

Annual Audit Letter

Mendip District Council

Audit 2008/09

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.

Financial statements

- 1 As a result of our audit a number of adjustments to the statements were agreed with officers and the statements were amended accordingly. I issued an unqualified opinion on the Council's 2008/09 financial statements on 30 September 2009, concluding that they presented fairly the Council's financial position.

Value for money

- 2 The Council's arrangements for managing its resources to deliver value for money for the year ended 31 March 2009 are assessed overall as Level 1, which means that minimum requirements were not met. The Council is committed to improving its arrangements and there is evidence of significant work to address many key issues. However there were significant gaps in the arrangements throughout much of 2008/09. Many of these are now in place and provide a firm basis for improvement in 2009/10.
- 3 I issued a qualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Audit fees

- 4 There has been no change to my planned audit fees for 2008/09 as follows.

Table 1 **Audit fees**

	£
Financial statements and annual governance statement	69,279
Value for money	42,703
Total audit fees	111,982
Non-audit work - inspection fees	19,784
Total	131,766
Grant claims	17,600

Action needed by the Council

- 5 The Council needs to:
- continue to monitor the actions in the Improvement Plan; and
 - monitor progress on the key actions from our Annual Governance Report, through the Audit Committee.

Independence

- 6 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

- 7 As a result of our audit, a number of adjustments to the statements were agreed with officers and amendments made. The most significant of these were as follows.
 - The inclusion of a provision for redundancy costs of around £1m arising from the corporate restructuring. This reduced the General Fund balance at 31 March 2009, but did not affect budgeted spending as the costs were taken into account in the 2009/10 budget.
 - Adjustments were made to the Income and Expenditure Account to ensure service costs and income were correctly reported. These adjustments did not affect the net cost of services or the General Fund balance.
- 8 The key issues arising from our audit were included in our Annual Governance Report. This was discussed and agreed with the Audit Committee, and key officers, on 24 September 2009. Officers have already agreed actions to address the matters raised in our report.
- 9 I issued an unqualified opinion on the Council's 2008-09 financial statements on 30 September 2009, concluding that the financial position was presented fairly

Material weaknesses in internal control

- 10 In general, systems of internal control were adequate. However, Internal Audit work identified the need to improve arrangements for Corporate Information Security. The Council was assessed as non-compliant with level 1 controls, although partial compliance on most controls was noted. The need for an up to date Business Continuity Plan was also highlighted in our work on Use of Resources.
- 11 We have not identified any weaknesses in controls that might result in a material error in the financial statements.

Accounting practice and financial reporting

- 12 I considered the qualitative aspects of your financial reporting.
- 13 We raised two issues on the timing and valuation of some of the Council's fixed assets. These were included in our Annual Governance Report, which was discussed and agreed with the Audit Committee on 24 September 2009, and officers have already agreed actions to address these matters.

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

- 14 In forming my scored use of resources judgements, I used the methodology set out by the Audit Commission. Judgements have been made for each key line of enquiry (KLOE) under three main themes: Managing Finances, Governing the Business and Managing Resources.
- 15 The Audit Commission's scoring methodology is as follows.
- Level 1 - Below minimum requirements - inadequate performance.
 - Level 2 - Meets only minimum requirements - performing adequately.
 - Level 3 - Exceeds minimum requirements - performing well.
 - Level 4 - Significantly exceeds minimum requirements - performing excellently.
- 16 The Use of Resources assessment for 2008/09 represents a significantly harder test than previous assessments and level 2 requires that arrangements are in place and have operated throughout the period (2008/9).
- 17 The Council's use of resources theme scores are shown in Table 2 below. The scores for each theme are based on the scores for underlying KLOEs, which reflect characteristics of performance. The scores and key findings for the underlying KLOEs are summarised in Appendix 1.

