

Annual Audit Letter

Selby 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.

Audit opinion

- 1 I gave an unqualified opinion on your financial statements on 30 September 2009. My draft audit report was included as Appendix 1 of my Annual Governance Report, as reported to the Policy and Resources Committee on 29 September 2009.
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Financial statements

- 2 The Council submitted its financial statements for audit by the statutory deadline of 30 September 2009. Our audit work did not identify any material errors or misstatements, although we did identify more minor classification and disclosure issues and some scope to improve closedown processes and the development of supporting working papers.
 - 3 My audit team is planning to work jointly with the finance team to deliver a more effective closedown process and audit in 2009/10.
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Value for money conclusion and use of resources

- 4 I issued an unqualified conclusion stating that in all significant respects, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The wording of my draft report was attached in Appendix 1 of the Annual Governance Report. There are no issues to bring to members' attention in addition to those reported under the Use of Resources section below.
 - 5 I have completed my work on the Use of Resources assessment for 2008/09. Use of Resources is a scored judgement which determines how well councils manage and use their financial resources. I concluded that overall the Council manages its resources well, exceeding minimum standards specified by the Audit Commission in two of the three use of resources themes.
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Comprehensive Area Assessment and organisational assessment

- 6 The Audit Commission introduced a new assessment regime during 2009, Comprehensive Area Assessment. This aims to review the performance of local partners in delivering better outcomes for local people. The assessment is designed to focus attention on areas that need attention in order to deliver additional and sustained improvement. Our work in this area is being led by the local Comprehensive Area Assessment Lead (CAAL). The CAAL has shared draft findings with officers and he is due to formally report on 10th December 2009. Any issues arising will be discussed with you and planned into future years audit and assessment activity.

Audit Fees

- 7 My fee proposals were originally communicated in my Audit Plan for 2008/09. In my updated Opinion Plan, presented in June 2009, I reported that I was satisfied that the audit fee was appropriate and no adjustment was required. However, during the audit of the financial statements it became apparent that an increase in the audit fee would be required to complete the additional work necessary to deliver the audit opinion. An additional fee of £2,800 was agreed with the Head of Finance and Central Services.

Table 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£73,300	£70,500	£2,800
Value for money	£26,100	£26,100	0
Total audit fees	£99,400	£96,600	£2,800

Actions

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

Independence

- 9 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

- 10 I issued an unqualified audit opinion on the Council's financial statements on 30 September 2009.
 - 11 Appendix 2 to the Annual Governance Report included a schedule of the amendments made to the financial statements as a result of audit or where identified by finance staff. These errors could be categorised as:
 - significant but non-material adjustments to the Collection Fund Accounts as a result of audit enquiries;
 - changes to improve compliance with the Statement of Recommended Practice (SoRP); and
 - issues that might have been expected to be corrected as a result of the Council's own quality assurance processes, such as inconsistent disclosures within the draft accounts.
 - 12 No material errors were identified and there were no 'non trivial' errors identified that remained uncorrected.
-

Material weaknesses in internal control

- 13 I did not identify any significant weaknesses in your internal control arrangements.
-

Accounting Practice and financial reporting

- 14 I considered the qualitative aspects of your financial reporting.
- 15 My audit identified a number of issues, including:
 - estimation of bad debts for council tax and national non domestic rates, based on the level of arrears in December 2008;
 - the identification of some administration costs and overheads as directly attributable costs of capital projects; and
 - un-reconciled items between the council tax arrears feeder system and the general ledger.

- 16 The Council's financial statements were approved by the Policy and Resources Committee before being submitted for audit by the statutory deadline of 30 September 2009, although the planned quality review by the Audit Panel could not take place due to time pressures on the closedown process.
- 17 I have included some opportunities for improvement within the Annual Governance Report and these are reported below.

