

Annual Audit Letter

Kirklees Council

Audit 2008-2009

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 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 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. It summarises, but does not repeat the detail of, my Annual Governance Report which I presented to the Corporate Governance and Audit Committee on 30 September 2009.

As part of the Comprehensive Area Assessment (CAA) process, the Audit Commission has also carried out an Organisational Assessment and an Area Assessment which, respectively, consider how the Council has performed against its own priorities and those it shares with other public bodies in Kirklees. These assessments were published on the "Oneplace" website on 9 December 2009.

Audit Opinion

- 1** I issued an unqualified (ie clear) opinion on the 2008/09 financial statements on 30 September 2009. I cannot finish the audit completely until I have dealt with an objection from a member of the public to the Council's accounts for 2007/08. I expect this to be finalised shortly.

Financial Statements

- 2** The draft financial statements were well prepared and did not contain any material errors.

Use of Resources

- 3** I concluded that the Council had proper arrangements in place to secure economy, efficiency and effectiveness.
- 4** The Council achieved Level 2 (on a scale of 1-4) under the new Use of Resources assessment.
- 5** The audit was carried out within the planned fee which was based on the Audit Commission's published scale of fees:

Table 1 Audit fees

	£
Financial statements and annual governance statement	227,941
Value for money/Use of Resources	93,937
Total audit fees	321,878
Inspection	22,395
Total	344,273

Actions

- 6** Recommendations are shown within the body of this report and have been agreed with the Council's officers.

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 Kirklees accounts for its stewardship of public funds.

Significant issues arising from the audit

- 8 The 2008-09 accounts were noticeably better than last year's. The Council provided comprehensive working papers and staff were co-operative in dealing with our queries.
 - 9 There was a technical issue in the treatment of housing benefits income, which did not affect the Council's financial health or its financial performance. All of the other items and issues identified from the audit of the draft financial statements were either presentational or low value.
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Material weaknesses in internal control

- 10 It is pleasing to report that the Council has resolved the majority of weaknesses found during last year's audit. There is still, however a need to improve control over "journals" ie the process that allows finance staff to amend accounting entries.
 - 11 This year we found weaknesses in some of the accounting controls within Kirklees Neighbourhood Housing (KNH) and in the arrangements for ensuring that KNH's accounting information was correctly reflected in the Council's financial statements. We worked with the staff from KNH and the Council's Finance Department to gain assurance that there was no evidence that weaknesses had resulted in any material fraud or error.
 - 12 An action plan to respond to these issues has been agreed with the Director of Finance and reported to the Corporate Governance and Audit Committee, as part of the audit of accounts process.
-

Accounting Practice and financial reporting

- 13 I considered the qualitative aspects of your financial reporting and have not identified any significant issues to raise with you.

International Financial Reporting Standards (IFRS)

- 14** In March 2008 the Treasury announced that the annual financial statements of government departments and other public sector bodies would be prepared using International Financial Reporting Standards (IFRS) from 2009/10 onwards. For local government bodies the first full year of application is the 2010/11 financial statements but the starting period for this (the transition date) is 1 April 2009. Local government bodies will be required to produce their 2009/10 Whole of Government Accounts return on an IFRS basis.
- 15** As part of my 2008/09 audit, I have completed an Audit Commission survey on the Council's progress in preparing for the implementation of the IFRS. The Council has made reasonable progress to date but the real work will come after December 2009 when the 2009/10 balance sheets will have to be re-stated on an IFRS basis. The Council has responded to the IFRS agenda and has explored some of the riskier areas such as leases and holiday pay. However, much work remains to be done and we will monitor progress with your officers against the IFRS project plan at regular intervals in the months ahead.

The Economic Downturn

- 16** The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. This impacts on the audit and as part of my responsibility I have reflected on the wider environment, specific issues and risks as well as the Council's response. Kirklees is already taking much more tangible steps than other local authorities to meet the anticipated decrease in government funding. This principally involves undertaking an ambitious and far reaching innovation and efficiency programme, which is designed to identify savings rising to 20 per cent of net revenue budget requirements over the next five years. In addition, the Council has addressed the economic downturn by:
- rephasing its capital programme to have a more even profile over the next seven years;
 - setting tougher efficiency targets for all services to make annual reductions;
 - adopting a more conservative Treasury Management Strategy;
 - providing for expected income losses and setting aside resources to support the local economy; and
 - using available balances in a sustainable way.

