

Annual Audit Letter

St Albans City and 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 The Council is required to prepare and approve its accounts by the 30 June 2009. The Council met this deadline and, as a result of my work, I concluded that the accounts 'presented fairly' the Council's financial position at the 31 March and its income and expenditure for that financial year (an unqualified audit opinion).
- 2 Our audit did find some errors in the approved accounts. The combined effect of these errors were significant and had they not been corrected they would have distorted the overall financial position of the Council. The Council agreed to correct these errors. I reported these amendments to the Council's Audit Committee (as those charged with the governance of the Council).
- 3 My audit also identified a number of other, smaller errors that were not so significant as to distort the overall financial position of the Council. Officers chose not to amend the accounts for a number of these errors. I reported details of these errors to the Council's Audit Committee, who agreed with officers' decision not to amend the accounts for those errors. The Audit Committee formally provided me with their rationale for not adjusting the accounts for these errors.
- 4 While the Council met the statutory deadline for production of its financial statements, I continue to have concerns about the ability of the financial services department to produce financial statements that are free from error, together with a comprehensive set of supporting working papers, before the statutory deadline of 30 June.
- 5 An enhanced reporting framework (International Financial Reporting Standards) is to apply to all Councils accounts in 2010/11. The Council have developed a project plan to implement these standards. Some progress has been made with the implementation of this plan, but the Council recognises that there is a significant amount of work required to complete this plan.

Internal control

- 6 My audit identified concerns around the ability of Internal Audit to complete its annual programme of work within a timescale that allows me to rely fully on their work in reaching my opinion on the Council's annual financial statements. I also concluded that Internal Audit did not comply with the CIPFA Internal Audit Standard on 'Undertaking Audit Work'.

- 7 I identified the need for the Council to ensure sufficient resources are available, with the correct skills, to undertake audit work on a timely basis, and which is appropriately documented.
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Use of resources

- 8 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.
- 9 The Council is performing adequately (Level 2). It attained the following scores in our assessment.
- Level 2 in respect of the way it manages its finances.
 - Level 2 in respect of the way it manages and governs the business as a whole.
 - Level 2 in respect of the way it manages its people.

Managing finances

- 10 The Council is addressing issues which local people recognise as priorities. These priorities were determined through consultation with the public and key stakeholders. The Council's priorities are reflected in medium term financial plans. The Council is continuing to make progress in achieving these priorities.
- 11 The Council has only a limited understanding of its costs, which makes it harder for it to continue to improve its efficiency. The Council's budget monitoring arrangements are well developed and effective, although its arrangements for financial reporting are inconsistent.

Governing the business

- 12 The Council is getting better at managing its own performance. The Council produces relevant data to support decision making. The Council has an appropriate ethical governance framework. The effectiveness of the Council's internal control is, however, inconsistent. The Council's arrangements for commissioning and procurement are adequate.

Managing resources

- 13 The Council has a productive and skilled workforce. Staff morale is high and sickness low. The Council is addressing staff shortages but staff turnover is high. The Council is still reducing staff numbers to make services more efficient. The Council engages and supports staff in these organisational changes.

Key messages

Other supporting work

- 14 In order to support my use of resources judgements, we undertook reviews of partnership arrangements for public sector bodies across Hertfordshire and also looked specifically at how health inequalities are being managed. In both cases I found that arrangements are in place but more could be done by all public sector partners within Hertfordshire to address the issues and use the combined resources to better effect.

Managing performance

- 15 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.
- 16 The Council scores 3 out of 4 for managing its performance (same scoring mechanism as for Use of Resources above).
- 17 The Council is continuing to provide good quality services which matter most to its local residents. The Council maintains a high quality environment by increasing recycling, reducing litter, and removing graffiti and fly tips promptly. It has helped local people improve their health by providing discounted leisure facilities. It runs a number of schemes to help improve the health of people with particular needs, such as the disabled, older and younger people and ethnic minorities. St Albans is a safe place to live as it is a low crime area. This is due in part to successful partnership working between the Council and the police.

Overall organisational assessment

- 18 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 St Albans City & District Council is that it performs adequately.
- 19 There is a difference between the scores for managing performance and managing resources. We decided that the overall score should be that St Albans City and District Council performs adequately. This is because it does not have a consistent approach to managing its resources. It has only a limited understanding of its costs, which it needs to help it identify opportunities for future savings.
- 20 The Council's Managing Performance and Organisational Assessment are being reported separately by the Audit Commission's Comprehensive Area Assessment Lead for Hertfordshire, Gary Hammersley.

