

# Annual Audit Letter

Sedgemoor 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.

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## Audit Opinion

- 1 I issued an unqualified opinion on the financial statements on 28 September 2009.

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## Financial Statements

- 2 As a result of our audit a number of adjustments to the statements were agreed with officers and the statements were amended accordingly.

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## Value for money

- 3 I issued a qualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

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## Audit fees

- 4 We reported our planned fees to the Council as part of our 2008/09 Audit Plan and supplementary opinion fee letter. Table 1 compares the actual fee with the planned fee.

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**Table 1**      **Audit fees**

	<b>Actual (£)</b>	<b>Proposed (£)</b>	<b>Variance (£)</b>
Financial statements and annual governance statement	93,374	93,374	-
Value for money	29,000	29,000	-
<b>Total audit fees</b>	<b>122,374</b>	<b>122,374</b>	<b>-</b>

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### Action needed by the Council

- 5 The Council needs to:
- respond to the areas for further improvement to the Council's arrangements identified through the use of resources judgement;
  - implement the agreed recommendations from our Annual Governance Report; and
  - continue to explore options for meeting its decent homes obligations for its housing stock.

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### 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.**

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## Significant issues arising from the audit

- 7 A number of errors have been identified from our audit of the financial statements. The most significant of these was in respect of developers contributions totalling £2.3 million, which were incorrectly included within the Council's earmarked reserves rather than creditors. This was a classification error, with no effect on the revenue account, and dates back a number of years.
  - 8 The accounts have been amended to reflect all the errors identified.
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## Material weaknesses in internal control

- 9 We identified that there has been no manager verification of the accuracy of payroll details since June 2008. Regular verification exercises are an important control within the Council, given that line managers are not required to authorise starters and leavers forms. The Council has agreed that these verification exercises should be carried out on a six-monthly basis in future.
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## Accounting Practice and financial reporting

- 10 There was no requirement during 2008/09 for journals, which can only be input to the general ledger by finance staff, to be authorised by a second member of staff. As part of our audit this year, we asked for retrospective authorisation of the larger 2008/09 journal entries.
- 11 The Council has agreed to introduce journal authorisation procedures from the current year.

# 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

**12** In forming my scored use of resources judgements, I have 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.

**13** The Audit Commission's scoring methodology is as follows.

- Level 1 - inadequate and below minimum standards.
- Level 2 – adequate.
- Level 3 - performing well.
- Level 4 - performing strongly.

The Council's use of resources theme scores are shown in Table 2 below. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 1.

**Table 2** Use of resources theme scores

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

**14** The Council has achieved Level 2 for all three Use of Resources themes. It has therefore retained its overall score of Level 2, adequate performance, against the more challenging criteria for 2008/09.

## Value for money and use of resources

- 15** It is important that the Council maintains a focus on improvement, bearing in mind that:
- for two of the eight KLOES -those in respect of 'understanding costs and achieving efficiencies' and 'commissioning and procurement' - we assessed the Council at Level 1; and
  - for the other KLOEs which we have assessed overall as Level 2, there are some areas where we consider the Council is not meeting basic requirements.
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## Managing finances

- 16** The Council integrates financial planning with strategic and service planning, although the links need to be strengthened. The Council has a good record of identifying savings to close budget gaps. The policy on levels of balances is risk-based and regularly updated.
- 17** The Council engages with local communities and stakeholders in the financial planning process. The Council has only carried out a limited number of equality impact assessments, and there is no evidence as yet of these feeding through to financial decisions. The Council has a good record of delivering expenditure within budget and maintaining balances above its target level. The medium term financial plan clearly identifies future budget gaps. However, the Council does not yet have a clear approach for delivering the longer-term savings needed to close these gaps or for distinguishing between service cuts and efficiency savings.
- 18** Arrangements for preparing the financial statements improved this year. Supporting working papers were available from the start of the audit, and finance staff were generally able to respond effectively to queries during the course of the audit. There were still a number of errors, mostly relatively insignificant, in the draft financial statements. The closedown timetable needs to allow for more time for a final check of the draft statements for accuracy and reasonableness before they are presented to members for approval.
- 19** The Council's annual accounts and Annual Government Statement are approved by the Licensing and General Purposes Committee, as in the absence of a separate audit committee, there is no practical alternative at present. This arrangement limits the extent of member input and challenge to these statements before they are approved.
- 20** Key areas for improvement:
- strengthen the links from financial planning to service planning and to other strategies, such as those for Human Resources and Information Technology;
  - identify a clear strategy for achieving efficiency savings;
  - use benchmarking more systematically to challenge costs and performance;
  - establish stronger links between financial and service performance monitoring;
  - establish a framework for monitoring the financial performance of partnerships and link this to outcomes;

- allow more time in the accounts closure timetable for a final review of the draft statements before they are presented to members for approval; and
- consider establishing an audit committee, the duties of which would include approving the annual accounts and Annual Governance Statement, when the Council's Constitution is next reviewed.

