

Annual Audit Letter

Maidstone Borough Council

Audit 2008/09

December 2009



Contents

Key messages	3
Financial statements and annual governance statement	5
Value for money and use of resources	8
Closing remarks	11
Appendix 1 – Use of resources key findings and conclusions	12
Appendix 2 – Action plan	17

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 members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any 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 we have undertaken to assess your arrangements to secure value for money in your use of resources.

Audit Opinion

- 1 The 2008/09 audit is now complete. We issued an unqualified opinion on the financial statements dated 30 September 2009, and our audit certificate closing the audit on the same date.
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Financial Statements

- 2 The financial statements were recommended for approval by the Audit Committee on 15 June 2009, and approved by the Council on 24 June. As noted in previous years, officers worked hard to present a comprehensive set of accounts and working papers. We did however identify more technical accounting issues this year that required amendments to be made to the accounts.
- 3 Full details of matters arising during the audit were set out in the Annual Governance Report presented to the Audit Committee on 21 September 2009, and to Council on 23 September. This included two material accounting adjustments, in respect of the following.
 - Misclassification of NNDR income.
 - Asset valuations following an impairment review.
- 4 In addition, there was a significant adjustment required in respect of the capital accounting treatment relating to the move to new offices.
- 5 All the necessary adjustments were corrected by officers, and the Council re-approved the revised accounts on 23 September 2009.
- 6 Senior officers are currently reviewing roles and responsibilities within the finance section to ensure that the team is able to respond to the more challenging reporting requirements of IFRS that will need to be implemented in 2009/10.

Value for money

- 7 Based on the results of our work undertaken in relation to the Council's arrangements to secure economy, efficiency and effectiveness in the use of its resources, we issued an unqualified value for money conclusion on 30 September 2009.
- 8 The Council has strong arrangements in place to manage its finances, govern the business and manage other resources. There is a clear link between corporate objectives, medium term financial planning and service delivery and a very good governance and decision making process. Performance management is well established, and service planning is robust.
- 9 The Council leads in Kent on several benchmarking and business transformation initiatives. The success of these will be critical in enabling the Council to sustain a secure financial position and continue to deliver against stretching efficiency targets.

Actions

- 10 Our key recommendations, which are also set out in the body of the report, are as follows.
 - The Council should seek technical advice when accounting for complex capital transactions. These transactions should be discussed with the external auditor at an early stage so that the accounting treatment can be agreed prior to production of the draft financial statements.
 - Once the Council has taken a decision to dispose of an asset this should be re-categorised from operational assets to non-operational assets, surplus for resale, and revalued to market valuation obtained prior to sale, in accordance with the SORP.
 - The Council should review asset values at each year-end considering both impairment and other material changes in asset values.
 - Prime council tax records should be retained until completion of the annual audit, and otherwise in accordance with the Council's document retention policy.
 - Ensure that the finance section has the appropriate skill mix to meet the more challenging reporting requirements of IFRS.

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

11 We issued an unqualified opinion on the accounts on 30 September 2009, and reported on the detailed matters arising from the audit to the Audit Committee on 21 September, and to Council on 23 September. The following were the key matters arising.

NNDR income

12 National Non-Domestic Rates income received in respect of 2009/10 (£1,106,361) was incorrectly classified in the accounts as creditors rather than income in advance. This is an issue in relation to disclosure and analysis with no effect on the bottom line, and officers agreed to amend the accounts for this error.

Asset disposals

13 The capital accounting entries regarding the surrender of the lease on London House did not comply with the requirements of the Statement of Recommended Practice on Local Authority Accounting (the SORP). The result of the Council's negotiation with the landlord, over the surrender of the lease, created an unconventional arrangement to terminate the lease early through the transfer of land to the landlord.

14 The value of the transaction was not quantified and the Council created a capital transaction equivalent to the current value of the land transferred. This was financed by a capital receipt for the value of the land.

15 Our audit work identified that, at the point at which the land had been reclassified as surplus for resale, the Council had not re-valued the land at market value. This affected the loss on disposal. In addition technical advice confirmed that a capital transaction had not in fact taken place as the lease was terminated without a value attached to early termination, either in penalty or dilapidation charges.