Data security

- 21 In November 2009, the Council reported to the Information Commissioner that four laptops, one of which contained the personal data of around 14,500 residents, was missing. The Council has taken steps to try to prevent this data from being used for criminal purposes, and to prevent an incident of this nature occurring in the future.
- 22 The Council has asked me to look at whether the Council responded appropriately to the situation.
- 23 This work will be undertaken under the Advice and Assistance powers given to the Audit Commission by the Audit Commission Act 1998. I am currently agreeing the scope of this work with the Council, and will report my findings to the Council early in 2010.

Financial standing

- 24 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.
- 25 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.
- 26 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 budget report considers the impact of the economic downturn and address funding shortfalls.
- 27 The impacts 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.

Audit fees

- 28 During the course of my audit, I identified weaknesses in the Council's Internal Audit arrangements. This meant that before I could rely on the work of internal audit, I had to undertake additional audit procedures.
- 29 I also had to undertake a significant amount of additional audit work to quantify the full impact of the errors I identified during the course of my audit. I also identified a number of errors in certifying grant claims, and issued qualification letters in respect of two claims.
- 30 I have therefore been unable to complete my audit work within the fee agreed with the Council in June 2008, and I have raised additional fees of £18,000 in respect of the above work. Further details are given in table 2 on page 16.

Key messages

Actions

- 31** To further develop the arrangements in place at the Council, I have made a number of recommendations within my Annual Governance Report. The Council should monitor the implementation of these recommendations.
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Independence

- 32** As the External Auditor appointed to audit the Council, I have to maintain my independence. 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

- 33 I issued an unqualified opinion on the Council's accounts on 30 September 2009, thereby meeting the deadline set within the Accounts and Audit Regulations 2003. 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.
- 34 Before giving my opinion, I reported to those charged with governance, in this case the Audit Committee, on the issues arising from the 2008/09 audit. I issued my report on 30 September 2009.

Accounting issues

- 35 The draft accounts were approved on 30 June 2009, prior to the deadline specified in the Accounts and Audit Regulations 2003. While the Council met this deadline, I continue, to have concerns around the ability of the financial services department to produce financial statements that are free from material error, together with a full set of supporting working papers by the statutory deadline.
- 36 Following the conclusion of my 2007/08 audit, I issued statutory recommendations under s11 of the Audit Commission Act. In light of the significant issues identified by my audit of the 2007/08 financial statements, I recommended that the Council put in place robust arrangements for the production of the 2008/09 financial statements.
- 37 In 2008/09 I saw some improvements in the quality of the working papers provided in support of the financial statements. The Council had properly engaged experts providing information that supported amounts in the financial statements, and finance staff had attended a number of relevant training events, ensuring they were aware of the requirements of the SORP.
- 38 My detailed work on the financial statements did, however, find a large number of errors. The combined effect of these was significant and had they not been corrected they would have distorted the overall financial position of the Council. The Council agreed to correct these errors. I reported these amendments to the Council's Audit Committee (as those charged with the governance of the Council) on 30 September 2009.

Financial statements and annual governance statement

- 39 My audit also identified a number of other, smaller errors that were not so significant as to distort the overall financial position of the Council. Officers chose not to amend the accounts for a number of these errors. I reported details of these errors to the Council's Audit Committee, who agreed with officers' decision not to amend the accounts for those errors. The Audit Committee formally provided me with their rationale for not adjusting the accounts for these errors.
- 40 This consideration was formally recorded in a Letter of Representation to me, which allowed me to conclude my audit procedures and issue my audit opinion as set out above.
- 41 Responsibility for producing the financial statements continues to fall to a small number of senior officers within the finance department. This limits the ability of those officers to adequately review the financial statements prior to the approval of those accounts by Members, and this is reflected in the number and nature of the errors identified by my audit.
- 42 I identified the need for the Council to ensure sufficient resources to be available, with the correct skills, to produce financial statements that are free from significant levels of error, while at the same time responding to the challenge of budgetary pressures arising from likely reductions in central government support for local authority spending, and the move to International Financial Reporting Standards.

Material weaknesses in internal control (relating to the financial statements)

- 43 During the course of my audit I reviewed the Internal Audit arrangements put in place by the Council. My work identified some concerns around the ability of Internal Audit to complete its annual programme of work within a timescale that allows me to fully rely on their work in reaching my opinion on the Council's annual financial statements.
- 44 I also concluded that Internal Audit did not comply with the CIPFA Internal Audit Standard on 'Undertaking Audit Work'. This meant that before I could rely on the work of Internal Audit, I had to undertake additional audit procedures to assure myself that the work undertaken by Internal Audit was of sufficient quality.
- 45 My Annual Governance Report identified the need for the Council to ensure sufficient resources to be available, with the correct skills, to undertake audit work on a timely basis, and which is appropriately documented.
- 46 I did not identify any significant weaknesses in your internal control arrangements.