Recommendations	
R1	Exercise particular care when producing the Collection Fund and associated notes for the 2009/10 accounts, including ensuring clear communication on key issues with the Revenues Section.
R2	Undertake a thorough review of the requirements of the Statement of Recommended Practice as part of planning the 2009/10 closedown programme.
R3	Critically review the closedown programme in light of this year's experience and ensure that enough time is built in to complete a thorough quality assurance of the draft accounts.
R4	Calculate bad debt provisions based on arrears data as at 31 March each year to ensure that they are soundly based.
R5	Critically review all proposed capitalisation of staff salaries and central establishment charges to ensure that only directly attributable costs are capitalised.
R6	Consider using calculations of fair value based on early repayment rates in future years' accounts (subject to any changes to the SORP).
R7	Review working papers prior to making them available for audit at the end of June, in order to ensure that the correct version is provided in every case to support the approved accounts.

- 18 Officers have developed an action plan and my audit team is already working with the finance team to plan a more effective closedown process and audit in 2009/10.

International Financial Reporting Standards (IFRS)

- 19 In March 2008 the Treasury announced that the annual financial statements of government departments and other public sector bodies would be prepared using International Financial Reporting Standards (IFRS) from 2009/10 onwards. For local government bodies the first full year of application is the 2010/11 financial statements but the starting period for this (the transition date) is 1 April 2009. Local government bodies will be required to produce their 2009/10 Whole of Government Accounts return on an IFRS basis.

Financial statements and annual governance statement

- 20 As part of my 2008/09 audit I have completed an Audit Commission survey on the Council's progress in preparing for the implementation of the IFRS. The Council has made a start in its preparations for IFRS. Officers have identified the key risk areas, are currently undertaking further analysis to assess the specific work required and prepare detailed methodologies for the various work areas. Officers recognise that, like many councils, considerable further work will be needed during 2009/10 to meet the new IFRS information requirements and the timeframes for restatement. Capacity may be a particular risk.

Recommendation

- R8 Review arrangements in place for implementing IFRS to ensure appropriate processes, people and skills are in place to meet the new accounting requirements and associated deadlines.

Treasury management

- 21 As part of my 2008/09 audit, I completed an Audit Commission return on the Council's Treasury Management arrangements. The Council had no investments with Icelandic banks in 2008/09. There were no significant issues arising from my review and I noted that specific treasury management training is planned to be introduced into Council members' training plans.

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

- 22** 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.
- 23** 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.
- 24** 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	3
Governing the business	2
Managing resources	3

- 25** 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 outputs, and are more strategic than detailed. As a result the standard required to demonstrate level three performance has been raised.
- 26** Overall the Council has performed well scoring level 3 overall. The Council performs well, in two of the three use of resources themes.

Managing finances

27 The Council manages its finances well although there is some scope to strengthen aspects of its reporting arrangements. The Council is in a strong financial position and has robust financial planning processes which are integrated with service planning. It has a track record of aligning finances with priorities and a good understanding of its costs which has enabled it to take targeted action to achieve savings and efficiencies. Reporting arrangements are adequate. Quarterly Performance Clinics integrate financial and non financial information, however financial and non-financial reporting is not integrated for members. Financial forecasts are subject to risk and sensitivity analysis. Preparation of this year's financial statements did not run as smoothly as recent years' and, whilst the Council's Annual Report is good practice, some other aspects of public reporting could be enhanced.

Governing the business

28 Arrangements for governing the Council's business are adequate. Engagement with local communities is good and this has influenced how the Council commissions and delivers services. The quality of data used by the Council to support decision making has improved. Greater importance is given to data quality, although there is not a consistent understanding of the risks of using inaccurate data. Arrangements for data security are adequate and comply with statutory requirements. Governance arrangements are effective and are supported by positive working relationships and good role models. Member training arrangements need to be strengthened and more needs to be done to demonstrate the impact of ethical governance arrangements. Risk management arrangements are well established. Arrangements to deal with benefit fraud are effective. The role of the Audit Panel should continue to develop.

Managing resources

29 The score for the managing resources theme for this year is based on an assessment of the Council's workforce planning arrangements, which is assessed as good. The Council has the capacity it needs and has plans in place to develop its workforce to meet the challenges of the future. Organisational change is well managed and staff have been directly engaged in service redesign. Success is celebrated and there are incentives and rewards for exceptional service. Good progress has been made against the Equality Standard for Local government, and the Council is working towards a workforce that is representative of the local community.

