

Annual Audit Letter

South Cambridgeshire 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 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.
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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 accounts and the results of the work I have undertaken to assess the way in which you use your resources.

Accounts

- 1 The Council is required to prepare and approve its accounts by the 30 June 2009. The Council met that deadline. The accounts were complete but included a number of material errors (ie errors that, if not corrected, would distort the overall financial position of the Council). This delayed completion of the audit programme until 19 November, some seven weeks after the 30 September deadline set in legislation.
- 2 The Council agreed to correct all material errors and a number of smaller errors, but did not amend for a number of others. The unadjusted errors were not material. I reported all the errors to the Council's Corporate Governance Committee (as those charged with the governance of the Council), who agreed with officers decision not to amend the accounts for some of the smaller errors. The Corporate Governance Committee formally provided me with their reasons for not adjusting the accounts for these errors.
- 3 The audit identified weaknesses in the:
 - information held within the fixed asset register;
 - reconciliation processes between the fixed asset register, housing maintenance database and housing rents database;
 - application of the capital accounting requirements; and
 - audit trails supplied in support of entries within the financial statements.
- 4 As a result of my work, I concluded that the accounts 'presented fairly' the Council's financial position at the 31 March (an unqualified audit opinion) and its income and expenditure for that financial year.
- 5 An enhanced financial reporting framework, International Financial Reporting Standards (IFRS), will apply to all councils' accounts in 2010/11. Officers are planning to bring a detailed project plan to Corporate Governance Committee once the Chartered Institute of Public Finance and Accountancy (CIPFA) have issued their IFRS Code of Practice in December 2009. IFRS presents a significant challenge and the Council will need to ensure that it has appropriate plans in place to address the new requirements.

Certification of claims and returns

- 6 Our audit work on the certification of claims and returns resulted in a number of amendments and qualification letters. The return for the Whole of Government Accounts has yet to be prepared and submitted. This indicates that improvements are required to strengthen the Council's arrangements for the preparation of claims and returns.

Use of resources

- 7 We assess how the Council makes use of the resources at its disposal to provide local services. A national framework is applied to our assessment, with a score given between 1 (inadequate and below minimum standards) and 4 (performing strongly) in each of three key areas.
- 8 The Council is performing adequately (Level 2) and attained the following scores in our assessment.
- Level 2 for the way it manages its finances.
 - Level 2 for the way it manages and governs the business as a whole.
 - Level 2 for the way it manages its workforce planning.
- 9 The findings and conclusions from my assessment, along with the areas for improvement identified, have been reported as part of my Annual Governance Report. The key messages are outlined later in this letter. The overall score of level 2 indicates that arrangements are adequate, but our work has identified a large number of areas for improvement that the Council needs to address.

Value for money conclusion

- 10 Based on the results of my use of resources assessments, I issued a conclusion on whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.
- 11 I concluded that the Council had put in place adequate arrangements and as a result issued an unqualified value for money conclusion for 2008/09.

Managing Performance

- 12 The Audit Commission also assesses how well the Council manages and improves its services and contributes to wider community outcomes. The assessment considers how successful the Council is in delivering its corporate priorities. The priorities have been drawn from what matters most to the local people.

Key messages

- 13** The Council scores 2 out of 4 for managing its performance (using the same scoring mechanism as for the use of resources). It performs well on waste and recycling, council tax collection and paying housing benefits. The streets are clean and satisfaction with services is generally good. High numbers of houses that local people can afford have been built. But, performance on the speed of processing planning applications deteriorated.
- 14** The Council works effectively with partners to plan for housing development but progress has been affected by recession. Progress on economic development is slow, although £150,000 was allocated to help local businesses through the recession. Service accessibility is improving slowly. The Contact Centre is good. Complaints are processed more quickly, but satisfaction with complaints handling remains low. Progress in making sure all people are treated fairly has been slow.
- 15** Council leaders are clear about what they need to achieve and are now better able to deliver. They have set five revised aims for 2009/10 which are linked to those of other public sector and private sector partners. More training is provided for councillors. Scrutiny Committee has improved and is contributing to better decision making. Most planned improvements have been achieved. However, some have not because targets have been unrealistic. The skills and abilities of staff are improving through training but workforce planning is not fully developed.

