

North Warwickshire Borough Council 2008/09 Annual Audit Letter



The Members
North Warwickshire Borough Council
Council Offices
South Street
Atherstone
Warwickshire
CV9 1DE

28 January 2010

Ladies and Gentlemen

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 Executive Board on 8 February 2010.

Yours faithfully

PricewaterhouseCoopers LLP
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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.

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Executive summary

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 North Warwickshire 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 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.

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 work during the year was performed in line with the agreed audit and inspection plan. We have been in continual contact with members of your finance team during the year, monitoring progress against this plan.

Audit Findings

We audited the Authority's accounts in line with approved Auditing Standards and issued an unqualified audit report on 30 September 2009.

We have not identified any material weaknesses in the Council's accounting and internal control systems during the audit.

The Council already faces a number of financial challenges and there is every likelihood that following the general election in 2010 further significant

cuts in public sector expenditure will have to be made.

The new use of resources framework forms part of the Comprehensive Area Assessment (CAA). We evaluated the arrangements against criteria set by the Audit Commission and reached a score of 2 (performs adequately) for each of the three areas under assessment (namely managing finances, governing the business and managing resources). It is important to note that although the one to four scoring definition is the same as that used in previous years, the underlying assessment methodology is fundamentally different. A score under the old use of resources system cannot therefore be compared to a score under the new system. There is no like for like comparison.

We issued an unqualified conclusion on the Authority's arrangements for its Use of Resources on 30 September 2009.

Summary of Recommendations

We have made a number of recommendations to the Council, the most significant of which are summarised below:

In the context of its medium term financial challenges the Council should continue to focus on the following areas:

- Continued sound financial management and keeping to budgets, in spite of increasing service pressures;
- Achieving the significant savings targets identified in the Medium Term Financial Strategy;
- Improving and modernising services, making them more efficient and affordable;
- Progressing with capital regeneration initiatives and the wider strategic ambitions of the Borough; and
- Sound management of the Council's capital programme.

During the course of our Use of Resources assessment we have identified a number of areas for development, the most significant of which are summarised in this report. Should the Council determine that achieving a higher Use of Resources score is a priority, it will be important to continue to improve overall performance, with an emphasis on the areas that we have highlighted.

Audit findings

Accounts

We audited the Authority's accounts in line with approved Auditing Standards and issued an unqualified audit report on 30 September 2009. We would like to draw attention to the following key points from our audit of the accounts:

The draft financial statements were prepared to a good standard. The Council met the deadline to submit its draft accounts for audit by 30 June 2009. We provided the Council's finance team with a list of required working papers prior to the financial statements audit and we are pleased to report that the working papers provided for us with were of a good standard.

As might be expected, our audit process identified some issues, both of content and presentation, where we believed amendments to the accounts would enhance their accuracy and usefulness to the reader. We felt that some of these were significant enough to justify an amendment to the accounts, and the Council agreed to process the amendments accordingly.

These adjustments vary in both value and nature, with many simply being misclassifications, or amendments to disclosure notes. The adjusted misstatements had a net negative impact on the Council's General Fund balance of £5k.

Publication of the audited accounts was completed by 30 September 2009 as required. We issued an unqualified audit report on this date.

We have found the general operation of manual controls to have been

improved this year over previous years. We did however, during our controls work, identify a control risk around the processing and authorisation of manual journals within the financial system. At the time of our review there were 19 people on the *TASK* finance system with the ability to authorise a journal. This has since been changed to 6 individuals, which the finance team considers an appropriate level.

Due to the concerns raised, we embarked on understanding the potential risk this poses and recommended that the Council review its journal authorisation procedures along with any mitigating controls in place to ensure that inaccurate journals are identified. Internal Audit have since completed work in this area, providing assurance that this lack of control has not led to any actual breaches. Internal Audit will continue to carry out checks in this area until a system of control is built in to the finance system. We understand that this is currently being considered within the finance team.

We would like to thank the finance team for their support and cooperation throughout the audit process.

Financial standing

The recent economic downturn has seen unprecedented uncertainties in the economy and has therefore required consideration be given to the on-going viability of the Council's finances.

At 31 March 2009, the financial position of the Council was sound, and the Council had sufficient reserves in place. However, the impact of the

recession and the strong possibility of future cuts in public sector expenditure are likely to place significant pressures on the Council in the short to medium term. We have outlined some of the key points here.

The Council have prepared a financial strategy document for the period 2009/10 – 2012/13. This was shared with the Executive Board in September 2009. There are some very strong messages about the future of the Council's financial position included within the report. The Council have outlined a requirement for savings of £380k in each of the three years. At the point of the Board report, £228k of the required savings had been identified for 2010/11. This is a positive indication of the work already underway in this area. In the main, cost savings are being sought through the restructuring of the Council's workforce, including senior positions and also by putting a freeze on recruitment. However, as the Council recognise, the ability to continue to generate such savings will become more difficult over time.