- 30 There are still opportunities for the Council to improve further. The more significant improvement opportunities from my assessment are reflected in the following recommendations.

Recommendations	
R9	Develop the use of unit and transaction costs as a means of challenging and comparing cost and performance across all services.
R10	Building on the approach adopted at Performance Clinics, develop a more integrated approach for reporting financial and non-financial performance data for members.
R11	Improve financial forecasting arrangements in those areas where the more significant variances occurred between 2008/09 Quarter 3 forecast and year end outturn.
R12	Continue to progress plans to improve data quality and ensure these include actions to raise awareness regarding the risks relating to the use of poor quality data.
R13	Introduce personal development plans for members and continually emphasise the importance of member attendance at training to consolidate improvements made in 2008/09.
R14	Identify means of demonstrating the impact of ethical governance arrangements.
R15	Ensure that when control weaknesses are identified they are always addressed promptly and effectively.
R16	Continue to develop the role of the Audit Panel through formal assessment of its performance and broadening its remit to include reports from inspectorates other than internal and external audit.
R17	Consider undertaking a self assessment against the 'natural resources' KLOE to inform any actions required to be taken during the remainder of 2009/10.

VFM conclusion

- 31 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.
- 32 I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Closing remarks

- 33 The economic downturn, public sector funding and the banking crisis is having a very significant impact on public finances and the bodies that manage them. It is envisaged that there will be wide ranging and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes in the short to medium term, including pressures on income streams. There are further challenges for policy priorities where patterns of demand for services are also changing. The Council's response to these challenges will be a key focus of my attention for future audits.
- 34 I have discussed and agreed this letter with the Chief Executive and the Head of Finance. I will present this letter at the next Audit Panel meeting, following which it will be made available to all members.
- 35 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 and Inspection Plan	June 2008
Annual Governance Report	September 2009
Use of Resources Report	October 2009

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- 36 The Council has taken a positive and constructive approach to our audit. I wish to thank officers and staff for their support and co-operation during the audit.

Cameron Waddell
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

Theme score	3
KLOE 1.1 (financial planning)	
Score	3
VFM criterion met	Yes
Key findings and conclusions	
<p>The Council integrates financial and service planning. It has developed robust processes, such as the annual Budget Away Day, to ensure that resources are targeted to priority areas and a sustainable and balanced budget is approved. It has a good track record in delivering savings, with £3.4m having been redirected to priorities such as recycling and Access Selby. The Council is in a strong financial position and has succeeded in securing significant external funding to help deliver its priorities. Stakeholder engagement is good (for example, through the State of the Area Address) and senior members are actively engaged in financial planning.</p>	

Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 1.2 (understanding costs and achieving efficiencies)</p> <p>Score</p> <p>VFM criterion met</p>	<p>3</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>The Council understands its service costs which are relatively low overall. Some use is made of unit and transaction costs in service planning to analyse and challenge costs. Understanding of costs and relative performance influences the Council's decisions. It has a strategic approach to improving efficiency, which creates a focus on delivering improved value for money, and a strong track record in delivering efficiencies due to improved procurement, sound budget setting and clear political leadership. Processes for delivering savings and efficiency gains are well embedded.</p>	
<p>KLOE 1.3 (financial reporting)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>The Council produces budget monitoring reports which are relevant and understandable, but not accruals based, and support arrangements are in place for budget-holders. Boards and Committees receive financial and non-financial performance reports on the same agenda, with suitable information and commentary in a consistent corporate format. Financial and non-financial reporting is considered at Performance Clinics, though not routinely integrated for members. Finance reports contain year-end forecasts which are subject to risk assessment. Internal Audit provides assurance by reviewing key systems annually, including the general ledger and feeder system reconciliations, but do not specifically review budgetary control. The Council reviews the performance of its partnerships through representation on partnership boards. Preparation of the Council's financial statements is generally sound, although this year has been more problematic than recent years. The Council produced a good Annual Report for 2007/08 which was praised by the Corporate Assessment team and there are plans to build on that. Some other aspects of public reporting could be enhanced - for example, whilst the Council's website supports Browsealoud, it does not routinely identify how documents can be obtained in other formats/languages. The Council has now dealt with these aspects in its 2008/09 Annual Report which was published in October 2009.</p>	

Governing the business

Theme score	2
KLOE 2.1 (commissioning and procurement)	
Score	3
VFM criterion met	Yes
Key findings and conclusions	
<p>The council uses effective community engagement to influence procurement and has improved access to services, making use of new technology. Innovative procurement has been used to obtain value for money and the Council is looking to develop local supply markets and will encourage local sub-contracting on the Selby Community Project to support the local economy. The Council considers a range of options in commissioning and delivering services, including working in partnership with other North Yorkshire councils.</p>	
KLOE 2.2 (data quality and use of information)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
<p>Adequate arrangements are in place to ensure data is relevant and reliable. Progress is being made in addressing previously identified weaknesses - for example a network of data quality champions has been created to raise the profile of data quality and share good practice, but there is still not a consistent awareness of data quality risks across all services. Appropriate and timely data is provided which supports decision making and processes exist to ensure performance is effectively monitored and managed. Arrangements for data security are adequate and comply with statutory requirements.</p>	

Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 2.3 (good governance)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>Governance arrangements are effective and there is a clear vision based on effective consultation. The ethical framework includes a robust complaints process, member and officer Codes of Conduct and an outward facing Standards Committee, but with some scope for improvement in areas such as member attendance at training and introducing personal development plans for members. Members declare interests and gifts & hospitality, but registers are not yet made available on the Council's website. Recent Internal Audit work has confirmed that payment processes for officers' expenses and members' allowances are generally satisfactory, resulting in a number of recommendations which are currently being implemented. An ethical governance survey identified positive working relationships and good role models, but also that more needed to be done to demonstrate that the approach to ethical governance was making a difference and to raise awareness of the whistle-blowing procedure. Partnership working is effective and partnership governance generally sound.</p>	
<p>KLOE 2.4 (risk management and internal control)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>The Council has embedded risk management in its business processes and seeks to ensure partners have effective risk management. The Audit Panel is charged with member oversight of risk management and there are member and officer "risk champions" with lead responsibilities. Training is provided annually on operational risk management for relevant officers, as is awareness training for members of the Audit Panel. Anti fraud and corruption arrangements are sound in respect of benefit fraud, arrangements for non-benefit fraud have now been enhanced following the assessment made by Internal Audit which was reported to the Audit Panel in January 2009. Internal control arrangements are generally sound and Internal Audit coverage indicates that financial controls in material systems are generally satisfactory, although a minority of areas persist in attracting only 'marginal' assessments - it is important that such issues are addressed promptly and effectively. The Audit Panel has developed significantly in a short space of time and now needs to formally review its own performance and expand its activities to include receiving reports from inspectorates other than internal and external audit.</p>	

Managing resources

Theme score	3
KLOE 3.3 (workforce planning)	
Score	3
VFM criterion met	Yes
Key findings and conclusions	
<p>The Council manages its people well. It is self-aware about capacity and has the people and skills it needs to deliver its priorities, and addresses problem areas effectively. It has been successful in increasing staff capacity through improved recruitment and retention, new working arrangements and reduced staff absence levels. The Workforce Development Strategy and action plan provides the means to develop capacity for the future. Training and development is well structured, varied and effective. The Council manages change well, with staff and Trade Unions fully engaged in restructuring services. Staff are positive about the impact of organisational change. Communication has improved and staff have been active in proposing service improvements, which they have been encouraged to pilot and implement, and staff were closely involved in projects to redesign services. Mechanisms are in place to celebrate team and individual success, and there are incentives and rewards for exceptional service. The Council is developing its approach to equalities. It achieved Level 2 of the Equality Standard in April 2006 and had made good progress towards Level 3 (indeed the Council has recently been confirmed as having achieved Level 3 in the current year). Some equality impact assessments have been completed with resulting improvements being incorporated into the relevant service plans and strategies, and the Council is working towards a workforce that is representative of the local community.</p>	

