



**Sevenoaks District Council**

**Annual Audit Letter**

**2008/09 Audit**

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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 members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- Any member or officer in their individual capacity; or
- Any third party.

## **Key messages**

**This report summarises the findings from our 2008/09 audit. It includes messages from the audit of the Council's financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.**

### **Audit opinion**

We issued an unqualified opinion on the Council's financial statements on 8 September 2009. We also issued an unqualified opinion on the Council's Whole of Government Accounts submission on 30 September 2009.

### **Financial Statements**

We reported the significant issues arising from our audit of the Council's financial statements on 8 September in our annual Report to those charged with Governance.

### **Value for money and Use of Resources**

We issued an unqualified value for money conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources for the financial year 2008/09 on 8 September 2009.

We have assessed how well the Council uses its resources in line with the new methodology developed by the Audit Commission. We have concluded that the Council has performed strongly overall and that it demonstrated excellent performance in aspects of:

- managing its finances
- understanding its costs and achieving efficiencies
- managing its workforce.

### **Actions**

Recommendations are shown in the appendix to this report and have been agreed with the Council.

## **Financial Statements and Annual Governance Statement**

**The Council's financial statements and annual governance statement are an important means by which Sevenoaks accounts for its stewardship of public funds.**

### **Introduction**

We reported the significant issues arising from our audit of the Council's financial statements to the Performance and Governance Committee on 8 September 2009 in our annual *Report to those charged with governance*. The key issues arising from the audit are summarised below.

### **Significant issues arising from the audit**

The Council has strong arrangements in place to ensure the timely preparation of its financial statements.

### **Qualitative aspects of financial reporting, including adjustments and unadjusted misstatements**

Overall, the quality of draft financial statements and supporting working papers was good and the Council has complied with new accounting guidance. We identified a small number of errors in the draft accounts, the majority being trivial and none material. The accounts have been adjusted for a number of fixed assets that had been misclassified between Operational and non-operational assets. This has had no overall impact on the figures in the accounts. Additional disclosures have also been made to the Pensions and Financial Assets notes.

### **Financial systems controls**

We did not identify any significant weaknesses in the Council's internal control environment and were able to place reliance on controls in financial systems for the purpose of the audit.

### **International Financial Reporting Standards**

The introduction of International Financial Reporting Standards (IFRS) in the public sector raises significant challenges for local government to ensure that proper arrangements are in place if they are to publish timely and accurate IFRS-compliant accounts for 2010/11.

The 2010/11 accounts prepared under IFRS will need to include comparative information, also under IFRS, for the 2009/10 year. The Council has therefore been reviewing its financial information to ensure that it can meet the reporting requirements. It is important that it maintains focus on IFRS conversion issues, as our experience in other sectors has shown that despite an apparently long lead-time, meeting the requirements for new information can take significant time to achieve.

## Value for money and use of resources

We 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.

We also considered 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.

### VfM Conclusion

We assessed the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission specifies each year which of the use of resources key lines of enquiry (KLOE) are the relevant criteria for the VfM Conclusion at each type of audited body.

We issued an unqualified VfM Conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

### Use of resources judgements

In forming our scored use of resources judgements we used the methodology set out in the Audit Commission's use of resources framework. The methodology was different from that used in 2008 and, in particular, places greater emphasis on outcomes. Judgements have been made for each KLOE using the Audit Commission's four point scale (from 1 to 4, with 4 representing the best performance). Level 1 represents a failure to meet the minimum requirements at level 2.

We have 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.

The Council's use of resources theme scores are shown below.

Theme	Scored Judgement
Managing finances	4
Governing the business	3
Managing resources	4

## Value for money and use of resources

The Council has performed strongly across each of the three Use of Resources themes. In particular it has demonstrated excellent outcomes from its arrangements for managing its finances, understanding its costs and achieving efficiencies, and managing its workforce. Our detailed Use of Resources report sets out our assessment against each of KLOE and the KLOE scores are shown below.

Theme and key lines of enquiry	KLOE Score	Theme Score
Managing finances		
1.1 Planning for financial health	4	
1.2 Understanding costs and achieving efficiencies	4	
1.3 Financial reporting	3	
Theme score		4
Governing the business		
2.1 Commissioning and procurement	3	
2.2 Use of information	3	
2.3 Good governance	3	
2.4 Risk management and internal control	3	
Theme score		3
Managing resources		
3.3 Workforce	4	
Theme score		4

Our key messages are shown below.

### Managing Finances

The Council has some excellent processes and good examples of notable practice in its financial planning and monitoring processes, which have underpinned its track record of achieving £3 million of savings between 2005 and 2008. At the same time it continued to improve service performance and resident satisfaction.

Financial monitoring and planning systems are very well developed: links between key plans, including the Community, Corporate and Service and Performance Plans are clear and underpinned by strong consultation arrangements. Also key to the Council's success in this area is its unique specialist Finance Advisory Group (FAG), which has a strong influence on the Council's financial governance.

The 08/09 accounts were submitted with no material errors. Working papers provided to audit were of consistently good quality and the Council publishes its financial statements promptly.

### **Governing the Business**

The Council can demonstrate strong performance and outcomes across all aspects of this theme. In particular

- The Council actively pursues partnership working in procurement where this can help secure efficiencies and improve the customer experience: it has arrangements in place with other local authorities for the provision of services including environmental health, licensing and internal audit. The Council's procurement strategy and commissioning procedures are informed by the results of community consultation and Residents' Panel surveys.
- The Council has a strong embedded performance culture and monitors effectively its own performance and that of partnerships to which it belongs. Maintaining good quality data is a priority for the Council and performance reports have been designed with member and officer input to ensure that they can be used easily to support decision making. Arrangements to ensure data security and business continuity are comprehensive.
- The Council promotes a strong ethical culture. It has arrangements in place to ensure good governance, including the Standards Committee and the Monitoring Officer, who carries out weekly governance training across the district. The Council regularly reviews the effectiveness of its partnership working, including the governance of partnerships, and is able to demonstrate that they provide effective outcomes and value for money. In depth scrutiny of the issue of empty homes in the borough by members and officers has resulted in the Council leveraging in funding from Kent County Council and other agencies to reduce the number of empty homes from 600 to around 400.
- There are strong processes for managing risks, internal control and preventing and detecting fraud and corruption. The Council's arrangements include good use of its Partnership Toolkit, which requires the risks of working with potential partners to be evaluated before joint working can begin; this assessment includes assessment of how well risk management is embedded in the partner organisation.

### **Managing Resources**

The Council has demonstrated excellence in its management of staff and has delivered significant structural and cultural change over the last four years. Detailed workforce analysis has enabled the Council to identify and manage the impact of service change on skills gaps. Its succession planning arrangements have also ensured that service performance has not fallen when a key member of staff departs or is absent for any length of time.

Coupled with this, the Council has achieved a high level of empowerment of its staff, with the result that where a need to redesign and improve services is identified, the staff themselves have

identified how the changes can be effected. Notable examples include the reorganisations of the Council's Benefits, Development Services, Finance and IT teams.

The Council has achieved very positive recognition for its arrangements for managing staff and for the extent to which it has achieved empowerment in its organisation. Staff satisfaction rates have also increased significantly in recent years.

### **Investments in Icelandic banks and treasury management**

We have reviewed the Council's treasury management arrangements as part of our Use of Resources assessment and as a separate exercise required by the Audit Commission. We note, in particular, that:

- The Council has an annual investment strategy which prioritises security and liquidity of investments made whilst aiming to achieve the optimum return within these restrictions.
- The Council identified the risks associated with Icelandic banks, and banks such as Northern Rock, and reflected this in its investment strategy well in advance of the economic downturn and collapse of certain banks in autumn 2008.
- At the time of the collapse of the Icelandic banks, the Council held £1m in an Icelandic bank; this had been invested before the Council's review and before the Icelandic banks were put on negative watch.