### Governing the business

- 21** Sedgemoor is a low spending council. Council tax in 2008/09 for a Band D property was the 27th lowest nationally, even after the drainage board levies of over £1 million.
- 22** The Council is developing its approach to procurement, but further progress is needed. The Procurement Strategy is very general and does not address specific information on how the Council commissions or procures goods and services to achieve value for money. Procurement activities to date are mainly internally focused, with limited consideration of the impact on meeting wider community outcomes.
- 23** The Council produces financial and performance data that is relevant and timely, but there are areas for improvement. Quarterly performance reports provided to decision makers are detailed and include a record of outstanding actions but there is little evidence that this approach is addressing under-performance effectively. Performance reports include financial data, but this is not linked to service performance.
- 24** Governance arrangements are generally sound. The Council places a high priority on good working relationships between officers and staff. There is a mandatory staff appraisal scheme for staff, and a voluntary one for members, both of which are based on core competencies.
- 25** The Council has established effective arrangements for monitoring compliance with the Code of Conduct, but needs to develop a more proactive role in promoting ethical behaviour. Partnership governance arrangements need further development. As yet, the Council cannot demonstrate that it applies the principles of good governance or risk management to its partnership working, although it does monitor the performance of selected major partnerships.
- 26** Risk management is not yet embedded within the Council's business processes at either the corporate or service levels. Anti-fraud and corruption arrangements are generally sound, and the Council's benefit fraud team delivered good performance in 2008/09, working closely with the Department for Work and Pensions and using a targeted approach to investigations.
- 27** Key areas for improvement:
  - involve local people and partners more actively in developing the Council's approach to procurement;
  - ensure there are clear links from commissioning activities to corporate objectives;
  - adopt a more robust approach to following up actions shown as outstanding on the Council's performance management system;
  - strengthen and embed risk management arrangements, and provide regular reports to members on how the Council's major risks are being managed; and

## Value for money and use of resources

- approve corporate and service-level business continuity plans and test these regularly.

### Managing resources (workforce planning)

- 28** The Council has a stable, skilled workforce, but is not clear on whether it has the right skills and knowledge in place across all its services. A formal workforce planning strategy has only recently been approved for 2009 and beyond.
- 29** There are a range of good communication mechanisms in place to support people during change; these include briefings by the Chief Executive and Council Leader, various senior and middle management briefings, staff sessions, team meetings and newsletters. Communications are reviewed regularly and revised. There are plans in place to further develop internal written communications later in 2009.
- 30** Sickness absence rates are low. At the time of our audit, the Council had not undertaken a staff survey since 2005 and had limited insight into staff views and opinions. However, a staff survey has recently been carried out. It is important that the Council takes appropriate action on the key issues identified from the survey which has been completed recently.
- 31** Progress in recruiting staff to reflect the local community is generally good, with the proportions of male and female and employees from ethnic minority groups being balanced. There are a range of effective policies in place to support and develop staff, including a comprehensive training programme linked to identified development needs highlighted in annual appraisals. A competency framework has been established for councillors, including appraisals, but completion of these is variable and not formally monitored.
- 32** Key areas for improvement:
- include an evaluation of workforce strengths and weaknesses and future skill requirements in the workforce plan;
  - ensure the workforce plan is clearly aligned to other plans and strategies;
  - agree action to address the key issues identified from the recent staff survey undertaken; and
  - establish a framework for monitoring outcomes from councillor appraisals.

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### VFM Conclusion

- 33** 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 1.

- 34** As set out at Appendix 1, I have identified weaknesses in your arrangements for:
- understanding its costs and performance and achieving efficiencies in its activities; and
  - commissioning and procuring quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money.
- 35** I have therefore issued a qualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources, except in the areas highlighted above.

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### Funding for decent homes

- 36** The Government has set a target that by 2010 all social housing will meet the decent homes standard of being warm and weatherproof with reasonably modern facilities. A main reason for the Council establishing an Arms Length Management Organisation (ALMO), Homes in Sedgemoor, from April 2007, to manage its housing stock was to enable the Council to access additional Government funding to deliver its decent home obligations.
- 37** The Council submitted to the Government a funding bid of £40 million, and this was provisionally approved for a five year period starting 2010/11, subject to Homes in Sedgemoor obtaining a two star rating from an Audit Commission Inspection. A full inspection is due in February 2010, and the ALMO has been working on an improvement plan following the nil star rating from the 'indicative' or preliminary Audit Commission inspection reported in November 2007. The report noted that, due largely to lack of funding, the level of non-decent homes owned by the Council had actually risen from 43 per cent in 2005 to 53 per cent by 2007.
- 38** The Housing Minister has recently announced that the decent homes funding for those ALMOs yet to achieve a two star rating will be deferred until at least 2011/12, which takes it into the period beyond that covered by the current Comprehensive Spending Review. The Council has joined with three other local authorities to launch a legal challenge against the Government's decision to defer the decent homes funding. In the meantime, it has engaged external consultants to advise it on various options to increase the availability of finance for decent homes.