16 The advice from the Audit Commission technical team confirmed that the necessary transactions were to revalue the asset appropriately and record the loss on disposal in the income and expenditure account. These revised accounting entries were agreed with officers prior to the re-approval of the accounts.

- 17** During the audit, a second capital transaction was identified where the SORP requirement, to revalue an asset at the time it is declared surplus for resale, had not been complied with. After the decision to dispose of Brooks Road car park the asset had not been re-valued and recorded as an asset that is surplus for resale, prior to being sold. The effect was to overstate the gain on disposal in the income and expenditure account, although, in this instance, the effect was trivial and the financial statements were not amended.

Recommendation

- R1** The Council should seek technical advice when accounting for complex or unusual capital transactions. The proposed course of action should then be discussed with the external auditor at an early stage so that the accounting treatment can be agreed prior to production of the draft financial statements.
- R2** Once the Council has taken a decision to dispose of an asset this should be re-categorised from operational assets to non-operational assets, surplus for resale, and revalued to market valuation obtained prior to sale, in accordance with the SORP.

Asset valuations

- 18** The Council's Valuer did not undertake a fully evidenced impairment review in 2008/09, although this had been intended as part of the accounts closedown process. Given the current economic climate, we discussed with officers the requirement to undertake an impairment review, and agreed that this would focus on the higher value property assets in the Council's portfolio to ensure that there was no material misstatement in the financial statements. A second review was then carried out on an extended sample of assets.
- 19** These exercises provided assurance that there was no significant reduction in asset values. The review did however identify assets that needed to be re-valued upwards at the balance sheet date by over £10 million to reflect their current value. As the SORP requires financial statements to be prepared on the basis of the best information available and the difference is material, the accounts were amended to reflect the revised asset values.

Recommendation

- R3** The Council should review asset valuations at each year-end considering both impairment and other material changes in asset values.

Systems and internal controls

- 20** One area of concern this year was that Council Tax Valuation Office (VO) schedules, working papers supporting VO adjustments and weekly council tax reconciliations were inadvertently destroyed during the office move prior to our audit. This caused significant problems in carrying out our audit of the council tax system and required Council officers to contact the VO to obtain further documentation to provide the necessary audit assurance.

Recommendation
R4 Prime council tax records should be retained until completion of the annual audit, and otherwise in accordance with the Council's document retention policy.

Accounting practice and financial reporting

- 21** The Council's accounts are comparatively clear, easy to understand and our Use of Resources audit work confirmed that they are well publicised and available to a wide range of stakeholders. However, whilst last year there were no material errors or adjustments to the accounts the draft accounts in 2008/09 have required a number of significant amendments.
- 22** Senior officers are currently reviewing roles and responsibilities within the finance section to ensure that the team is able to respond to the more challenging reporting requirements of IFRS that will need to be implemented in 2009/10.

Recommendation
R5 Ensure that the finance section has the appropriate skill mix to meet the more challenging reporting requirements of IFRS.

Value for money and use of resources

We 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.

We 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 our scored use of resources judgements, we 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, whilst level 3 represents consistently strong performance.
- 24** We 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 use of resources framework applied this year is significantly different to the previous assessment methodology. There is a greater emphasis on outcomes for local people rather than processes, and it is intended to represent a harder test for councils.
- 26** The Council's use of resources theme scores are shown in Table 1 below. The scores have been confirmed following the national quality assurance process. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 1. Our findings were discussed with officers and presented to the Audit Committee on 21 September 2009.

Table 1 Use of resources theme scores

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

Value for money and use of resources

- 27 The Council has strong arrangements in place to manage its finances, govern the business and manage other resources. There is a clear link between corporate objectives, medium term financial planning and service delivery and a very good governance and decision making process. Performance management is well established, and service planning is robust.
- 28 The Council leads in Kent on several benchmarking and business transformation initiatives. The success of these will be critical in enabling the Council to sustain a secure financial position and continue to deliver against stretching efficiency targets.