Treasury Management

- 17** As part of my 2008/09 audit, I completed an Audit Commission return on the Council's Treasury Management arrangements. As noted in its 2008/09 Statement of Accounts, the Council had £1m invested in a failed Icelandic Bank at 31 March 2009. Current indications are that the Council may recover between 90 per cent and 100 per cent of this sum, depending on the assumption that local authority creditors have preferential status. The value of this investment has been written down in the accounts by 5 per cent, as recommended by CIPFA. There were no key issues identified in my review.

Expenses and Conduct

- 18** Members' expenses came under the spotlight due to the wider national focus on those receiving public allowances. During 2008/09, we relied on the work of Internal Audit for assurance that the expenses system was working effectively and that members' expenses were being paid in accordance with regulations. Our work on conduct has also been supplemented by the relevant parts of the National Fraud Initiative during 2008/09. This included matching NFI data (for both officers and members) to Companies House to identify potential undeclared and possible procurement corruption. No key issues were identified by this exercise.

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 Kirklees 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

- 19** In forming my scored use of resources judgements, I have used the methodology set out in the [Audit Commission's use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using a four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements.
- 20** 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.
- 21** The Council's use of resources theme scores are shown in Table 2 below.

Use of resources theme scores

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

- 22** The scores mean that the Council has met, or exceeded, the minimum standards for all of the criteria covered by the assessment. The key findings and conclusions for the three themes, and the underlying key lines of enquiry, are summarised in Appendix 1. The Council is performing well on the "managing resources" theme and, within that, is doing particularly well on the "green agenda". Some elements of the other two themes are also performing comfortably above the Level 2 standard.

Value for money and use of resources

- 23** The main area where the Council could improve is in the way it collects and presents evidence to demonstrate how its undoubted efforts are actually producing the intended outcomes. The Council should not make changes solely to provide information for our assessment process, but the improvements should help the Council better to explain its achievements to people who live or work in Kirklees.

Recommendation

- R1** Improve the way evidence is collected to demonstrate how outcomes are being achieved.

VFM Conclusion

- 24** As well as giving an opinion on the Council's accounts I also have to reach a formal conclusion about your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. Appendix 1 shows how I have used the information collected for the Use of Resources assessment to reach that conclusion. 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 for 2008/09 are set out in Appendix 1.
- 25** The Council reached or exceeded Level 2 on all of the UOR criteria, and I was therefore able to give an unqualified conclusion stating that Kirklees Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Local Risk Based Work

- 26** We have carried out a number of detailed to reviews to support various aspects of the audit:

"Your business at risk"

- 27** We used the Audit Commission's information governance tool, 'Your Business at Risk', to find out what the council's staff knew about its arrangements for minimising the risks that exist in organisations that, like the Council, depend heavily on IT. The risks include computer viruses, IT fraud, hacking, invasion of privacy and downloading of unsuitable material from the Web and the loss of personal information.
- 28** Overall, the Council compares favourably to other organisations that we have surveyed. There is, however, scope to further improve that IT security by training the minority of staff that are not yet confident about how best to:
- use password controls and log-on details to enhance security;
 - deal with suspected attempts to sidestep controls; and

- securely share personal data with authorised bodies, or to securely access data when working 'out of the office'.

Recommendation

R2 Make staff aware of how to improve IT security by, for example, achieving better password control and using more secure data sharing mechanisms.

Good Governance

- 29** Good governance is about ensuring that an organisation is doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable way. We tested senior officers' views about how well the elements of good governance operated in Kirklees.
- 30** We found a high level of confidence amongst senior officers that the council has good processes, and good relationships between officers and members, for ensuring that it sets clear objectives that reflect the needs of the Kirklees' diverse communities and that are designed to achieving better outcomes.
- 31** We also found a recognition that more could be done to:
- Make better use of information about costs and the quality of services for users to support decision-making and to help to show the council is achieving its objectives.
 - Ensure that effective systems are in place to act upon staff views, and, to ensure that staff demonstrate expected values
 - Ensure that staff understand the "whistle-blowing" arrangements
 - Enhance the arrangements for ensuring that councillors have the right skills and knowledge.