Overall Organisational Assessment

- 16** The Use of Resources and Managing Performance assessments are combined to give an overall organisational assessment judgement for the Council. The Audit Commission has determined that the organisational assessment judgement for South Cambridgeshire District Council is that it performs adequately.
- 17** The Council's Managing Performance and Organisational Assessment are being reported separately by the Audit Commission's Comprehensive Area Assessment Lead for Cambridgeshire, Nigel Smith.

Financial Standing

- 18** The last year has seen the Country enter a significant economic recession on the back of a global economic crisis triggered by the collapse of a number of high profile international banks.
- 19** The consequence locally, is an increasing demand for public services and the likelihood of reduced levels of central government funding. Together, these will provide a significant challenge for local councils as they seek to continue to provide services to local residents, whilst maintaining a sound financial position.
- 20** The Council is responding to this challenge. The implications of the recession are understood and the challenges faced are being acknowledged by the Council as a whole. The latest medium term financial strategy actively considers the impact of the economic downturn and addresses the funding shortfalls and increased demand for services identified.

- 21** The impact of the recession will continue to present a challenge to the Council in the coming financial year. I will continue to monitor the Council's response and actions in this key area when assessing whether the Council makes effective use of resources during my 2009/10 audit.

Audit fees

- 22** I have not been able to deliver and conclude my audit programme within the fee that I planned due to the significant amount of additional audit work required to address the major problems with the accounts. Details of the actual fees are provided at Table 3.

Independence

- 23** As the External Auditor appointed to audit the Council, I have to maintain my independence. I confirm that this audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Recommendations

- 24** I have made a number of recommendations within my Annual Governance Report and Final Accounts memorandum reports, to further develop the arrangements in place at the Council.
- 25** The Council should monitor the implementation of these recommendations, along with the additional recommendations below.

Recommendations	
R1	Develop and implement an action plan to enable the Council meet the new reporting requirements under IFRS.
R2	Ensure the recommendations in my previous reports related to the processes for the production of the financial statements are addressed.
R3	Review the procedures for the preparation and submission of claims and returns.

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.

- 26** I issued an unqualified opinion on the Council's accounts on 19 November 2009, some seven weeks after the 30 September deadline set within the Accounts and Audit Regulations 2003 (as amended). In my opinion the accounts present fairly the financial position of the Council as at 31 March 2009 and its income and expenditure for the year then ended.
- 27** Before giving my opinion, I reported to those charged with governance, in this case initially to the Corporate Governance Committee, on the issues arising from the 2008/09 audit. I issued my initial report on 23 October 2009 and the final report on 13 November 2009. This was agreed with the Chairman of the Corporate Governance Committee and the Executive Director, Corporate Services.
- 28** The Council provided me with a Letter of Representation dated 19 November 2009, which allowed me to conclude my audit procedures and issue my audit opinion.
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Accounting issues

