

# Annual Audit Letter

Scarborough Borough Council

Audit 2008/09

November 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.**

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## Audit opinion

- 1 I gave an unqualified opinion on the Council's 2008/09 financial statements on 13 October 2009, but did not issue the certificate closing the audit, due to an outstanding issue in relation to the treatment of VAT receipts from Yorkshire Coast Homes.
  - 2 Officers have accepted that the treatment was previously incorrect, but that this does not have a material impact on the financial statements. As a result, I intend to issue the certificate closing the audit, and confirming that the opinion I gave was correct, by the end of November.
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## Financial statements

- 3 A small number of errors have been found as a result of our audit. In discussion with officers we have agreed that amendment is not required in order for the accounts to be fairly stated.
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## Value for money

- 4 I assess 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 body.
  - 5 I have issued an unqualified conclusion stating that the Council has adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.
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## Future challenges

- 6 The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. The impact on cash management has been immediate, but there are potentially wider and more fundamental impacts on the ability of all public sector bodies to fund service delivery and capital programmes, including pressure on income streams. There are likely to be further challenges for policy priorities where patterns of demand for services are changing.
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- 7 The Council has taken positive steps in response to the recession, including establishing an Economic response Working Group to co-ordinate the activities and initiatives of the public sector to support local businesses. The Council has led in the establishment of the Employment and Skills Partnership to better co-ordinate training and skills development for local businesses and residents. The Council's Benefits Service is working in partnership with Jobcentre Plus to provide job redundancy support to local people.
- 8 I have taken the Council's plans and progress into account in my VFM conclusion and use of resources assessment, and will continue to assess progress during 2009/10 as part of my audit.
- 9 From 2010/11 the Council's financial statements will need to be prepared in accordance with International Financial Reporting Standards (IFRS). This requirement does impact on the 2009/10 statements, as they will need to be restated to an IFRS basis, and hence there is a need for the Council to have completed its implementation during 2009/10. From my discussions with officers the Council appears to have made some progress in identifying where the major issues are and what action is needed to address them, although significant work is still required in order to deliver the work required.

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### Use of resources and links to Comprehensive Area Assessment

- 10 Comprehensive Area Assessment (CAA) is a new mechanism for assessing locally delivered public services. CAA brings together judgments from the Audit Commission, Care Quality Commission, HM Inspectorates of Constabulary, Prisons and Probation, and Ofsted into one coordinated view of public services in an area. The primary focus of CAA is on the place and not organisations, and on outcomes achieved for the community rather than the process.
- 11 The Council's use of resources assessment will feed into the organisational assessment element and help to illustrate how well the Council's services are addressing local priorities. The organisational assessment for the Council will be published on the CAA website. The first reporting of the findings of CAA will be published on 10 December 2009.

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### Audit fees

- 12 The fee for undertaking our audit in 2008/09 was £114,585 (plus VAT), which was in line with the proposed fee. The 2008/09 fee analysis is contained in Appendix 1.

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### Actions

- 13 Recommendations are shown within the body of this report and have been agreed with the audited body.

## Key messages

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### Independence

- 14 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.**

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## Significant issues arising from the audit

- 15 The Council again delivered financial statements by the required deadline of 30 June. The small number of errors identified did not require amendment of the accounts in order for us to conclude that the accounts were fairly stated.
  - 16 I reported the findings of my audit to members of the Audit Committee in September 2009, and concluded that an unqualified audit opinion could be issued, although the certificate for closure of the audit has not been issued until the position with the VAT shelter income has been resolved.
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## Errors in the financial statements

- 17 There were a number of non-material errors, the most significant of which were:
    - financial instruments note included statutory debtors and creditors which are not financial instruments; and
    - debtor and creditor balances were both overstated by £161k in relation to creditors for Highways Agency works that have not been undertaken yet, matched by debtors.
- 

## Legal issue with potential future implications - VAT shelter income

- 18 Since 2003, acting on professional advice and in common with several other Councils, Scarborough Borough Council has participated in a 'VAT shelter arrangement' with the registered social landlord to whom its housing stock was transferred and has accounted for its share of refunded VAT as revenue receipts.
  - 19 Recent advice to us from the Audit Commission's Technical Committee is that these receipts should potentially have been recorded as capital, rather than revenue. Officers have now confirmed that they accept the receipts are indeed capital, but that this does not have a material impact on the financial statements, due to previous funding of capital schemes from revenue receipts. We have confirmed that this is correct.
  - 20 Now that this issue has been resolved, I intend to issue the certificate closing the audit, and confirming that the opinion I issued on 13 October 2009 was correct, by the end of November.
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### Material weaknesses in internal control

**21** During the course of the audit, we identified weaknesses in internal control in demonstrating the completeness of car parking income. As a result, we have had to carry out additional audit work to satisfy ourselves that these weaknesses have not resulted in material misstatement in the financial statements. The Council has been advised of our findings, and the need to take action to ensure adequate controls are in place.