Recommendation

R3 Respond to the results of the good governance survey, focusing on the key areas listed in para 30.

Energy and Carbon Management

- 32** We reviewed the Council's work on energy and carbon management. The Council has an enviable reputation for being a green champion in carbon and energy management, and our review identified clear strengths in:
- the strong focus on reducing energy use, improving energy management and reducing carbon emissions;
 - effectively measuring and monitoring of costs, energy usage and carbon emissions; and
 - using its own money, and external funding, to achieve its "green ambitions";

Value for money and use of resources

- preparing for regulatory requirements on carbon reduction and the energy performance of buildings; and
- completing individual schemes efficiently and cost effectively.

33 Kirklees has made much more rapid progress than many other Councils and - inevitably because of the need to exploit opportunities and funding as they arise - the programme has developed in an ad hoc way. The time is now right for the Council to:

- consider how it can satisfy itself that future schemes, and the overall programme, will deliver the best value for money from the available resources. This should include consideration of the "whole life" costs of future developments; and
- push forward with its plan for remedying the historically slow progress in improving energy management in schools.

Recommendation

R4 Review the vfm of the carbon and energy management programme and individual schemes and ensure that the stated commitment to whole life costing is implemented consistently.

Closing remarks

- 34** I will discuss and agree this letter with the Council's Chief Executive and the Director of Finance. I will present this letter at the Audit Committee on 5 February 2010 and will provide copies to all Council members.
- 35** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to Kirklees Council during the year.

Table 2

Report	Date issued
Audit Plan	April 2008
Financial Management in Services for Looked After Children (reported in the 2007/08 AAL)	March 2009
Your Business at risk	April 2009
Energy and Carbon Management Presentation	April 2009
Good Governance diagnostic	July 2009
Annual Governance Report	September 2009
Organisational Assessment Report	October 2009
Final Accounts Report	November 2009
Quarterly and Annual Grants Reports	May 2009; July 2009 and November 2009 and May 2009 (AR)
Individual Claims Reports	Various
Annual Audit Letter	November 2009

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

Paul Lundy
 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
KLOE 1.1 (financial planning) Score	3
VFM criterion met	Yes
Key findings and conclusions	
The council performs well has good financial planning arrangements, lives within its means and has effectively dealt with single status and equal pay. Treasury Management is robust, and the Council had withdrawn most of its historic investments in Icelandic Banks before they collapsed. Historically, there has been little public consultation on the Council's mainstream budgets, but a pilot of participative budgeting is planned for 2010/11.	
KLOE 1.2 (understanding costs and achieving efficiencies) Score	2
VFM criterion met	Yes
Key findings and conclusions	
The council is getting the basics right. It has a good record on achieving efficiencies and an active process for identifying these as part of budgeting and monitoring through the annual budget and Medium Term Financial Plan (MTFP). To date these have been service specific rather than being corporately driven There is not yet a clear or consistent approach to VFM and whole-life costs.	

Appendix 1 – Use of resources key findings and conclusions

KLOE 1.3 (financial reporting) Score	2
VFM criterion met	Yes
Key findings and conclusions	
<p>The Council is performing adequately. Budget monitoring and forecasting information is reliable, relevant and understandable. The Council uses financial and performance information to monitor its performance during the year. It prepares accounts that meet statutory requirements, financial reporting standards and present fairly the financial performance. There were many fewer errors in 2008/09 than in previous years. External reporting needs to include more information on environmental and social issues (include the council's environmental footprint) and diversity.</p>	

