and, in most areas, the mortality rate reducing at a faster rate in the North East than nationally, narrowing the gap between the North East and the rest of the country.
- 42 However, whilst life expectancy is improving, men and women in the North East are still likely to die younger than the national average. Men and women living in the most deprived areas can expect to die on average more than ten years and seven years earlier respectively than their counterparts in the least deprived areas.

Value for money and use of resources

- 43 There are also significant issues in the North East around unhealthy lifestyles. For example the percentage of North East women smoking in pregnancy and hospital admission rates related to alcohol are the worst nationally; childhood obesity rates and teenage pregnancy rates are higher than the national average.
- 44 Organisations in the North East need to build on the progress that has been made to date and ensure that they move further and faster in addressing health inequalities. Our North East wide report and local review on alcohol/ teenage pregnancy highlights a number of key areas that partnerships need to focus on to improve action to address health inequalities.
- Strategic priorities and funding should be aligned. There are significant economic and financial costs associated with health inequalities that can be reduced through successful funding.
 - Successful targeting of services to those who most need them, based on good data. We found that this data is often not available.
 - Accountability and performance management arrangements were often weak or not in place, so that those delivering services may not be adequately held to account and value for money and improved outcomes cannot be demonstrated.
 - Joint working was variable, with some good examples, but also other instances where a lack of partnership working reduces effectiveness. Joint data collection needs to improve, with a lack of shared information systems causing problems.
 - Agencies need to look for ways to better support and use the resources available in the community and voluntary sector.
 - There was mixed practice in taking community views into account in developing high level strategies and service development plans.
- 45 The detailed report is being distributed to public sector bodies across the North East and includes a series of recommendations and questions for all organisations and partnerships to consider in reviewing and evaluating their plans and actions to address health inequalities.
- 46 We reported our detailed findings to Audit Committee on 8 December and agreed an action plan to address the areas of improvement we identified.

Closing remarks

- 47 I have discussed and agreed this letter with officers. I will present this letter to the Audit Committee and will provide copies to all Council members.
- 48 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 2

Report	Date issued
Audit plan	April 2008
Report to those charged with governance	September 2009
Opinion on the financial statements	September 2009
Value for money conclusion	September 2009
NE health inequalities	October 2009
Use of resources	November 2009
Annual audit letter	November 2009

-
- 49 The Council has 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.

Lynne Snowball
 District Auditor
 November 2009

Appendix 1 – Audit fees

Table 3 Audit fees

	Actual 2008-09	Proposed 2008-09	Actual 2007-08
Financial statements and annual governance statement	170,756	170,756	166,199
Value for money	82,837	82,837	81,476
Total audit fees	253,605	253,605	247,675
Non-audit work	0	0	0
Total	253,605	253,605	247,675

Appendix 2 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
3	R1 The Council should produce and implement action plans arising from the use of resources assessments and value for money work to support continuing improvement.	2	Assistant Chief Executive and Chief Financial Officer	Yes		April 2010
4	R2 The Council should work with partners, using the recommendations in our health inequalities reports to improve targeting and performance management, making effective use of the voluntary sector and community views.	3	Acting Director of Health Improvement HBC/North Tees PCT	Yes		April 2010

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.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

© Audit Commission 2009

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk