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Audit Letter 2008/09 Recommendations						
6	R1 Exercise particular care when producing the Collection Fund and associated notes for the 2009/10 accounts, including ensuring clear communication on key issues with the Revenues Section.	2	Accountancy Services Manager	Yes		Jun 2010
6	R2 Undertake a thorough review of the requirements of the Statement of Recommended Practice as part of planning the 2009/10 closedown programme.	3	Accountancy Services Manager	Yes	The SORP is thoroughly reviewed every year.	Mar 2010
6	R3 Critically review the closedown programme in light of this year's experience and ensure that enough time is built in to complete a thorough quality assurance of the draft accounts.	3	Accountancy Services Manager	Yes	The timetable is reviewed every year and includes contingency for unforeseen issues. Deadlines will be brought forward further and we will work with auditors to achieve early audit of statements wherever possible, to ensure deadlines for Audit Panel are met	Jan 2010
6	R4 Calculate bad debt provisions based on arrears data as at 31 March each year to ensure that they are soundly based.	3	Accountancy Services Manager	Yes		Apr 2010

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R5 Critically review all proposed capitalisation of staff salaries and central establishment charges to ensure that only directly attributable costs are capitalised.	2	Accountancy Services Manager	Yes		Mar 2010
6	R6 Consider using calculations of fair value based on early repayment rates in future years' accounts (subject to any changes to the SORP).	2	Accountancy Services Manager	Yes		Jun 2010
6	R7 Review working papers prior to making them available for audit at the end of June, in order to ensure that the correct version is provided in every case to support the approved accounts.	3	Accountancy Services Manager	Yes		Jun 2010
7	R8 Review arrangements in place for implementing IFRS to ensure appropriate processes, people and skills are in place to meet the new accounting requirements and associated deadlines.	3	Accountancy Services Manager	Yes		Jan 2010
10	R9 Develop the use of unit and transaction costs as a means of challenging and comparing cost and performance across all services.	2	Head of Finance	No	The Council uses transaction and unit costing where appropriate and is developing these as it rolls out a program of BPI projects, but has no plans to introduce across all services.	

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
10	R10 Develop a more integrated approach to collecting, producing and reporting both financial and non-financial performance data.	2	Head of Finance	Yes	Financial reporting takes account of performance issues where appropriate but we intend to build on our approach to Performance Clinics and further integrate financial and non-financial performance reporting in 2010/11.	Mar 2010
10	R11 Improve financial forecasting arrangements in those areas where the more significant variances occurred between 2008/09 Quarter 3 forecast and year end outturn.	2	Accountancy Services Manager	Yes	One significant variance occurred between the third and fourth quarter of 2008/09 - this was an isolated issue which has since been addressed.	Mar 2010
10	R12 Continue to progress plans to improve data quality and ensure these include actions to raise awareness regarding the risks relating to the use of poor quality data.	2	Head of Finance	Yes		Mar 2010
10	R13 Introduce personal development plans for members and continually emphasise the importance of member attendance at training to consolidate improvements made in 2008/09.	2	Head of Customers and Business Support	Yes		Sep 2010
10	R14 Identify means of demonstrating the impact of ethical governance arrangements.	2	Deputy Chief Executive	Yes		Jun 2010

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
10	R15 Ensure that when control weaknesses are identified they are always addressed promptly and effectively.	2	Head of Finance	Yes	Quarterly Internal Audit report now highlights the number of repeat recommendations and these are reviewed by Audit Panel and at performance Clinics to ensure recommendations are acted upon.	Sep 2009
10	R16 Continue to develop the role of the Audit Panel through formal assessment of its performance and broadening its remit to include reports from inspectorates other than internal and external audit.	2	Head of Finance	Yes		Mar 2010
10	R17 Consider undertaking a self assessment against the 'natural resources' KLOE to inform any actions required to be taken during the remainder of 2009/10.	3	Head of Housing	Yes	Work already underway and action plan being monitored throughout 2009/10.	

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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