- 29** The draft accounts were approved on 29 June 2009, prior to the 30 June deadline specified in the Accounts and Audit Regulations 2003 (as amended).
- 30** Our audit work identified a number of material disclosure errors in the financial statements. In addition there were also a number of non trivial disclosure errors. The Council amended for all the material errors and the majority of the non trivial errors to meet the disclosure requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2008 (2008 SORP). The remaining errors were not amended on the grounds that the Council did not consider them material either individually or in aggregate and that a delay in the publication of the accounts arising from the time required to correct the items would not be warranted by the benefit to potential users of the statements. I accepted that explanation.
- 31** The material errors mentioned arose due to the following issues.
- The fixed asset register did not contain the necessary information to meet the requirements of the 2008 SORP.
 - Major repairs allowance and capital expenditure were not accounted for at a 'beacon group' property level in 2007/08, as required by the SORP.
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- There was no reconciliation of the fixed asset register, the housing maintenance database and the housing rents database.
 - Accounting for dwellings transferred in advance of sale to registered social landlords (RSL) was inconsistent.
 - Block garages were incorrectly classified within council dwellings rather than other land and buildings.
 - Pension fund (FRS 17) entries were not fully reconciled to the actuarial report.
- 32** The audit trails provided by the working papers supplied in support of the accounts were of a variable standard. Issues included the failure to consistently:
- Save year end information from live systems eg council tax creditors.
 - Provide reconciliations between system output/spreadsheets and the notes to the accounts eg fixed asset register to Note 11.
 - Update working papers to reflect late changes to the statement of accounts eg bad debt provision calculations.
 - Provide justification for the inclusion or exclusion of items eg unexplained movement on earmarked reserve.
- 33** Responses to queries and requests for additional information were helpfully dealt with by finance staff. However, the lack of involvement in the preparation of and hence ownership of items within the accounts by operational staff contributed to delays in response times.
- 34** Our work also identified weaknesses in, or an absence of, controls over the completeness, accuracy, valuation and allocation, existence and rights and obligations of the assets contained within the various housing asset databases and fixed asset register. As a result, detailed testing of individual balances and transactions had to be carried out to verify the accuracy of the information supporting the figures in the accounts.
- 35** Apart from the issues in respect of the fixed asset register noted above, I did not identify any significant weaknesses in your internal control arrangements and the Council's annual governance statement was prepared in accordance with requirements. The Council's internal audit team comply with the requirements of the CIPFA Code, and the financial systems underpinning the accounts continue to operate with generally sound controls in place. Internal audit have reviewed these systems and made a number of recommendations. I support the implementation of these recommendations as a way of strengthening the Council's control environment.

Certification of claims and returns

36 We certify the Council's claims and returns on the following basis:

- claims below £100,000 are not subject to certification;
- claims between £100,000 and £500,000 are subjected to a reduced, light-touch certification; and
- claims over £500,000 are subjected to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment leads to a reduced certification approach for these claims.

37 We were required to certify a total of six claims, plus the Whole of Government Accounts return, in relation to 2008/09. As a result of our work a number of amendments were required to the claims and a number of qualification letters were issued. The results of our work are summarised in Table 1 below.

Table 1 Certification of claims and returns

Late submission and qualification of claims occurred this year

Claim/return	Late Submission (Yes/No)	Amendments required to Claim (Yes/No)	Qualification Letter required (Yes/No)
Disabled Facilities Grant claim	Yes	No	No
Pooling of Housing Capital Receipts return	Yes	Yes	No
National Non Domestic Rates return	Yes	Yes	Yes
Housing Subsidy Claim	Yes	No	Yes
Housing Base Data return	Yes	Yes	Yes
Housing Benefits Claim	No	Yes	Yes
Whole Government Accounts return	Awaiting return	Awaiting return	Awaiting return

- 38** Table 1 indicates that improvements are required to strengthen the Council's arrangements for the preparation of claims and returns. However, the most complicated claim, housing benefits, was completed to a high standard with the amendments and qualification letter being for minor items. The issues with the Council's fixed asset register that impacted on the accounts and are referred to earlier in this letter, also impacted on a number of the claims referred to in Table 1 above. We will discuss the arrangements for the compilation and certification of claims and returns with officers in more detail once we have completed the certification of all this year's claims.