The Council is currently in the process of completing a review of fees and charges. This will help to ensure that the Council can maximise income at the same time as supporting its priorities.

As part of the Council's drive to address the economic situation, a targeted sensitivity analysis has been completed. In the worst-case scenario the Council would be left requiring a savings plan of close to £1 million by the year 2012/13. The Council recognises that this worst-case scenario is not necessarily going to happen, however this does give an indication of the future environment the Council could be operating in.

The Council produces both a 3 and 10 year capital programme. Whilst the 10 year plan includes a great deal of uncertainty, the message is clear; there is a significant gap between estimated resources and expenditure. This gap currently stands at £14.7 million. To emphasise this potential problem, the October 2009 Resources Board papers report a £1.6 million reduction in capital resources from the sale of Council assets, meaning a deferral, and in some instances deletion, of capital works to later periods, when there might be more certainty in the economy.

The Council are also in the process of preparing a bid for Social Housing

Grant, which ties in with one of the corporate priorities to provide more affordable homes in the Borough. In order to do so, the Council have appointed architects to develop plans for four sites across the Borough and is also working in partnership with a local housing association to understand the various requirements. The initial estimated build costs of the four sites identified is £2.5 million. The Council will apply for funding to cover £1.3 million of this, leaving a balance of £1.2 million to be funded through prudential borrowing.

The Council already faces a number of financial challenges and there is every likelihood that following the general election in 2010, further significant cuts in public sector expenditure will have to be made. In these circumstances, and given the budget risks the Council has itself already identified over the coming years, it remains imperative that the Council continues to focus on the following areas:

- Sound financial management and keeping to budgets, in spite of service pressures;
- Achieving the significant savings targets identified in the savings programme;
- Improving and modernising services, making them more efficient and affordable; and
- Sound management of the Council's capital programme and asset rationalisation programme.

Systems of internal control

We are required to report to you any material weaknesses in the accounting and internal control systems identified during the audit. We are pleased to report that we have not identified any such material weaknesses during the course of our audit procedures.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS). The AGS was included in the financial statements.

We reviewed the AGS to consider whether it complied with guidance issued by relevant professional bodies 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.

Whole of Government Accounts

We undertook our work on the Whole of Government Accounts consolidation pack as prescribed by the Audit Commission. The work was completed and the audited pack was submitted in time to meet the deadline of 1 October 2009. Our work on the Whole of Government Accounts consolidation pack concluded that it was consistent with the statement of accounts for the year ended 31 March 2009.

Electors' questions or objections

No questions or objections from electors were received by the appointed auditor in 2008/09.

Certification of grants, claims and returns

During 2008/09 we have performed certification procedures on 6 grants, claims and returns. Three have required amendments to be made and in two cases we have issued qualification reports, indicating that our certification has been given despite the issues we have identified.

The Audit Commission has indicated that the results of the certification work on grants, claims and returns is likely to increase in prominence going forward. This will be of particular relevance when we are forming our assessment of authorities' arrangements in respect of Use of Resources.

Use of Resources

A new Use of Resources framework was introduced in 2009, This forms part of the Comprehensive Area Assessment (CAA) and comprises 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 Inadequate performance;
- 2 Performs adequately
- 3 Performs well; or
- 4 Performs excellently.

The scores for these KLoEs then determines the overall score for each area, using rules issued by the Commission. The Commission in turn then determines an overall score for the Authority. It is important to note that although the above one to four scoring definition is the same as that used in

previous years, the underlying assessment methodology is fundamentally different.

The Audit and Inspection Letter for 2007/08, issued to the Council in January 2009 summarises this well when it states that *“The 2009 use of resources assessment framework will be more demanding than previous use of resources assessments. It is broader in scope and embraces wider resource issues such as people and workforce planning, and the use of natural resources. It also places more emphasis on considering outcomes for local people. It is particularly important to recognise that the key lines of enquiry are more strategic and focus much more explicitly than previously on value for money achievements rather than on processes. There is also more emphasis on the quality of data underpinning planning, decision making and assessing the effectiveness of services.”*

The new approach is a much harder test and in reality it was significantly easier to score, for example, a 3, under the previous methodology than is the case now. On the following pages we have provided some analysis of the Use of Resources scores achieved. We have also identified a number of areas that the Council might wish to focus on going forward.

It should be noted that in most cases, where a score of 2 has been given for a KLoE, the Council has comfortably achieved that score. There are strong indications that if the Council continues to build upon its current practices, there is scope for higher scores to be achieved in many KLoE areas in the years ahead.

