

Knowsley Metropolitan Borough Council 2008/09 Annual Audit Letter



The Members
Knowsley Metropolitan Borough Council
PO Box 24
Municipal Buildings
Archway Road
Huyton
Knowsley
Merseyside L26 9YZ

November 2009

Elected Members

We are pleased to present our Annual Audit Letter summarising the results of our 2008/09 audit. We look forward to presenting it to members of the Governance and Audit Committee on 26 January 2010.

Yours faithfully

PricewaterhouseCoopers LLP
Encs

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In April 2008 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

Contents

Section	Page
Introduction	4
Audit findings	5
Matters affecting future accounting periods	8
Summary of recommendations.....	9

Introduction

The purpose of this letter

The purpose of this letter is to provide a high level summary of the results of the 2008/09 audit work we have undertaken at Knowsley Metropolitan Borough Council that is accessible for members and other interested stakeholders.

We have already reported the detailed findings from our audit work to those charged with governance in the following reports:

- Audit Progress Report 2008/09.
- Interim Audit Report 2008/09.
- IT and System Assurance Report.
- Audit opinion for 2008/09 financial statements, incorporating the conclusion on Use of Resources.
- Report to those charged with Governance (ISA (UK&I) 260).

The matters reported here are those that we consider are most significant for the Authority and a summary of the key recommendations that we have made can be found in Appendix A.

Scope of work

Our audit work is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Authority is responsible for preparing and publishing its financial statements, including the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements;
- reviewing the Authority's Annual Governance Statement;
- forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- undertaking any other work specified by the Audit Commission.

Our 2008/09 audit work has been undertaken in accordance with the Audit Plan that we issued in April 2008.

Audit findings

Accounts

We audited the Authority's accounts in line with approved Auditing Standards and issued an unqualified audit report on 23 September 2009.

We are pleased to note that there were no key issues arising from our audit but wish to inform Members of the following:

- We are required to report to you all unadjusted misstatements which we identified during the course of our audit, other than those of a trivial nature (all items less than £10,000). The items that we identified but which the Authority chose not to adjust would have resulted in a net charge to the Income and Expenditure Account of £182k. This should be considered in the context of the total net cost of service in the Income and Expenditure account, which was £200,929k in 2008/09. None of the items were individually material to the accounts.
- We did not identify any material weaknesses in the Authority's accounting and internal control systems but we identified a number of control issues. These are detailed in our 2008/09 Report to those charged with Governance together with recommendations for improvement and management's proposed action.

Use of Resources

The Audit Commission requires us to assess the overall arrangements that the Authority has in place in the following three areas:

- Managing finances.
- Governing the business.
- Managing Resources.

We evaluated the arrangements against criteria set by the Audit Commission in underlying Key Lines of Enquiry (KLoE) and reached a score for each based on the following:

- 1 Failure to meet minimum requirements – inadequate performance.
- 2 Meets only minimum requirements – performs adequately.
- 3 Exceeds minimum requirements – performs well.
- 4 Significantly exceeds requirements – performs excellently.

The scores for these KLoEs then determine the overall score for each area, using rules issued by the Commission. The Commission in turn then determines an overall score for the Authority.

Managing Finances

We have scored the KLoEs for managing finances reporting as follows:

Key Line of Enquiry		Score
1.1	The Authority plans its finances effectively to deliver its strategic priorities and to secure sound financial health.	3
1.2	The Authority has a sound understanding of its costs and performance and achieves efficiencies in its activities.	2
1.3	The Authority's financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people.	3

We did not identify any key issues regarding managing finances but provided the Authority with some examples for improvement including:

- demonstrating how cost comparisons and cost analysis have been used to identify savings and drive value for money; and
- carrying out post implementation reviews to show how the objectives of service reviews have been met including the impact on non financial performance indicators.

Governing the business

We have scored the KLoEs for governing the business as:

Key Line of Enquiry		Score
2.1	The Authority commissions and procures quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money.	2
2.2	The Authority produces relevant and reliable data and information to support decision making and manage performance.	3
2.3	The Authority promotes and demonstrates the principles and values of good governance.	3

2.4	The Authority manages its risks and maintains a sound system of internal control.	3
-----	---	---

There were no significant issues to report on governing the business but key areas for improvement include:

- providing better evidence to support the outcomes of policies, process and initiatives relating to commissioning and procurement including examples of how the Authority has challenged, benchmarked and market tested internally commissioned functions;
- formalising both data quality training and procedures for ensuring that the information needs of staff and stakeholders are met;
- reviewing and enhancing arrangements for information governance; and
- assessing the effectiveness and local confidence of partnerships that fall outside the Local Strategic Partnership performance monitoring requirements.