Other local risk based work - health inequalities

- 29 We have now completed our 2008/09 Kent wide review of health inequalities. Presentations have been delivered to the Kent Public Health Board and local Health and Wellbeing boards across Kent.
- 30 We found that the Maidstone Health Action Team LSP Sub Group (the Group) has a good understanding of the underlying social and lifestyle issues adversely affecting many who suffer poorer health outcomes. These include people living in the more deprived and rural areas who may experience isolation, anti social behaviour, crime, lack of employment opportunities, inappropriate housing and lack of skills. In considering other ways to bring about success in reducing health inequalities the Group may wish to consider exploring more joint working with other LSP sub-groups who also focus on tackling the outcomes of deep seated social issues. This would enable partners to focus on tackling strategically the underlying causes of the social challenges, as well as the outcomes, such as high levels of teenage conception, obesity and smoking.
- 31 The Group is currently being relaunched. There is appreciation of its previous role and an understanding that some existing initiatives are being successful with others less so. Much work is underway designed to tackle health inequalities in Maidstone. A healthy lifestyles coordinator is running campaigns to encourage healthy eating and exercise and to reduce smoking. A Healthy Living Centre in Parkwood, an area where local people have an above average number of health problems, provides specific health programmes. This includes discounted access to play schemes and leisure centres, to encourage people to exercise more. The Council is investing in its leisure centres and open spaces to improve facilities and make them more attractive.
- 32 A weakness in improvement planning is that the Group does not always know the difference it is making to improving the health of local people. There is a political will to improve the measurement of initiatives to assess value for money of the resources already being deployed but also awareness that levels of future funding may challenge levels of provision. This commitment along with their understanding of local issues places the Group in a good position to continue tackling health inequalities.

- 33** The Group was also aware that further work would be needed amongst partners to assess whether there were other ways to bring about success in reducing health inequalities in Maidstone. Three key barriers were identified:
- communication and engagement with communities and understanding needs;
 - prioritisation and lack of clear action plans; and
 - allocation and adequacy of resources.
- 34** This report and high level action plan is being sent to the Maidstone Health Action Team LSP Sub-Group for further work and conversion into a SMART¹ action plan. We intend to do follow up work with all the panels and sub-groups on their progress in implementing their action plans during 2010/11.

VFM Conclusion

- 35** We 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. Our conclusions on each of the areas are set out in Appendix 1.
- 36** We issued an unqualified conclusion stating that Maidstone BC had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

¹ Specific, Measurable, Achievable, Resourced and Timebound

Closing remarks

- 37 We have discussed and agreed this letter with the Chief Executive, Director of Resources and Partnerships and Director of Change and Environmental Services on 17 November 2009. We will present this letter to the Cabinet on 9 December 2009 and to the Audit Committee in January 2010. Copies should be provided to all Members.
- 38 The Council has taken a positive and constructive approach to our audit, and we wish to thank the Council's staff for their continued support and co-operation.

Emily Hill
Appointed Auditor

Andy Mack
Acting Appointed Auditor

November 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	3
Key findings and conclusions	
<p><i>Financial planning and health:</i> Financial resources are aligned to corporate priorities. The financial management framework is sound, and the budget setting process operates effectively. The Medium Term Financial Strategy is clearly linked to business objectives and strategic plans. Resources have been redirected to achieve new local and national targets. The budget setting process is very good, and expenditure has been contained within budget, variances have been minimised and resources sustained at a healthy level. Stakeholders have been actively engaged in financial planning through the budget simulator and other initiatives. Senior officers and members demonstrate a strong level of financial leadership.</p> <p><i>Understanding costs and performance:</i> The Council uses financial information well, decisions are routinely costed and implications risk assessed. Good budget management has helped the Council accommodate the revenue implications of the recession. The Council has an excellent track record of managing spending within available resources, whilst achieving stretching targets for efficiency savings. The Council's 'Reach the Summit' performance management system is well established. Service planning is robust, and the Council leads in Kent on several benchmarking and business transformation initiatives. Efficiency savings targets have been exceeded.</p>	

Appendix 1 – Use of resources key findings and conclusions

Theme score	3
<i>Financial reporting:</i> The Council has a very good system of financial monitoring that integrates financial and performance information to support decision making. Unplanned variances are examined, and monitoring is focused on high risk budgets. Financial risks associated with significant partnerships are monitored effectively. The Council's accounts are prepared on a timely basis, with only trivial errors, statutory deadlines and standards have been met and working papers are of a very good quality. The accessibility of the Council's website is very good.	
KLOE 1.1 (financial planning)	Score - 3
Strengths <ul style="list-style-type: none">• Good integration of financial and service planning• Resources are being focused on priorities, leading to strong outcomes• Savings targets consistently exceeded, and financial health is sound• A fully integrated fees and charges strategy• Financial skills developed at service level Issues to consider <ul style="list-style-type: none">• Measuring effectiveness of policies to address the impact of the economic downturn on residents• Impact of reductions in government spending/recession on improvement plans	