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	2
1.2	The Authority has a sound understanding of its costs and performance and achieves efficiencies in its activities	3
1.3	The Authority's financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people	2

Summary findings:

There are strong links between key corporate priorities and the Medium Term Financial Strategy ("MTFS"). The Council was not exposed by the Icelandic bank failures and our work on its treasury management arrangements has not identified any significant areas of concern.

Strategic priorities are generally being delivered, an example being Decent Homes compliance. A key aspect of Council policy is the 'Borough Care' scheme, whereby a 'lifeline' is operated for elderly and vulnerable residents.

Local communities and groups have played an important role in identifying local need, either directly or through Area Forums.

The Council has a track record of achieving the savings targets included within its MTFS. During 2008/09, savings of £475,000 were found against the target of £300,000 for 2009/10.

The Council uses the Local Strategic Partnership to engage with partner agencies, local communities and stakeholders. Priority issues that arise are integrated into Divisional and Corporate Plans.

Spending has been moved from low to high priority services on occasion and some evidence has been seen of consultation over spend and devolved budgets.

There is a good understanding of costs and cost drivers across services. The

Housing service has changed the delivery of a number of aspects of its maintenance service following benchmarking of its costs and processes, including an expanded Housing Direct Works operation for ongoing maintenance.

Extensive evidence of benchmarking and the use of unit costs has been seen, especially in Housing, where the Housing Quality Network is fully utilised.

A formal shared service arrangement for Revenues and Benefits has been agreed with Coventry City Council, leading to more than £50k of anticipated savings over 2 years.

Budget monitoring procedures are well developed. Forecast information is routinely provided in Budgetary Control Reports for both revenue and capital spending. These reports also include unit cost information, so that the impact of variation in activity levels is apparent.

External reporting is generally clear and timely and is done via number of media.

Areas for development:

The Council's costs have traditionally been high compared to other similar councils. Some of the Council's policies impact significantly on costs, notably the decisions to provide free car parking throughout the Borough, and to provide the Borough Care service free to the majority of users. If the impact of these was excluded, the average spend per head would only slightly above the district council mid-point. Given the significant challenges likely to face public sector finance in the near future, serious consideration will be required in respect of maintaining the high cost/good performance position which has previously been supported by the electorate.

Some good examples of consultation with stakeholders have been seen, although this has not appeared to form part of an overall strategy.

There is a need to do more on environmental and social reporting, for example around the Council's own environmental impact and addressing diversity issues in reporting. The Council should consider whether there would be value in reporting who receives services and where money has been spent across demographic groups.

There is little evidence that external reporting routinely includes environmental and social information with an analysis of the Council's environmental footprint.

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	2
2.3	The Authority promotes and demonstrates the principles and values of good governance	2
2.4	The Authority manages its risks and maintains a sound system of internal control	2

Summary findings:

The Council's governance arrangements are generally sound. Some good practice has been seen in respect of procurement and risk management practices are generally well embedded.

Intended outcomes are set out in a number of key documents, such as the Corporate Plan, the Access Strategy and the HRA Business Plan. These bring together intended outcomes, together with resource implications. In some instances, these implications will shape the commissioning and procurement of services.

Partnership working has been used on a number of occasions to attract additional funding and to deliver services that would otherwise have been expensive and difficult to do. The Council used a number of consultation exercises to ensure that services were tailored to local needs. The Housing Division meets formally with the police monthly in order to address anti-social behaviour issues. The Police Community Support Officers work in

partnership with the local Neighbourhood Wardens and have been effective together in addressing issues in many areas of the Borough.

The Council's Borough-Wide Tenants' Forum was integral in the decisions to appoint the main contractor to deliver housing improvement programmes. Representatives attended workshops to give feedback on issues and priorities. Areas of need have been identified, using a number of sources, and the Council have used a commissioning approach in projects where specific community impacts or outcomes are sought, for example around jobs and regeneration.

The Council uses environmental and sustainability criteria as part of its selection criteria for goods and services.

For significant partnerships, the Council ensures that the data flows and data requirements of each party are understood and that appropriate governance arrangements are in place. For the key Revenues & Benefits partnership with Coventry City Council, there is in-built provision for the joint checking of data. Data produced by external consultants is assessed for accuracy and completeness where possible, before it is used for decision making. Benchmarking is used to test service data, which informs VFM reviews on services. VFM implications are summarised at the end of Board reports. Boards also receive performance management information, which uses a traffic light and arrow system, to highlight areas where performance varies against targets set. The data used for major schemes is also checked to ensure accuracy and reasonableness..

Our work on Housing Benefits/Council Tax benefits identified a number of data quality issues, although not to an extent sufficient to impact upon the score for this area of the Use of Resourcing assessment.