Table 2 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	1
Governing the business	1
Managing resources	1

- 18 Overall the Council's arrangements for the year ended 31 March 2009 are assessed as Level 1, which means that minimum requirements have not been met. Although officers and members are fully committed to improving arrangements, there were significant gaps in arrangements throughout 2008/09. The Council is already achieving Level 2 on two KLOEs (financial reporting and good governance) and there is clear evidence of significant work to address many key issues during 2009.
- 19 The Council has already recognised the need to improve its arrangements and a voluntary Improvement Board was set up in August 2008. An Improvement Plan, led by the Chief Executive and members, was approved in December 2008. During the period January to March 2009, the Council reviewed its management and service delivery structures. It increased its capacity and expertise in key areas such as performance, risk and asset management through partnership arrangements with Somerset County Council. Significant additional government funding has also been secured through the Regional Improvement & Efficiency Partnership (RIEP).
- 20 A programme of work is underway to take forward the key areas for improvement. The Council is making good progress in a number of areas, including improving its performance monitoring and reporting, reviewing its risk management arrangements, developing a new corporate plan, refining its objectives based on customer research, identifying and developing key strategies, starting to address value for money, and consolidating its work in areas of budget management and financial control and in governance. The Council has a good awareness of the areas where it is still weak and is continuing its work to improve its arrangements.

VFM conclusion

- 21 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.
- 22 As set out in Appendix 1, I have assessed seven of the nine use of resources KLOE supporting this year's VFM conclusion at level 1 (inadequate performance).
- 23 I have identified weaknesses in your arrangements in the following areas.
 - The Council needs to improve and embed arrangements to integrate financial planning with strategic and service planning on a medium to long term basis.
 - The Council does not yet have a sound understanding of its costs and how these link to performance.
 - The Council needs to further improve its understanding of the community to develop its arrangements to commission and procure quality services.
 - The Council needs to fully embed arrangements to manage performance to support decision making.
 - The Council needs to improve arrangements to manage risk at service department level and ensure an effective business continuity plan exists.

Value for money and use of resources

- The Council does not have a corporate asset strategy, linked to its corporate objectives and medium term financial strategy, to maximise the use of its assets.
 - The Council has no effective workforce planning arrangements linked to service plans.
- 24** I issued an adverse qualified conclusion on 30 September 2009 which stated that the Council had inadequate arrangements to secure economy, efficiency and effectiveness in the use of resources.
- 25** The key findings from our work were included in our Annual Governance report. This was discussed and agreed with the Audit Committee, and key officers, on 24 September 2009. The Council already had a good awareness of the issues raised from their own robust self assessment, carried out during 2008. Significant work is already underway to address many of the key issues.

Closing remarks

- 26** I have discussed and agreed this letter with the Chief Executive and Corporate Management Team. I will present this letter at the Audit Committee on 14 January 2010 and will provide copies to all members.
- 27** 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 3

Report	Date issued
Audit Plan	May 2008
Annual Governance report	September 2009
Opinion on the financial statements & the value for money conclusion	September 2009
Whole of Government Accounts opinion	September 2009
Final Accounts memorandum	December 2009
Grants claims report	December 2009
Annual Audit Letter	December 2009

- 28** 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.

Brian Bethell
 District Auditor
 December 2009

Appendix 1 – Use of resources and value for money conclusion

Theme	Use of resources theme score	Key lines of enquiry (KLOE) score	Adequate value for money arrangements
Managing finances	1		
<ul style="list-style-type: none"> Financial planning 		1	No
<p>The Council has recognised the need to improve its financial planning processes. Following consultation in 2008/09, it reviewed its corporate priorities and is developing clearer links between strategic objectives and the budget. This work is continuing and arrangements will be more fully in place for the coming budget cycle. The Medium Term Financial Strategy (MTFS) needs to be co-ordinated with the Council’s other key strategies. The initial budget setting process also needs to be more robust to avoid the wide variation in forecast outturns reported, although monthly budget monitoring arrangements in place are robust. Recurring slippage on the capital budget needs to be understood. Balances are well above the approved minimum, and it is not clear what the future financial strategy for this is. Further work is planned for the next budget cycle to engage staff and stakeholders in the processes, and to embed financial responsibility.</p>			
<ul style="list-style-type: none"> Understanding costs and achieving efficiencies 		1	No
<p>The Council recognises that VfM has not been effectively monitored, and does not yet fully understand its costs and how these link to performance. There has been limited benchmarking, and the Council has not regularly monitored costs or performance. Areas of high cost or poor performance have not been considered as part of the financial planning process. Efficiency savings have been achieved but this has not been done by using a systematic process.</p>			