Governing the business

Theme score	2
KLOE 2.1 (commissioning and procurement) Score	2
VFM criterion met	Yes
Key findings and conclusions	
<p>Good practices and outcomes in place within Adult Services that met the various criteria within this KLOE. However, this was not consistently the case in either the Children and Young People Service or the Corporate Procurement Unit. There is limited collaboration with other public bodies. Environmental issues are considered when suppliers are selected by Corporate Procurement, but social and economic factors are not given similar attention. It is not yet clear that the promised efficiencies from e- commissioning. have been achieved.</p>	

Appendix 1 – Use of resources key findings and conclusions

KLOE 2.2 (data quality and use of information) Score VFM criterion met	2 Yes
Key findings and conclusions	
<p>The Council has shown a clear commitment to data quality, with robust systems for collecting, monitoring and reporting. However, we have identified an error rate within Housing Benefits of 15 per cent. In addition, several business continuity plans, including some from sensitive services. have not been tested at the corporate level during 2008-09. An on-line security training programme is available but is not compulsory and monitoring of this is difficult.. Corporate HR service holds information on diversity and equality issues but does not analyse this to profile service users across different geographical areas, although it is used for recruitment..</p>	
KLOE 2.3 (good governance) Score VFM criterion met	3 Yes
Key findings and conclusions	
<p>The council is performing well. It can demonstrate principles of good governance, by reviewing its own operations and decision making arrangements and reflecting changes in its Constitution. Cabinet members are proactive and work closely with Directors to achieve priorities. The ethical framework is clear and well understood. The Council has maintained focus and vision despite a change in political leadership in 2009. Effective scrutiny arrangements are in places which have had impact. Since 2005, partnership arrangements have been over-hauled. Members of the LSP, including the Voluntary Sector collaborate well. ..</p>	

Appendix 1 – Use of resources key findings and conclusions

KLOE 2.4 (risk management and internal control) Score	2
VFM criterion met	Yes
Key findings and conclusions	
<p>Risk Management is embedded within the operations of the Council at both Corporate and Business Risk levels. The Council's and the LSP's detailed risk management processes need to be better aligned. The Council is currently reviewing processes to ensure that risk management is fully embedded in strategic decision making. The Council has a sound system of internal control including internal audit as well as effective Scrutiny and Standards Committee. However, for most of 2008/09 the Corporate Governance and Audit Committee only achieved adequate standards as agendas were not challenging, officers were not held to account and no significant issues were referred to the Cabinet for action.</p>	

Managing resources

Theme score	3
KLOE 3.1 (use of natural resources) Score	4
VFM criterion met	Yes
Key findings and conclusions	
<p>Kirklees is recognised by its peers and the Audit Commission (nationally) as being an exemplar on green issues. There is good commitment across Council services to deliver Kirklees Green Ambition. Many schemes improve energy management in council assets and residents' homes. The Council invests in tested energy management systems to reduce its energy costs and meet legal requirements. Kirklees Warm Zone won the 2009 Ashden Awards for Sustainable Energy; it had visited 115,000 homes, supplied insulation measures to 25,000, and created 160 full- and part-time jobs.</p>	

Appendix 1 – Use of resources key findings and conclusions

KLOE 3.2 (strategic asset management) Score	2
VFM criterion met	Yes
Key findings and conclusions	
<p>The Council takes a strategic approach to managing assets with clear links to services needs and strategic priorities. A strategic approach to asset management gives consideration to VFM, benchmarking and strategic option analysis. Although the Council's arrangements are strong, there is limited evidence to show how the strategic approach has resulted in consistent positive outcomes for 2008/09. The Council is developing a strategic approach to working with others, which will impact on future outcomes and remains in development during 2008/09.</p>	
KLOE 3.3 (workforce planning) Score	n/a
VFM criterion met	n/a
Not assessed at MDCs in 2008/09	

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Audit Letter 2008/09 Recommendations						
8	R1 Improve the way evidence is collected to demonstrate how outcomes are being achieved.	3				
	R2 Make staff aware of how to improve IT security by, for example, achieving better password control and using more secure data sharing mechanisms.	2				
12	R3 Respond to the results of the good governance survey, focusing on the key areas listed in para 26.	2				

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
14	R4 Review the vfm of the carbon and energy management programme and individual schemes and ensure that the stated commitment to whole life costing is implemented consistently.	2				

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

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