With effect from 2008/09, Councils have moved away from the Best Value Performance Indicator regime and instead contribute data known as 'National Indicators' or "NIs" to the Government's National Indicator Set. We spot-checked the data quality of two of the Council's National Indicators, with the following results:

NI 156 Number of Households Living in Temporary Accommodation
No data quality issues were identified in respect of this NI.

NI 192 Percentage of household waste sent for reuse, recycling and composting

A number of minor data quality issues were noted in respect of this NI principally around the use of manual rather than system-driven data. None of the issues noted were deemed to be significant and there was no impact upon the Council's Use of Resources assessment as a level 2.

Performance monitoring, including that related to partnerships, is a regular aspect of reports to management and members. Significant partnerships generally have a Steering Group, which oversees the governance of the partnership, and a Memorandum of Understanding

A sound system of internal control is in place, with checks built into systems. Where possible these are automated. Where checks cannot be built directly into IT systems, other measures are taken.

The Council's approach to fraud is clearly set out and a Whistle-blowing Policy is publicised. No issues were raised under the Policy during the year. Member training is carried out on an ad hoc basis.

Our work to understand arrangements in operation to reimburse the expenses of members and senior officers has not identified any areas of concern.

Risk management processes and practices at the Council are generally sound and the system of internal control operates effectively. Spending is within budget, progress towards meeting priorities is generally good, risks are identified and action is taken where the risk is unacceptable. Risks are continually updated and reviewed annually, so that new risks are identified and managed.

A range of implications are assessed when providing information for decision making, so that all the major risk areas are covered. Additionally, a full risk matrix is completed for all policy decisions, which enables consideration of all risks, both positive and negative, before a decision is taken.

Areas for development:

There are promising signs around the targeted use of commissioning to produce change for those in the Borough who are most in need. It would be

helpful if the outcomes of this approach can be more clearly demonstrated in future years.

The Council should consider the introduction of a structured and ongoing programme of risk management training for members, within a wider member development programme.

The Council should ensure that it can demonstrate consistent and effective communication of its ethical standards to residents and stakeholders.

It will be helpful going forward if the Council is able to demonstrate the outcomes that have resulted from its governance and risk management arrangements.

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.	n/a
3.2	The Authority manages its assets effectively to help deliver its strategic priorities and service needs.	n/a
3.3	The Authority plans, organises and develops its workforce effectively to support the achievement of its strategic priorities	2

Note: KLoEs 3.1 and 3.2 are not specified KLoEs for 2008/09 for District Councils.

Summary findings:

The Council is starting to demonstrate signs of a strategic approach to workforce planning. The Council has explored some joint working, resulting in a Revenues and Benefits shared services arrangement with Coventry City Council, shared Planning provision with Nuneaton and Bedworth Borough Council and shared Contact Centre staffing with the Warwickshire Direct Partnership.

In-house and external secondments are used where appropriate, to develop staff or to maintain their emotional well being. The Authority makes use of market supplements where necessary, in order to retain suitably skilled staff.

The Council has consulted well with staff including the use of annual staff surveys, this consultation having led to changes in planned approach on more than one occasion.

Staff turnover is slightly below the annual target and reflects the Council's ambition to have limited, rather than wholesale, turnover.

NWBC has a good working relationship with the unions, with a consultation agreement in place and regular monthly meetings. Staffing structures are reviewed on a regular basis, and involve consultation with the unions, as well as affected staff.

Areas for development:

While good examples have been seen joint and coordinated working with neighbouring authorities and other agencies, the Council have not yet fully demonstrated the existence of a corporate strategic approach to workforce planning.

It will be important for the Council to demonstrate good performance under the new Equality Framework for Local Government.

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 30 September 2009.

Treasury Management

During the year, the collapse of the Icelandic banking system, together with

the disclosure that a number of public sector bodies in the UK held significant investments there, raised concerns nationally as to the adequacy of treasury management practices within the public sector. In response to such concerns, and as part of our use of resources assessment we completed a Treasury Management 'workbook' issued to us by the Audit Commission. This work, which was in the form of a questionnaire completed with the assistance of Council staff, identified no matters for concern. The Council does not hold funds in Icelandic banks but has in the light of this issue, reviewed its policies and strategies in this area.

Expenses

In light of the recent furore nationally on politicians' expenses, we have raised the matter of expenses with the Council's Section 151 Officer and with the Assistant Director of Resources and HR. These discussions gave no indications that the Council's arrangements in this area were not operating effectively.

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 organisation;
- Operational steering and technical groups;
- Cabinet/audit committee oversight;
- Regular progress reporting against the plan;

- The necessary project management resources; and
- Appropriate and timely training for all members and officers with IFRS involvement.

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.

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