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# Closing remarks

- 39** I have discussed and agreed this letter with the Council's Management Team. I will present this letter to the Executive on 16th December 2009 and will provide copies to all committee members.
- 40** 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 3**

<b>Report</b>	<b>Date issued</b>
Audit Plan 2008/09	August 2008
Supplementary fee letter	August 2009
Use of Resources Report	September 2009
Annual Governance Report	September 2009
Auditor's opinion and VFM conclusion	September 2009
Final Accounts Report	October 2009

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- 41** 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 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>2</b>
<b>KLOE 1.1 (financial 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 integrates financial planning with strategic and service planning, although the links need to be strengthened; the lack of financial information in service plans means there is no clear trail from these to the budget. The Council has a good record of identifying savings to close budget gaps. There is good communication with officers and members on the Council's key financial issues, particularly at budget time. The Council engages with local communities and stakeholders in the financial planning process. The Council has only carried out a limited number of Equality Impact Assessments, and there is no evidence of these feeding through to financial decisions. The Council has a good record of delivering expenditure within budget but its approach to date in identifying savings as been more opportunist than strategic. Relationships between members and staff are generally good, and there is close working between the two on financial issues. The staff appraisal system ensures that individual officers' financial and other training needs are identified and delivered.</p>	

## Appendix 1 – 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>1</b></p> <p><b>No</b></p>
<p>Key findings and conclusions</p>	
<p>The Council has an underdeveloped approach to achieving efficiencies. Not all councillors and managers are clear on efficiency targets or progress against requirements. Previous approaches have not distinguished between service cuts and efficiencies, with most savings in previous years being made from staffing reductions. Information on costs and performance is not integrated and is variable across service areas, resulting in no clear view of how costs of services, or performance levels, compare. Service plans do not include budget information and the Council makes little use of the value for money profiles, which give a range of comparative information, produced by the Audit Commission.</p>	
<p><b>KLOE 1.3 (financial reporting)</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 produces monthly budget monitoring reports for officers and portfolio holders and quarterly reports for the Executive and Scrutiny. These reports do not include a forecast of the year-end position, and the reports to members do not focus on the high risk budgets. The Council does, however, have a very good record of delivering expenditure within budget and takes effective action in response to any underspends arising in the year. There is no structured process for monitoring the financial performance of partnerships. Although there are agreements on expected outcomes with those voluntary bodies receiving larger grants, actual performance is not reported to members. The Council publishes performance reports that contain financial and performance indicators, including service standards indicators that have been developed locally. A summary of the annual accounts is published. This year's accounts closure arrangements were much improved, although there is scope for further improvements, especially in respect of final review of the draft accounts before they are presented to members for approval. Our audit has identified one material error in the draft accounts, but this was purely a classification error with no effect on the revenue account, and dates back a number of years. The Council advertises the availability of reports in other languages and formats, but we have seen no evidence that it engages with its local communities over their needs for accessing information.</p>	

**Governing the business**

<b>Theme score</b>	<b>2</b>
<b>KLOE 2.1 (commissioning and procurement)</b>	
<b>Score</b>	<b>1</b>
<b>VFM criterion met</b>	<b>No</b>
<b>Key findings and conclusions</b>	
<p>The Council is developing its approach to procurement and commissioning, but overall progress is limited. The Procurement Strategy is very general and does not address specific information on how the Council commissions or procures goods and services to achieve value for money. There is little evidence to indicate how the Council delivers improved community outcomes through its procurement activities. Local people and partners are not actively involved in developing the Council's approach, although work in engaging local businesses began recently. The Council does promote good practice for suppliers by providing information on how to bid for contracts on its website and in guidance provided to potential suppliers. Work to develop the Council's understanding of the market is also underway with work being done on facilities management services. This includes profiling national and local suppliers, however this is a recent development and there is as yet no demonstrable benefit arising from the new approach. The Council did not achieve its overall procurement savings target for 2008/09, although it did secure more cost effective energy supply through e-auction. Value for money is variable; the Council consistently appears as low spending, but in many services achieves below average levels of performance compared to its family group.</p>	