Appendix 1 – Use of resources and value for money conclusion

Theme	Use of resources theme score	Key lines of enquiry (KLOE) score	Adequate value for money arrangements
<ul style="list-style-type: none"> Financial reporting 		2	Yes
<p>Reporting of financial performance is relatively strong. Budgets are monitored regularly at all levels within the Council, and there is a good understanding of budget variances during the year. The Statement of Accounts was produced on time, and supported by adequate working papers. Work is continuing to improve arrangements for integrated financial and performance reporting. The Council publishes a lot of financial and performance information on its website, and this information is accessible to stakeholders. The Council continues to consider the diverse needs of its community and whether this information is accessible to them.</p>			
Governing the business	1		
<ul style="list-style-type: none"> Commissioning and procurement 		1	No
<p>The Council has made good progress to understand its community and to develop improved commissioning and procurement arrangements but further work is required to ensure that they are fully embedded. The Council has improved its understanding of the Mendip community, its needs and requirements but further work is required to understand the needs of its diverse population. The Council has recognised its weakness in understanding value for money across services and has established a member-led VFM working group to drive forward a performance and VFM methodology to compare the costs and performance of Mendip services with like authorities. The Council works well with its partners to secure joint services and achieve value for money. These include the Somerset Waste Management Partnership and joint working with Somerset PCT on the development of community hospitals. The Council has effective processes and procedures to guide its procurement but these have yet to be universally adopted. Cost information has improved over the last year but is not available for all services.</p>			

Appendix 1 – Use of resources and value for money conclusion

Theme	Use of resources theme score	Key lines of enquiry (KLOE) score	Adequate value for money arrangements
<ul style="list-style-type: none"> Data quality and use of information 		1	No
<p>The Council has significantly improved its arrangements to produce reliable and relevant information to support decision making and manage performance, but this has yet to be fully embedded. The Council assessed its need for and use of information as part of the new arrangements with Somerset County Council. New performance management arrangements have been introduced which identify what actions are needed during the year and how they link to the Council's Sustainable Community Strategy, budgets and medium term financial plans. The Council has raised the profile of data quality and improved awareness of its importance. It is improving its corporate arrangements by linking public needs to its Corporate Plan, Service Plans and individual objectives. Accuracy and completeness of information is adequately addressed through data control procedures and security and statutory requirements are generally sound. Financial systems are robust, with appropriate checks made on data, and the information produced. Security arrangements, including access control, are in place for the organisations business critical performance information systems, although these need to be improved. IT systems that support the business critical performance information systems are covered under the business services contract. A disaster recovery plan has been compiled and tested but a business continuity plan does not currently exist. Financial information is provided to officers through monthly budget monitor reports, identifying spend and commitment on all service cost centres. Performance reporting arrangements have been strengthened with a monthly service manager report to their portfolio holder and a suite of quarterly performance reports drawing together service and corporate information to indicate achievement against key performance indicators and corporate targets. The Council needs to improve its intelligence on equality and diversity issues. It has focused its efforts on completing equality impact assessments (EIAs) but there are gaps in the Councils detailed knowledge of some sections of its community, especially those hard to reach.</p>			

