

# Annual Audit Letter

Shepway 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 The 2008/09 audit is now complete. I issued an unqualified opinion on the financial statements dated 25 September 2009.
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## Financial Statements

- 2 The financial statements were approved by the Audit and Compliance Committee and submitted for audit on the 29 June 2009. Officers worked hard to present a comprehensive set of accounts and working papers and we recognised an overall improvement in the quality of accounts presented for audit. Further to a material amendment to the accounts, the Audit and Compliance Committee re-approved the revised accounts 16 September 2009.
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## Value for money

- 3 Based on the results of my work undertaken in relation to the Council's arrangements to secure economy, efficiency and effectiveness in the use of its resources, I issued an unqualified value for money conclusion for the year ended 31 March 2009.
- 4 The Council has sound arrangements in place to manage its finance, govern the business and manage other resources. Progress has been made during the year in strengthening arrangements. However the financial position is tightly drawn and there is a need for further savings, with a predicted deficit in the medium term financial strategy from 2010/11 of £284,000 increasing to £1.8 million in 2013/14. The success of the Council's shared services programme across East Kent will be critical in enabling future success.

## Actions

- 5 Our key recommendations, which are also set out in the body of the report, are as follows.
- Review and strengthen the asset register to ensure it provides all the information on individual assets required for the purposes of International Financial Reporting Standards.
  - Work with partners to develop governance arrangements for joint working across East Kent, and use this as a platform to deliver better services for local people.
  - Continue to take robust action to address the projected financial deficit.
  - Undertake a post implementation review of new quality arrangements in the Benefits section to ensure that claims are being accurately and properly processed.

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# 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

- 6 I issued an unqualified opinion on the accounts on 25 September 2009.
- 7 I reported on the detailed matters arising from the audit to the Audit and Compliance Committee on 25 September. The following were the key matters arising.
  - A material error of £1.3m in relation to two assets incorrectly included in the balance sheet. These assets have actually been disposed of in previous years but were included in the valuation report and therefore the balance sheet. The comparative figures in the financial statements have therefore been restated accordingly.
  - The year end bank reconciliation originally omitted a 31st March receipt in error. This was corrected before approval of the draft financial statements. The Council is currently reviewing the processes involved in completing the bank reconciliations. Arrangements should be updated accordingly.

Recommendations	
R1	Ensure the introduction of a new asset register incorporates clear coding and description for all individual assets.
R2	Ensure bank reconciliation process is reviewed and updated.

# 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

- 8 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.
- 9 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.
- 10 The Council's use of resources final theme scores are shown in Table 2. These have been subject to national quality assurance process. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 5.

**Table 1 Use of resources theme scores**

Use of resources theme	Scored judgement
Managing finances	2
Governing the business	2
Managing resources	2
<b>Overall</b>	<b>2</b>

- 11 The Council has sound arrangements in place to manage its finances, govern the business and manage other resources. There is a good link between medium term financial planning and service delivery and a robust governance and decision making process. Consultation is effective, but resources are constrained and this is impacting on the ability to deliver better services for local people.

## Value for money and use of resources

- 12** The Council's medium term financial plans are underpinned by its programme of joint working with partners across East Kent. The success of this will be critical in enabling the Council to maintain a secure financial position and deliver the improvements in services which it aspires to.
- 13** Key recommendations for the Council are as follows.

Recommendations	
<b>R3</b>	Work with partners to develop governance arrangements for joint working across East Kent, and use this as a platform to deliver better services for local people.
<b>R4</b>	Ensure both workforce planning and financial management continues to be sufficiently robust to deal with the many uncertainties and changes facing local government nationally and Shepway locally.

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### Other local risk based work

- 14** We have now completed our 2008/09 Kent wide review of health inequalities. Presentations have been delivered to the Kent Public Health Board and local Health and Wellbeing boards across Kent.
- 15** We found that the Shepway Health and Wellbeing Panel has an excellent understanding of the health inequalities in its area. It has developed a 'health and social care map' which provides a detailed picture of the local strengths, issues and gaps of health and social care service provision. It highlights by area in the district where health inequalities exist, these areas are based on GP surgeries' catchment areas. This will assist all partners to target the right areas and focus resources on effective service delivery to tackle the identified issues.
- 16** The panel felt the following four barriers or weaknesses were most relevant to its ability to have an impact on health inequalities.
- Allocation and adequacy of resources.
  - Communication with communities.
  - Understanding total offering of services.
  - Commitment/buy in, clarification of decision tree.
- 17** An action plan was developed with the board to tackle these areas.