The Council made appropriate arrangements in preparing its 2008/9 Statement of Accounts by recognising the risks associated with this investment and calculated recoverability at £950,000 at that time.

### **Grant claims**

Central government departments require certain claims from local authorities in respect of specified expenditure to be audited in accordance with agreed criteria. In respect of 2008/09, there were three schemes which were subject to audit. When certifying expenditure on the schemes we are required to consider whether there are errors in the original claims which require amendment or whether there are issues arising which we are required to report to the grant paying department. Claims are audited in accordance with deadlines specified by the grant paying department.

We did not make amendments or qualify any of the 2008/09 claims audited.

### **Organisational Assessment**

During 2009, the Audit Commission introduced new arrangements for the assessment of performance, known as organisational assessment. The organisational assessment forms part of the

Comprehensive Area Assessment which assesses public sector bodies within a geographical area. Details of Sevenoaks District Council and the Kent Area assessments by the Audit Commission can be found after 10 December 2009 on the Audit Commission's web site at:

<http://www.audit-commission.gov.uk/localgov/audit/CAA/Pages/oneplace.aspx>

## Closing remarks

Further detailed findings conclusions and recommendations on the areas covered in our audit are included in the reports issued to the Council during the year.

Report	Date Issued
Annual Audit Plan	July 2008
Briefing for Members on Use of Resources 2009	January 2009
Report to those charged with governance	September 2009
Use of Resources Report	November 2009

## Audit Fees

Our audit plan presented to the Performance and Governance Committee in June 2008 contained our proposed fee to undertake the audit. The table below shows the actual fees for our audit.

	Actual	Planned	Prior Year
	£	£	£
Financial statements	53,350	53,350	51,500
Use of Resources	37,000	37,000	34,760
Total	<b>90,350</b>	<b>90,350</b>	<b>86,260</b>

The Audit Commission scale fee for 2008/09 was £102,175.

The Council has taken a positive and constructive approach to our audit. We would like to take this opportunity to thank the Council's staff for their support and cooperation throughout the audit.

Baker Tilly UK Audit LLP

November 2009

Recommendation		Management Response
Use of Resources - General		
1	The Council should review the Use of Resources Knowledge Capture forms for other local authorities, once these have been posted onto the Audit Commission's web site, and identify any learning opportunities insofar as these relate to the Council's priorities.	Agreed - this will be built into the Council's improvement process, as well as sharing our knowledge in strongly performing areas.
2	The Council should review the level of resource inputs required in the Use of Resources process and ensure that these are commensurate with the benefits derived.	Resources will reduce from those required in this first year assessment of the new system. The Council's approach has always been to use the UoR assessment as an integrated part of its improvement processes.  The Council would expect a reduction in the inspection and assessment requirements, concentrating on new and identified weaker areas.
3	In preparation for Use of Resources 2010 the Council should ensure that it is able to provide evidence to support outcomes which: <ul style="list-style-type: none"> <li>• Have occurred since the 2009 UoR assessment (existing KLOEs)</li> <li>• Relate to the Managing Natural Resources (new KLOE for 2010)</li> </ul>	Processes in place to identify and capture these.  Work on the new "Natural Resources" KLOE began as part of this assessment.
Use of Resources - Specific		
4	Procurement The Council should make use of more sophisticated techniques such as demand management to better understand its supply market.	This will be picked up in the revised Procurement Strategy scheduled to be developed in the Autumn.
5	Managing workforce The Council should determine its response to the recommendations made in the Passe-Partout report on the empowerment of staff.	An action plan is in place to deliver improvements and develop new creative initiatives.

Recommendation		Management Response
6	<p>In view of the following average sickness days in 08/09:</p> <p>Sevenoaks DC – 7.34 days</p> <p>Economy as a whole - 7.40 days*</p> <p>Private sector – 6.4 days*</p> <p>the Council should continue working to reduce staff sickness absence levels further.</p> <p>* CIPD statistics</p>	<p>An action plan is in place.</p>