KLOE 1.2 (understanding costs and achieving efficiencies)	Score - 3
<p>Strengths</p> <ul style="list-style-type: none"> ● The Council has a very good understanding of its costs and this has been used to challenge service delivery through a rigorous business transformation process ● Investment decisions use whole life costing and sustainability factors as part of the project appraisal process ● Efficiency savings targets have been exceeded, with £1.9 million of cashable savings <p>Issues to consider</p> <ul style="list-style-type: none"> ● Building upon joint working through MKIP to establish new models of service delivery ● Developing a clear view of where partnership resources can be focused to improve service outcomes 	
KLOE 1.3 (financial reporting)	Score - 3
<p>Strengths</p> <ul style="list-style-type: none"> ● Very strong processes in place for financial monitoring and forecasting, with a good understanding of budget pressures and financial accountability at Service Head level ● A well established performance management system linked to the MTFS ● Engagement with stakeholders to improve quality of reports and website accessibility <p>Issues to consider</p> <ul style="list-style-type: none"> ● Scope to strengthen the accounts closedown process ● Capacity/skill mix within the finance department (IFRS in 2009/10) 	

Appendix 1 – Use of resources key findings and conclusions

Governing the business

Theme score	3
Key findings and conclusions	
<p><i>Commissioning services:</i> The Council has strong corporate plans, and these are used to inform decision making in respect of major contracts. A robust procurement strategy is in place, and external stakeholders are routinely consulted on major procurement plans. The Council champions joint working with other authorities through the Mid Kent Partnership, and identifies VFM opportunities through a well established business transformation programme. The Kent Price Book was developed by this Council and is now used by other Kent councils to drive service improvements.</p> <p><i>Data quality:</i> The Council has very good policies and systems in place to produce relevant and reliable data, and data security arrangements are sound. Performance reports are comprehensive, in an accessible format and used to challenge performance in priority areas. There is an annual report on data quality arrangements. Training needs assessments pick up data quality issues and data quality forms part of the Council's competency framework. Examples of good data quality practice are circulated to staff.</p> <p><i>Governance:</i> The Council has a sound governance framework. All expected codes, constitutional arrangements and procedures are in place, operating effectively and actively promoted. Governance principles are supported by senior officers and members who have received leadership training. The Council has a clear vision articulated via its strategic plan, and a good ethical culture is promoted. The governance arrangements of local partnerships are considered and reviewed.</p> <p><i>Risk management:</i> The Council's risk management arrangements are effective, and staff training is appropriate. Risks of significant partnerships are managed proactively. The Audit Committee is effective and has made a positive impact. The internal audit function is good, and the Council's systems of internal control are sound. Counter fraud and corruption work is proactive, and good partnerships exist locally with other authorities</p>	

KLOE 2.1 (commissioning and procurement)	Score - 3
<p>Strengths</p> <ul style="list-style-type: none"> ● The Council has a robust procurement strategy linked to the corporate plan that informs major contract decisions and has produced efficiency and cost savings ● Joint working to identify VFM opportunities is championed through the Price Book, MKIP and other links ● Better understanding of local needs through consultation with local communities and other stakeholders using a wide range of methods ● Successful implementation of the Gateway in Maidstone <p>Issues to consider</p> <ul style="list-style-type: none"> ● Strategies for managing the expectations of consultees ● Demonstrating improved service delivery and customer satisfaction from Council initiatives (eg Gateway) ● Outcome measures for plans to boost local economy in downturn 	
KLOE 2.2 (data quality and use of information)	Score - 3
<p>Strengths</p> <ul style="list-style-type: none"> ● The Council has very good arrangements in place to produce relevant, reliable and accurate data ● Data quality arrangements have been defined through a quality standard, and data security is sound ● Performance reports are comprehensive, reliable, timely and have been used to focus resources on priority services ● No significant issues arising from spot checks (recycling and planning) <p>Issues to consider</p> <ul style="list-style-type: none"> ● Ensuring data remains relevant for user needs 	