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### VFM Conclusion

- 18** 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.

**19** I issued an unqualified conclusion stating that Shepway District Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

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### Grant Claim Certification

**20** In 2008/09, we have reviewed and certified the following government grant claims.

- National Domestic Rates Return
- Disabled Facilities Grant
- HRA subsidy base data return
- HRA subsidy
- Housing and Council Tax Benefit Subsidy

**21** Of these claims, by far the largest and most complex is the Housing Benefit and Council Tax Subsidy claim. The Council has historically had issues around both turnaround times and quality. During the year, the Council has made a concerted effort to improve the speed with which new claims are processed. The challenge remains to address the ongoing quality issue. This year our testing identified that the Council had made errors in approximately 24 per cent of the claims which we reviewed, with particular problems in correctly applying earned income. The impact of this is that many claimants were paid incorrect amounts, and the Council's total subsidy claim was over stated by £15,575.

**22** The Corporate Director - Resources has undertaken her own review to assess the extent of the problems within the team. She has also initiated a number of actions to ensure an improvement in quality. A competency framework has been introduced requiring officers to obtain a certain level of quality. Appropriate action is being taken to support those officers who do not obtain the required level of quality. In addition, the Council are purchasing performance software which will make the process of checking easier.

**23** The Council will need to follow up as a high priority over the next few months to ensure that appropriate quality standards are achieved.

<b>Recommendation</b>
<b>R5</b> Undertake a post implementation review of new quality arrangements in the Benefits section to ensure that claims are being accurately and properly processed.

# Closing remarks

- 24** I have discussed and agreed this letter with the Chief Executive and the Corporate Director - Resources. I will present this letter at the January 2010 Cabinet and copies should be provided to all members.
- 25** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to Shepway DC during the year.
- 26** 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.

Andy Mack  
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.

<b>Theme score - 2</b>
<b>Key findings and conclusions</b>
<p>The Council integrates financial planning with strategic and service planning processes. It uses the Medium Term Financial strategy as the core document in planning its finances to deliver strategic priorities and secure sound financial health. There are clear lines of responsibility and timely budget monitoring to ensure issues are identified and action plans developed. However the Council faces significant resource constraints, as reflected in the savings included in the current MTFs. Achievement of planned savings will require concerted effort by both officers and members.</p> <p>There is a clear understanding of the cost implications reflected in planning and resource allocation decisions, which enables the Council to judge the cost effectiveness of its proposals and the contribution to the Council's revenue budget. Procurement decisions are made using whole life costing principles, including the identification of need, make or buy options, end of contract or asset life considerations and alternative financing options to attain the best deal for the Council. All new investments are subject to an appraisal process which includes evaluation of risks and the relative costs and benefits of single or joint provisioning options.</p> <p>The Council's internal financial reporting includes regular reports to budget holders and members. Regular performance reports are presented to Cabinet detailing financial progress. Finance reports relating to specific areas are also provided to members. In 2008/09 the accounts produced for audit were supported by structured working papers, produced within agreed timescales and subject to robust member scrutiny. The Council produced summarised accounts within Shepway Today and on the website to provide local people with an easily accessible summary. The Council has made available accounts, annual audit letter, agendas and minutes in a timely manner.</p>