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### Accounting Practice and financial reporting

**22** I considered the qualitative aspects of your financial reporting.

**23** I reported in my Annual Governance Report that:

- the financial statements included adjustments to the prior period accounting entries which were not material. The financial reporting standards require that these adjustments are only made where they are material;
- provision for £70k for payments for housing receipts pool should potentially be classified as a contingent liability; and
- prior year figures for trading operations should be provided for note 3 within the statement of accounts.

# 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

- 24 In forming my scored use of resources judgements, I 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.
- 25 I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 26 The Council's use of resources theme scores are shown in Table 1, and the key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 2.

**Table 1 Use of resources theme scores**

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

- 27 In setting the context for these scores it is important to note that the Use of Resources assessments this year under Comprehensive Area Assessment are focused more on outcomes, and are more strategic than detailed. As a result the standard required to demonstrate level three performance has been raised, and it is difficult to make accurate comparisons with the Council's scores last year.

## Value for money and use of resources

28 Key messages from the work were:

- financial planning and reporting show strong performance, and the Council is well placed to deal with the future financial reporting challenges;
- the Council has the basics right in governing its business, but needs to further demonstrate positive outcomes arising from the processes; and
- the Council's arrangements for workforce planning are enabling it to deliver its change programmes, although there is again a need to demonstrate consistent outcomes flowing from the systems and processes which are in place.

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### VFM conclusion

- 29 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. My conclusions on each of the areas are set out in Appendix 2.
- 30 I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Recommendation
R3 Produce and implement action plans arising from the use of resources assessments and value for money work.

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# Closing remarks

- 31** I have discussed and agreed this letter with officers. I will present this letter to the Audit Committee and it will be made available to all members.
- 32** 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.

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**Table 2**

Report	Date issued
Audit and Inspection Plan	April 2008
Annual Governance report	September 2009
Use of Resources report	November 2009

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- 33** 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.

Damian Murray  
 District Auditor  
 November 2009

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# Appendix 1 – Audit fees 2008/09

	<b>Actual</b>	<b>Proposed</b>	<b>Variance</b>
Financial statements and annual governance statement	78,400	78,400	0
Value for money	36,185	36,185	0
<b>Total audit fees</b>	114,585	114,585	0
Non-audit work	0	0	0
<b>Total</b>	114,585	114,585	0

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# Appendix 2 – 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

<b>Theme score</b>	<b>3</b>	
<b>KLOE 1.1 (financial planning)</b>		
<b>Score</b>		<b>3</b>
<b>VFM criterion met</b>		<b>Yes</b>
<b>Key findings and conclusions</b>		
<p>The Council sets a balanced budget which it has a history of delivering against. The Medium term Financial Strategy is comprehensive and includes sensitivity analysis, and consideration of key risks. Treasury management policies have been updated in response to recent issues, and consideration of the current economic climate has been strong. There are examples of improvements in priority areas as a result of investment, and budgets have taken into account local priorities. Member involvement is good, with the monthly Corporate and Finance Strategy Group (CFSG) meeting including consideration of service and financial performance.</p>		

## Appendix 2 – Use of resources key findings and conclusions

<p><b>KLOE 1.2 (understanding costs and achieving efficiencies)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>	<p><b>2</b></p> <p><b>Yes</b></p>
<p>Key findings and conclusions</p>	
<p>The Council has elements of level 3 performance in understanding its costs and performance, and checks the costs and performance of its key partnerships. The Council knows where its costs are high compared to others and is looking at these through efficiency reviews. The understanding of costs will put the Council in a good position to deliver better value for money.</p>	
<p><b>KLOE 1.3 (financial reporting)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>	<p><b>3</b></p> <p><b>Yes</b></p>
<p>Key findings and conclusions</p>	
<p>Financial planning and monitoring takes place most effectively through the CFSG. The Council has a history of producing good quality accounts that include only trivial errors, and once again outturn is in line with budget monitoring. Financial reporting to the public has been amended in previous years to take account of feedback, and there are various ways in which customers can gain financial information in different formats and languages.</p>	