Appendix 1 – Use of resources key findings and conclusions

KLOE 2.3 (good governance)	Score - 3
Strengths <ul style="list-style-type: none">• Established constitution with clearly defined roles and duties• Code of Conduct for Members and Standards Committee which follow national best practice• Strong commitment to ethical governance; good leadership training programme for Members;• Very effective internal audit section• No issues arising from Standards Board data return or NFI data matches Issues to consider <ul style="list-style-type: none">• Demonstrating impact and effectiveness of the Audit Committee in its enhanced governance role• Ensuring evolving partnerships maintain principles of good governance	
KLOE 2.4 (risk management and internal control)	Score - 3
<ul style="list-style-type: none">• Strengths• Strong risk management culture and sound internal control arrangements• Clear programme of counter fraud activity focused on benefits fraud; staff awareness of counter fraud policy is high• Effective Audit Committee• Issues to consider• Promoting the role of the Audit Committee in ensuring action plans are implemented and contributing to risk identification• Monitoring effectiveness of counter fraud partnership with Tunbridge Wells	

Managing resources

Theme score	3
Key findings and conclusions	
<p><i>Workforce:</i> The Council's workforce planning is soundly based. The Council has developed a strategic approach to HR and it can demonstrate results from this work, particularly in terms of improved employee stability. Over the past four years, the Council has overhauled its HR policies through its 'People Matter' programme. This has included a review of competencies using the national framework. The People Matters programme establishes the key elements of workforce planning over the medium and long term. It examines the nature of the workforce including age, ethnicity, skills and turnover.</p> <p>The Council has successfully tailored its recruitment strategy to address problem areas. The Council has a structured approach to learning and development which defines priorities and sets out a system for managing and monitoring training. This is appropriately linked to strategic plan priorities, service planning and staff appraisals. The Council has a vigorous approach to organisational development. It has reviewed its structures, producing significant financial savings, while building up capacity in key corporate areas. The Council is making good progress with its equalities agenda, and has achieved level 4 on the Local Government Equalities Scheme</p>	
KLOE 3.3 (workforce planning)	Score - 3
<p>Strengths</p> <ul style="list-style-type: none"> ● Workforce planning is soundly based ● A strategic approach to HR with revised policies ('People Matter' programme) and demonstrable outcomes ● Internal communications are good, and staff have a positive view of the Council as a place to work ● Recruitment strategy successfully tailored to address problem areas ● Very good progress with equalities agenda (level 4) <p>Issues to consider</p> <ul style="list-style-type: none"> ● Addressing the outstanding learning and development issues from the IIP reassessment and equality impact assessments 	

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Audit Letter 2008/09 Recommendations						
6	R1 The Council should seek technical advice when accounting for complex capital transactions. The proposed course of action should then be discussed with the external auditor at an early stage so that the accounting treatment can be agreed prior to production of the draft financial statements.	3	Director of Resources and Partnerships	Yes	Any complex capital transactions will be raised with the external auditor as part of the regular meetings.	Ongoing
6	R2 Once the Council has taken a decision to dispose of an asset this should be re-categorised from operational assets to non-operational assets, surplus for resale, and revalued to market valuation obtained prior to sale, in accordance with the SORP.	2	Head of Finance	Yes	All future asset categorisation will be undertaken with the relevant SORP.	Ongoing

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R3 The Council should review asset valuations at each year-end considering both impairment and other material changes in asset values.	3	Head of Finance	Yes	The Asset Management Plan is updated regularly, but obtaining accurate valuations has been difficult given the current economic climate.	2009/10 accounts
7	R4 Prime council tax records should be retained until completion of the annual audit, and otherwise in accordance with the Council's document retention policy.	3	Head of Revenues and Benefits	Yes	Prime council tax records are retained in accordance with the council's document retention policy. Although these records were inadvertently destroyed as part of a major office move, all officers have been reminded of the policy.	As above
7	R5 Ensure that the finance section has the appropriate skill mix to meet the more challenging reporting requirements of IFRS.	3	Director of Resources and Partnerships	Yes	The requirements of IFRS reporting will be incorporated in the structure and learning and development of the finance team.	Ongoing

The Audit Commission

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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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