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

<b>KLOE 1.1 (financial planning)</b>	<b>Score - 2</b>
<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Good integration of financial and service planning.</li> <li>• Resources are being focused on priorities.</li> </ul> <p><b>Areas for improvement</b></p> <ul style="list-style-type: none"> <li>• Focus on addressing increasing financial pressures.</li> <li>• Ensure the engagement undertaken with the public, particularly vulnerable groups, is used to scope service priorities and plans.</li> <li>• Consider impact of shared services on future capacity and quantify achievable planned savings.</li> </ul>	
<b>KLOE 1.2 (understanding costs and achieving efficiencies)</b>	<b>Score - 2</b>
<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• The Council has a good understanding of its costs and this has been used to identify high spending areas and areas in need of service improvements.</li> </ul> <p><b>Areas for improvement</b></p> <ul style="list-style-type: none"> <li>• Ensure investment is translated into tangible improvements in outcomes.</li> <li>• Consider how to deliver improved efficiency whilst maintaining/improving performance.</li> </ul>	
<b>KLOE 1.3 (financial reporting)</b>	<b>Score - 2</b>
<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Sound processes in place for budget monitoring, good accounts scrutiny and improved accounts preparation.</li> <li>• Good engagement with public over format of annual report.</li> </ul> <p><b>Areas for improvement</b></p> <ul style="list-style-type: none"> <li>• Develop use of risk and sensitivity analysis in financial monitoring.</li> <li>• Develop use of environmental impact reporting ie analyse and understand the environmental and social impact of its decisions.</li> </ul>	

**Governing the business**

<b>Theme score - 2</b>	
<b>Key findings and conclusions</b>	
<p>The vision is to deliver more responsive services that are better value for residents. The Council understands that it is one of the largest customers in East Kent and uses this to influence the market by working with suppliers to ensure the maximum mutual advantage is gained. Arrangements for collecting, recording and reporting data are integrated into business planning and investment processes. Performance information is routinely monitored as part of operations, appropriate action is taken on under performance.</p> <p>Public consultation takes place and the Council has an understanding of the inequalities and diversity of its local communities. Local people, partners, staff and suppliers have been involved in the design and commissioning of services. Despite tight financial conditions, the Council has invested in the effective use of technology to improve services, reduce long term costs, and improved the customer experience. The recently drafted Data Security Policy meets central government requirements and complies with the relevant statutory and legal requirements. The council has a business continuity plan which covers the provision and security of key business information. The Council is implementing the Government Connect programme in 2009.</p> <p>The Council's leadership has a clearly communicated ambition for the local community. In order to achieve this, the constitution clearly sets out roles and responsibilities and there are good working relationships between officers and members. Members have signed up to the model code of conduct and there is an effective standards committee.</p> <p>The Council has a comprehensive risk management strategy and risk register, owned by officers and members. Members' reports include a risk analysis. External consultants have been recruited to help develop a partnership risk register. The Council has a clear strategy and effective arrangements to manage the risk of fraud and corruption and has a sound system of internal control.</p>	

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

<b>KLOE 2.1 (commissioning and procurement)</b>	<b>Score 2</b>
<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Good use of benchmarking, including Kent Price Book, which helps drive decision making.</li> <li>• Neighbourhood management policy driving stronger engagement with the public and partners.</li> </ul> <p><b>Areas for improvement</b></p> <ul style="list-style-type: none"> <li>• Demonstrate that better procurement is driving lower costs, improvements in efficiency and better outcomes for local people.</li> <li>• Demonstrate the tangible benefits of its approach to sustainable development.</li> </ul>	
<b>KLOE 2.2 (data quality and use of information)</b>	<b>Score 2</b>
<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• The Council has sound arrangements in place to produce relevant, reliable and accurate data.</li> <li>• Data is used effectively to inform decision making, at both an operational and a strategic level, and also to set objectives and targets (see for example the 'Golden thread running through to the Community Strategy).</li> </ul> <p><b>Areas for improvement</b></p> <ul style="list-style-type: none"> <li>• Ensure the security of data received from third parties.</li> <li>• Ensure action is taken to reduce/learn from security incidents.</li> </ul>	
<b>KLOE 2.3 (good governance)</b>	<b>Score 2</b>
<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Established constitution with clearly defined roles and responsibilities.</li> <li>• Code of Conduct for Members and Standards Committee which follow national best practice.</li> <li>• Robust audit committee.</li> </ul> <p><b>Areas for improvement</b></p> <ul style="list-style-type: none"> <li>• Review effectiveness of new scrutiny arrangements.</li> <li>• Develop governance arrangements for partnership working.</li> <li>• Ensure Members demonstrate more visibly the values of good governance, particularly in light of current national lack of public trust.</li> </ul>	