**Governing the business**

<b>Theme score</b>	<b>2</b>
<b>KLOE 2.1 (commissioning and procurement)</b>	
<b>Score</b>	<b>2</b>
<b>VFM criterion met</b>	<b>Yes</b>
Key findings and conclusions	
<p>Council priorities reflect a thorough understanding of local need developed through extensive research. The Council knows what its communities need and has used this knowledge to shape what it does in some important areas like procurement. The Council is developing its procurement arrangements further by setting up and leading a Joint Procurement Committee with several neighbouring district councils.</p> <p>A focus on value for money through Overview and Scrutiny Committees and the Corporate Efficiency Programme has resulted in savings of around £1 million a year in recent years which have been redirected to priority areas.</p>	
<b>KLOE 2.2 (data quality and use of information)</b>	
<b>Score</b>	<b>2</b>
<b>VFM criterion met</b>	<b>Yes</b>
Key findings and conclusions	
<p>Data quality arrangements produce data that is fit for purpose. The recently updated data quality strategy sets out clearly officer's roles and responsibilities for the collection, reliability and reporting of performance information.</p> <p>The Council takes data security seriously. The Council understands the risks about third-party information and steps are in place to ensure that such information meets its needs. A new data sharing protocol which will capture the good practices which are already in place should ensure that these are shared effectively.</p>	

## Appendix 2 – Use of resources key findings and conclusions

<p><b>KLOE 2.2 (data quality and use of information)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>	<p><b>2</b></p> <p><b>Yes</b></p>
<p>Key findings and conclusions</p>	
<p>Effective performance management is in place to ensure progress in delivering the Council's vision is checked and managed. Members and senior managers receive regular performance reports which show progress against national performance indicators, Local Strategic Partnerships targets and critical success factors drawn from corporate priorities.</p>	
<p><b>KLOE 2.3 (good governance)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>	<p><b>2</b></p> <p><b>Yes</b></p>
<p>Key findings and conclusions</p>	
<p>The Council has an embedded controls assurance framework, which supports the annual governance statement and roles and responsibilities are set out in the constitution.</p> <p>There is a comprehensive training programme in place for members, and an official appraisal system within a competency framework for officers. However, there is currently no evidence that the Council has demonstrated that officers and members are clear on their roles.</p> <p>Arrangements for ensuring probity are generally adequate. Registers of interests are in place, as are audit, scrutiny and standards committees, but no evidence has been provided to demonstrate that these have had an impact against identifiable outcomes. Anti fraud and corruption work is reactive and the Council cannot show the positive impact of its actions.</p> <p>The Council applies good levels of governance to its significant partnership activity, although they acknowledge that further work is needed to ensure that governance of partnerships is up to the required level.</p>	

## Appendix 2 – Use of resources key findings and conclusions

<p><b>KLOE 2.4 (risk management and internal control)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>	<p><b>2</b></p> <p><b>Yes</b></p>
<p>Key findings and conclusions</p>	
<p>The Council has strong arrangements in place for risk management, which is well embedded in the organisation. The Audit Committee has an effective role in overseeing risk management and in holding officers accountable for service risk registers.</p> <p>Although the Council has considered governance and risks in relation to its partnerships, they do not currently have risk registers for the partnerships themselves.</p> <p>Risk awareness is apparent in relation to the larger capital schemes, although it is difficult to demonstrate actual outcomes at this stage.</p>	

## Appendix 2 – Use of resources key findings and conclusions

### Managing resources

<b>Theme score</b>	<b>2</b>
<b>KLOE 3.3 (workforce planning)</b>	
<b>Score</b>	<b>2</b>
<b>VFM criterion met</b>	<b>Yes</b>
<b>Key findings and conclusions</b>	
<p>The Council's arrangements for workforce planning are enabling it to deliver its changes programmes, although there is little evidence in each theme area of consistent outcomes flowing from the systems and processes that it has in place, which look effective and cover expected areas.</p> <p>The Council knows where its staff's strengths and development needs are, and in the longer term it knows what future skills and capacity are needed.</p> <p>New liaison arrangements between Human Resources and service managers are in place. Staff are actively involved in the various change programmes which are underway. Communication works well and individuals have access to a wide range of information about current developments.</p> <p>The Council acknowledges that it needs to do more to be successful in its aim to achieve higher ratings under the new Equalities Framework for Local Government.</p>	

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# 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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