Managing resources

We have scored the KLoEs for managing resources as:

Key Line of Enquiry		Score
3.1	The Authority makes effective use of natural resources.	2
3.2	The Authority manages its assets effectively to help deliver its strategic priorities and service needs.	3
3.3	The Authority plans, organises and develops its workforce effectively to support the achievement of its strategic priorities	N/A

Note: KLoE 3.3 is not a specified KLoE for 2008/09 for Single Tier and County Councils.

We identified the following key areas for improvement on managing resources:

- setting baseline targets for the reduction in consumption across all resources, ensuring that effective systems are in place to monitor performance and providing evidence to support how the Authority is working with partners to reduce the use of resources;
- improving linkage of the Authority's Environmental Policy to other corporate plans and communicating performance against strategy to members of the public, stakeholders and staff.
- Carrying our post implementation reviews of asset management schemes to demonstrate outcomes in terms of financial performance and whether objectives have been met and the life of residents improved.

Further examples of areas for improvement are detailed in our 'Use of Resources – Assessment Results 2009' report.

Conclusion on Use of Resources

We were also required to issue a conclusion on the adequacy of the Authority's arrangements for ensuring economy, efficiency and effectiveness in its use of resources.

We issued an unqualified conclusion on the Authority's arrangements for its Use of Resources on 23 September 2009.

Annual Governance Statement

Local authorities are required to produce an Annual Governance Statement (AGS) which is consistent with guidance issued by CIPFA / SOLACE. The AGS was included in the financial statements.

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE guidance and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Treasury Management

As part of our work on Use of Resources we carried out a programme of work on Treasury Management. This piece of work was mandated by the Audit Commission. We did not identify any key issues.

Members' Allowances

As part of our year end audit work we tested a sample of fifteen claims and found that three claims for train fares were not supported by receipts. We then reviewed the Authority's Members' Allowance Scheme and understand that this is within the regulations set out therein.

However, given the recent publicity in this area we believe that this may present a risk to the Authority and have recommended that the Authority reviews its Members' Allowance Scheme, particularly with regard to supporting evidence for claims. It is suggested that receipts are required for all expenses, without which claims are not processed for payment.

Matters affecting future accounting periods

Transition to International Financial Reporting Standards (IFRS)

CIPFA has issued the Exposure Draft and Invitation to Comment on the Code of Practice on Local Authority Accounting in the United Kingdom 2010. This will apply to accounting periods starting on or after 1 April 2010. The new Code is the first to be prepared under IFRS. Because of the need to have comparative information for the first set of full IFRS accounts the effective date of the transition is 1 April 2009. The Authority will need to have values for assets and transactions as they should be recognised under IFRS from this date.

The Authority will need to ensure that it has a good grasp of the changes to accounting requirements under the new Code, and that it has robust plans in place to enable collection and processing of the information needed to comply with the new Code.

In our experience the key features of a successful IFRS conversion project have proven to be:

- Completed impact analysis and comprehensive conversion plans.
- The commitment of key stakeholders in the organization.
- Operational steering and technical groups.
- Cabinet/audit committee oversight.
- Regular progress reporting against the plan.
- The necessary project management resources.

- Appropriate and timely training for all members and officers with IFRS involvement.

The Authority engaged PwC to undertake a preliminary study to assess the impact of converting from financial reporting under UK GAAP (as adapted for Councils through the Local Authority SORP) to reporting under a Code based on IFRS.

We reviewed a range of documents provided by the Authority and also facilitated a workshop for Authority staff from the finance, HR and estates teams on 5th August 2009.

We are comfortable that the work is within Audit Commission rules and does not compromise our independence.

Summary of recommendations

There are no additional recommendations arising in this report. Recommendations in respect of the audit of the financial statements are included in our 'Report to those charged with Governance' and appropriate comments have been provided by management. Our 'Use of Resources – Assessment Results 2009' report provides examples of improvement areas for the Authority's consideration.

In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), you are required to disclose any information contained in this report, we ask that you notify us promptly and consult with us prior to disclosing such information. You agree to pay due regard to any representations which we may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such information. If, following consultation with us, you disclose any such information, please ensure that any disclaimer which we have included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

©2009 PricewaterhouseCoopers LLP. All rights reserved. 'PricewaterhouseCoopers' refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom) or, as the context requires, other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.