<b>KLOE 2.4 (risk management and internal control)</b>	<b>Score 2</b>
<b>Strengths</b> <ul style="list-style-type: none"><li>• Sound risk management and internal control arrangements.</li><li>• Joint internal audit function across East Kent is resulting in shared good practice and efficiencies.</li></ul> <b>Areas for improvement</b> <ul style="list-style-type: none"><li>• Review scope for a more pro-active approach to tackling fraud (eg raising of awareness/ increased publicity for successful prosecutions).</li><li>• Demonstrate how the Audit Committee gains necessary assurance that agreed actions are implemented.</li><li>• Ensure partnership working is fully considered as part of the risk management process.</li></ul>	

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

### Managing resources

<b>Theme score - 2</b>	
<b>Key findings and conclusions</b>	
<p>The Council has made a commitment to embedding workforce planning into the strategic service planning process and identified a strategy for addressing leadership and succession issues. The 2008 Workforce Census has been analysed in the context of the Local Government Pay and Workforce Survey 2006. The Council has made a commitment to developing the skills base of those with lower educational attainment levels and to offer training as part of the personal development planning process. Skill and capacity gaps have been reduced or managed and staff satisfaction has improved together with the quality of the work that is being produced.</p> <p>The Council has standardised formats for the personal performance review (PPR) process which include a self assessment template and a PPR assessment template. The HR process allows action taken to resolve poor performance and contributes to the good management of staff and the delivery of good services for residents. The staff have been actively involved in the restructuring process and their feedback has been used to inform the changes.</p> <p>Staff organisations have been involved to ensure that concerns are taken into account when the procedures are implemented. sensitive management of the change process has been a crucial element in enabling the change to take place with minimum disruption being experienced by customers. The main driver for change has been to deliver extra staffing resilience and recruit/retain good quality professionals. The Workforce Development Plan has identified the Council's position in relation to target groups. It has enabled the Council to plan its staffing requirements over the next three to five years and manage them more efficiently through the annual audit service plan. However the report has not considered the implications for policy development, which makes it difficult to see a strategic follow-through to make the Council's staffing policies more responsive to local conditions.</p>	
<b>KLOE 3.3 (workforce planning)</b>	<b>Score - 2</b>
<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Workforce planning has been used effectively to reduce skill and capacity gaps and to improve staff satisfaction.</li> <li>• There has been a good level of staff engagement in restructuring and this has helped minimise disruption caused by change.</li> </ul> <p><b>Areas for improvement</b></p> <ul style="list-style-type: none"> <li>• Consider how resilient staff resources are and impact of any changes on capacity to deliver long term plans.</li> <li>• Ensure workforce planning is sufficiently robust to deal with the many uncertainties and changes facing local government nationally, and Shepway locally, notably the impact of the recession, reduced government funding and the impact of increased partnership working.</li> </ul>	

## Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Annual Audit Letter 2008/09 Recommendations</b>						
5	R1 Ensure the introduction of a new asset register incorporates clear coding and description for all individual assets.	3	Group accountant (capital)	Yes	This work has already commenced and the council is entering data that is relevant, meaningful and accurate to the best of our knowledge.	December 2009
5	R2 Ensure bank reconciliation controls and reviewed and updated.	3	Principal Accountant	Yes	Work has already commenced. The internal audit team has been asked to review processes and identify areas for improvement.	April 2010
7	R3 Work with partners to develop governance arrangements for joint working across East Kent, and use this as a platform to deliver better services for local people.	2	Senior Management	Yes	This work has already commenced. The East Kent Joint Arrangements Committee oversees joint working across East Kent. Individual projects, eg the shared HR service, bring the relevant professionals together from the participating authorities to ensure that specific and relevant governance arrangements are in place for each project. The hosting model governance arrangements used for the recently implemented HR service will assist in future projects.	Ongoing commitment across all years

## Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R4 Continue to take robust action to address the projected financial deficit	3	Senior Management/ Informal Cabinet	Yes	This is an ongoing commitment. Strict restrictions on spend remain in place and Senior Management/Informal Cabinet ensure that savings ideas and action plans are created and monitored to address any projected year end deficits.	Ongoing commitment across all years
8	R5 Undertake a post implementation review of new quality arrangements in the Benefits section to ensure that claims are being accurately and properly processed.	3	Project Officer	Yes	A programme to address the quality issues is already underway. A full review will be undertaken during 2010/11.	March 2010 and then Internal Audit date to be agreed in Audit Plan

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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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