Appendix 1 – Use of resources and value for money conclusion

Theme	Use of resources theme score	Key lines of enquiry (KLOE) score	Adequate value for money arrangements
<ul style="list-style-type: none"> ● Good governance 		2	Yes
<p>The Council promotes and demonstrates the principles of good governance. Decision making has become more open and transparent and includes real debates about key issues of interest to the community. The annual report by the Leader and portfolio members helps to publicise the work of the council and the new corporate plan was informed by the MORI survey of residents' views. Overall scrutiny of the Council's work is improving and there has been increased support for the work of parish councils. The Council's Standards Committee has been strengthened to take on its responsibilities under local determination and members of the committee have been updated with latest literature, training, and guidance. There is a structured induction process in place for members and the Member Development Group oversees members training and development. A Code of Conduct is in place, which is supported by processes for dealing with breaches. The Council takes ethical governance seriously. Required returns to the Standards Board of England have been completed. Policies and procedures and associated literature have been reviewed to ensure all policies are in line with legislation. Whilst the Council has effective governance arrangements with some of its contractual partners e.g. Capita there are weaknesses in others, including the Mendip Strategic Partnership. The Council is aware of this and has been working with the County Council and Somerset Strategic Partnership to improve overall governance arrangements within the County.</p>			

Appendix 1 – Use of resources and value for money conclusion

Theme	Use of resources theme score	Key lines of enquiry (KLOE) score	Adequate value for money arrangements
<ul style="list-style-type: none"> Risk management and internal control 		1	No
<p>The Council has improved its risk management and internal control arrangements but more work is required to ensure that they are fully embedded and operational. For example risk management has not been fully embedded in service planning during 2008/09, although included in service plans for 2009/10 and is being further developed as part of integrated service and financial planning for 2010/11. An anti-fraud and corruption strategy, accessible to all staff, is in place. Whilst this was reviewed and approved by the Audit Committee in March 2008 there is no evidence that the strategy is monitored, or that the results of counter fraud work are reported. Internal Audit provided an effective review of the Council's internal control system. There is a wide ranging programme of audits in place for the year covering various aspects of the Council's functions. This gives assurance to the Council that it has an effective control environment. However, the Council's Audit Committee does not deliver its core functions. There is no planned work programme and no scrutiny of the Council's risk management process. The Committee did not approve the accounts in June 2008 and there is no consideration of the Council's fraud processes. Member oversight of the internal control environment is limited. There is no business continuity or overarching plan in place but arrangements are in place for disaster recovery of IT servers.</p>			
Managing resources	1		
<ul style="list-style-type: none"> Strategic asset management 		1	No
<p>The Council does not have a corporate asset strategy, linked to its corporate objectives and medium term financial strategy, to maximise the use of its assets. The Council is working with Somerset County Council officers to put this in place.</p>			

Appendix 1 – Use of resources and value for money conclusion

Theme	Use of resources theme score	Key lines of enquiry (KLOE) score	Adequate value for money arrangements
<ul style="list-style-type: none"> Workforce planning 		1	No
<p>Only marginal progress has been made towards the achievement of level 2 of the workforce key line of enquiry. The Council's own self assessment showed that only sickness absence arrangements were in place to support the 'productive and skilled workforce' section, there were no effective workforce planning arrangements that linked with service planning, organisation change arrangements were not in place and there was only limited compliance on diversity and good people management. For example the Council had not maintained up to date policies and practices and work was still underway on equality standards and local community issues. There was a lack of timely financial advice on the restructure, the financial implications of redundancy payments had not been quantified, people were unclear about what jobs they were applying for and the appointment process was not robust. There was no workforce planning or development strategy in place and some staff did not have clear roles or job descriptions. Some improvements have been made since April 2009 but Human Resource processes and procedures need to be enhanced and embedded within the organisation. The Human Resource Department has been strengthened and a system of improved communications implemented. Plans have now been agreed to establish performance management arrangements to monitor poor performance and organisational change issues are being discussed. Plans have also been made to update diversity plans and practices to ensure compliance with legislation. The Council's performance appraisal system operates at all levels, but needs to be more rigorously applied. SOLACE has undertaken performance coaching of Mendip staff and the Council is defining staff competencies. There has also been a shift in responsibility back to the individual to take ownership of their own training and development. Customer focus training being undertaken by all staff and a review of all personnel procedures is currently taking place to ensure they adhere to equalities legislation and all staff receive diversity and equality training.</p>			

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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