## Appendix 1 – 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>The Council produces financial and performance data that is relevant and timely, but has areas of significant weakness. Performance reports are produced monthly and considered by a formal group comprising senior managers and councillors. A Data Quality Strategy is in place and formally approved, is generally fit for purpose and is reflected in support and training materials for staff. Roles and responsibilities for data quality are clear and include the Deputy Leader and a Director as senior champions. However the Council's approach does not consistently address data arising from partnerships. Quarterly performance reports to members include a record of outstanding actions as well as performance indicators, but there is little evidence that this approach is delivering results on addressing under-performance as many actions remain outstanding for some time. Performance reports include financial data, but this is not linked to service performance, making evaluation of value for money difficult. Performance reports focus on the Council's service standards, but there is no focus on outcomes for the community. Quartile data is not used to provide a context for the Council's performance and there is no corporate approach to delivering continuous improvement through challenging target setting in service plans. The Council has a range of data and systems security in place, although a recent internal audit found a number of areas of non-compliance against international standards. Business continuity arrangements are unclear; business impact assessments have been started but are not yet complete for all services.</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 places a high priority on good working relationships between officers and staff, and there a number of processes to support this. There is a high level of respect and trust between members and officers. There is a mandatory staff appraisal scheme for staff, and a voluntary one for members, both of which are based on core competencies and are linked to training and development. Not all members, including some committee chairs, have been through appraisals, but there is a Member Development Programme which ensures there is annual training in key areas. The Council has a clear vision, supported by 4 corporate priorities. The recently updated Corporate Strategy is structured around three themes rather than these priorities, although there are links between the priorities and themes. The Directorate plans are linked to the corporate priorities. The Council has established effective arrangements for monitoring compliance with the Code of Conduct. The Standards Committee has set up two sub-committees to deal with the exceptionally high number of complaints it has received, nearly all from or in respect of one parish councillor. Understandably, the Committee has been focussed on its investigation role, and has done little proactive work as yet to promote the ethical agenda. Partnership governance arrangements need further development. The Council has signed up to the Somerset Compact, but it cannot demonstrate that it manages its partnerships in accordance with the protocol. It does not have effective arrangements for monitoring value for money from partnership working.</p>	

## Appendix 1 – Use of resources key findings and conclusions

<b>KLOE 2.4 (risk management and internal control)</b>	
<b>Score</b>	<b>2</b>
<b>VFM criterion met</b>	<b>Yes</b>
<b>Key findings and conclusions</b>	
<p>Risk management is not embedded within the organisation's business processes. The first corporate risk register was produced in April 2008, and since then Corporate Scrutiny has received quarterly reports on changes to the register, but these reports do not provide members with information which would allow them to assess how well the key risks are being managed. Service-level risks are identified in the 2009/10 Directorate Plans, but there was no formal process for managing these in 2008/09. The Council's benefit fraud investigation team is suitably qualified and trained, and contributes to the fraud awareness training for all new staff. The Council delivered good performance in 2008/09 in imposing prosecutions and other sanctions in respect of fraudulent benefit claims, mainly through more targeted investigations and a greater focus on proactive work, involving close working with the Department for Work and Pensions. Successful prosecutions are well-advertised internally and externally. Internal audit meet all the key professional requirements, and provide broad coverage of the main financial systems. There is a sound process for preparing the Annual Governance Statement, although the 2008-9 statement was only considered by the Corporate Scrutiny Committee after it had been formally approved by Licensing and General Purposes Committee. There are corporate and service-level pandemic flu business continuity plans, but the corporate general plan is still in draft and those at service-level are still being prepared.</p>	

## Appendix 1 – 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 has a stable, skilled workforce. The Council has reduced its work force during 2007/08 and 2008/09, but is not clear on whether it has the right skills and knowledge in place across all its services. A formal workforce planning strategy has only recently been approved for 2009 and beyond. The Council engages staff through a variety of face to face briefings and surgeries hosted by the Chief Executive and Council Leader, together with regular newsletters and intranet bulletins. A staff survey has been undertaken very recently, but this was the first since 2005. It is essential that, unlike the previous exercise, effective action is agreed for the key issues identified from this latest survey. The Council has a low rate of sickness absence. There are a range of effective policies in place to support and develop staff, including a comprehensive training programme linked to identified development needs highlighted in the annual appraisals. However, these measures address training needs in the short rather than the medium term. While a competency framework has been established for councillors, including appraisals, completion of these is variable and not formally monitored. There are a range of good communication mechanisms in place used to support people during change. Communications are reviewed regularly and revised. There are plans in place to further develop internal written communications later in 2009.</p>	

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# The Audit Commission

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