International Financial Reporting Standards

- 39** International Financial Reporting Standards (IFRS) will be applied to the preparation of local government accounts for the first time in 2010/11. This will also require comparative figures for the 2009/10 financial year to be restated in the new IFRS format.
- 40** Applying IFRS will have significant implications for the way in which local authorities prepare their annual financial statements, particularly in the accounting for fixed assets, leases and accrued holiday pay. CIPFA will be issuing their IFRS Code of Practice in December 2009.
- 41** Officers plan to bring a detailed project plan to the Corporate Governance Committee after this date. This plan will need to include clear roles and responsibilities, and a timeline for reporting progress to the Committee. We have also agreed to make a presentation on the implications of the move to IFRS to the March 2010 Corporate Governance Committee meeting.
- 42** Preparations for IFRS represent a significant workload which requires detailed project management and significant resources. A great deal of work will be required in the run up to preparing the 2010/11 accounts in order to establish and collect the information required and to account for it under the new accounting standards. The Council will need to keep progress on IFRS implementation under review and ensure that appropriate resources are allocated to it to ensure successful implementation.

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

- 43** 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.
- 44** 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.
- 45** The Council has undergone a year of transition with the final Improvement Board meeting in January 2009. The markings reflect the harder challenge that the new methodology introduced, as well as a number of areas where improvements are required. The Council's use of resources theme scores are shown in Table 2 below.

Table 2 Use of resources theme scores

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

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- 46** The key findings and conclusions for the three themes, and the underlying KLOE, are set out in detail in my Annual Governance Report. The key theme findings, including areas for improvement, are summarised below.

Managing finances

- 47** The Council has an integrated financial planning process and draws upon a variety of detailed plans to support the Medium Term Financial Strategy and budget process. There are clear policies in respect of areas such as the levels of reserves.
- 48** Members are involved in the budget process in a timely manner. The Council seeks to involve stakeholders in the financial processes using a variety of approaches, but has not yet achieved the desired level of involvement. Financial training has been provided to Members and officers but the benefits of this training have not been effectively assessed.
- 49** There is strong record of delivery within budget which supports a low level of council tax. The Council has a good understanding of, and clear focus on, its costs, but has a less well developed understanding of the factors that drive these costs. Fully costed options are usually produced for new projects, although the operational performance impact is not always clear. In some instances, all major options have not been set out resulting in decisions being taken on incomplete information.
- 50** Benchmarking, post implementation reviews and knowledge sharing are not standard features of the operational management of the Council. The operational implications of financial changes are not always fully identified or explained in reports for decision.
- 51** In 2007/08, only 24 per cent of performance indicators for the Council were in the top quartile nationally, against a district council average of 33 per cent. This indicates that the Council's focus, in terms of achieving value for money, has tended to be on costs rather than performance.
- 52** Financial reporting takes place in a timely manner during the year. However the reasons for variances between the actual spend and the budget are not always clearly explained. The statement of accounts was adopted by the required deadline, although problems with capital accounting resulted in late circulation to Members prior to the adoption meeting. During the year there have been examples of late circulation of other reports which members stated reduced their capacity to critically challenge those reports.

Governing the business

- 53** The Council actively seeks to involve public, private and voluntary sectors in their commissioning of services. However, in making changes in approach or setting up new partnerships the Council does not always set out clearly defined and measurable objectives and targets. It is therefore not possible to carry out post implementation reviews to identify whether the changes have achieved the desired level of improvement in services.
- 54** An updated purchasing strategy was issued in April 2009; however this is a process document and does not establish how the Council will use purchasing in a strategic manner to achieve its objectives. There are examples of good practice in services redesign, but these are not consistently applied across the Council and the 2008/09 service review programme, which has previously identified financial and performance efficiencies, was not completed.

Value for money and use of resources

- 55 Adequate data collection systems exist, although there is an inconsistent approach to data quality. A new system (CORVU) was partially introduced in year. The full benefits of this have not been realised as it is not directly linked into local feeder systems and has resulted in two performance management systems running in tandem.
- 56 The Council has established good governance principles. Members receive training, although as this is informal there is a risk that members may not be receiving the training they need. The absence of preset training objectives means that the effectiveness of events cannot be objectively assessed.
- 57 Risk management processes are in place. The risk register is reviewed on a quarterly basis but arrangements are not yet fully embedded. The Council adopts a proactive approach to the prevention of fraud, actively following up NFI data.

Managing resources

- 58 The Council achieved IIP status in February 2009, but is still evolving its approach to workforce planning and had not identified the operational benefits of achieving IIP. E-recruitment in conjunction with other public sector bodies is in place. The Council is developing its approach to workforce planning which includes a management competency and learning framework which is being implemented in 2009/10. It is also looking to incorporate workforce plan skills, attitudes and behaviours in job and people specifications.
- 59 There have been delays in filling vacancies which have impacted on operational performance in a number of areas. The Council has in place good change management processes that actively involve affected staff. In 2008/09, the Council was at Level 1 of the Local Government Equality Standard and it has moved to a Level 2 in June 2009. An Equal Pay audit has been completed.

VFM Conclusion

- 60 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 KLOEs are the relevant criteria for the VFM conclusion at each type of audited body.
- 61 Based on the Use of Resources assessment, which was linked to the criteria set out above, I was able to issue an unqualified conclusion, stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Financial Standing

- 62** The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. The impact on treasury management strategies has been immediate, but there are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams. There are further challenges for policy priorities where patterns of demand for services are changing.
- 63** I have reflected on the wider environment, specific issues and risks and the Council's response. The financial position of the Council is becoming increasingly challenging, in particular, for future financial periods. The current budget round for 2010/11 has identified the need to make savings of some £2.199 million. The Cabinet has endorsed a savings package to fully deliver this difficult target.
- 64** Though the economic downturn is presenting specific issues and risks to the Council, the Council can be seen to be responding to this challenge. The medium term financial strategy actively considers the impact of the economic downturn and addresses the funding shortfalls identified. The implications of this are understood and the challenges faced are acknowledged by the Council as a whole. This is an area I will continue to consider closely when assessing how the Council makes effective use of resources during my 2009/10 audit.

Audit fees

- 65** The actual audit fee required to fulfil my statutory duties is more than I initially planned, as outlined in Table 3 below. The original fee was set based on my initial planning undertaken in June 2008. My pre statements work, undertaken early in 2009, and subsequent work on the financial statements identified material errors within the accounts and other issues that resulted in the need for an additional audit fee. My Annual Governance Report set out in more detail the areas of additional work. As a result of the technical nature of the additional work an additional 65 days of higher grade input was required to complete the audit.
- 66** In relation to the audit of grant claims, the indicative fee set out in my initial plan was based on the claim fee reported by the previous auditor in their 2007/08 plan. The actual outturn for 2007/08 was significantly higher at £38,172.

Table 3 Audit fees

	Actual	Planned	Variance
Financial statements and annual governance statement	£117,080	£82,080	£35,000
Use of resources/Data Quality 2007/08	£28,797	£28,797	£0
Whole of government accounts	£2,235	£2,235	£0
Total audit fees	£148,112	£113,112	£35,000
Certification of claims and returns	£41,800 (est)	£21,000	£20,800 (est)
Total	£189,912	£134,112	£55,800

Closing remarks

- 67** I have discussed and agreed this letter with the Chief Executive and the Executive Director, Corporate Services. I will present this letter at the Corporate Governance Committee on 23 December 2009 and will provide copies to all Members.
- 68** 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 set out in Table 4 below.

Table 4 **Reports issued in year**

Report	Date issued
Audit and inspection plan	June 2008
Annual governance report	November 2009
Opinion on financial statements	November 2009
Value for money conclusion	November 2009
Annual audit letter	December 2009
Final Accounts Memorandum	December 2009
Managing Performance and Organisational Assessment	December 2009

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- 69** 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.

Availability of this letter

- 70** This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the Council's website

Debbie Hanson
District Auditor
December 2009

The Audit Commission

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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.

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