Certification of claims and returns

- 47 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.

- 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.
- 48 The Council's housing capital receipts return and claim for housing benefits and council tax subsidy, required amendment prior to certification. Qualification letters were also issued in respect these latter claims.
- 49 Improvements to strengthen the Council's arrangements for the preparation of claims and returns have been discussed and agreed with officers.

International Financial Reporting Standards

- 50 The national timetable for the implementation of International Financial Reporting Standards (IFRS) means that these will be first applied in the 2010/11 financial year. However, comparative figures for the 2009/10 financial year will be required.
- 51 Applying IFRS will have significant implications for the way in which local authorities prepare their annual financial statements. The Council has a project plan in place, with clear roles and responsibilities. Some progress has been made with the implementation of this plan, but the Council recognises that there is a significant amount of work required to complete this plan.
- 52 The Council will need to ensure it puts in place appropriate staffing arrangements to ensure it meets the national timetable for implementation of IFRS.

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

- 53** 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.
- 54** 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.
- 55** Although the methodology has changed, the Council's overall assessment has remained the same as in 2007/08. The Council's use of resources theme scores are shown in Table 1 below.

Table 1 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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- 56** The key findings and conclusions for the three themes, and the underlying KLoE, are set out in my Annual Governance Report. I have provided more detailed reports of my findings to officers. The key theme findings are summarised below.

Managing finances

- 57 The Council has put in place effective arrangements for planning its finances. Financial planning is integrated with strategic and corporate planning processes. The Council targets resources effectively to deliver its priorities. The Council's budget consultation informs priorities and budget decisions. The Council has a good record of maintaining expenditure within budget. The medium term financial strategy reflects the Council's strategic objectives and its priorities.
- 58 The Council achieves above average levels of efficiency, but has a poor understanding of its costs; it does not link costs to performance. The Council achieves its efficiency through a robust management of its budgets.
- 59 While the Council has put in place improved arrangements for production of its financial statements, I have set out elsewhere in this letter my concerns around the ability of the finance department to produce financial statements that are free from material error, and its ability to meet future challenges.
- 60 The Council has arrangements in place to effectively manage the investment of its surplus funds that is reviewed annually by internal audit. A treasury management policy and strategy is in place, in line with CIPFA guidance, that clearly outlines the bodies where investments can be made. Regular updates to these bodies are provided by the Council's advisers, as is training in treasury management.

Governing the business

- 61 The Council has a clear vision of intended outcomes for local people. This is based on an ongoing analysis and understanding of needs. The Council produces relevant and reliable data and information to support decision making and manage performance. The Council's arrangements for monitoring performance against targets are adequate.
- 62 The Council has put in place adequate arrangements for commissioning and procurement, and for promoting and demonstrating the principles and values of good governance.
- 63 The Council has adopted codes of conduct for Members and Officers. Compliance with these is monitored. The Council's Audit Committee provides robust challenge to officers. While the Council has put in place an adequate internal control framework, I have documented elsewhere in this letter my concerns around the effectiveness of internal audit.

Managing resources

- 64 The Council has a productive and skilled workforce. It has effective policies to identify and address staff training needs and to recruit where necessary and there is evidence of improved customer satisfaction as a result. It uses a variety of recruitment methods to address its difficulties in attracting staff. It has effective absence management procedures that have led to reduced absence levels and policies to address poor performers. It has an award winning accident prevention scheme.

Value for money and use of resources

- 65 The Council engages and supports staff in organisational change. A variety of methods are used to keep staff informed about changes. Monitoring of staff satisfaction and post-implementation reviews during and following organisational change have not been done formally but there is positive evidence of staff satisfaction from the 'Investors in People' assessment.
- 66 The Council has policies which support diversity and good people management. Its workforce is broadly representative of the local community. The Council has not yet attained level 3 of the equalities standard.

VFM conclusion

- 67 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.
- 68 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.

Specific risk-based work

- 69 I carried out the following specific pieces of work to provide me with assurance for my Use of Resources assessment in the following areas.
- A review of Partnership arrangements in Hertfordshire.
 - A follow up of my 2007/08 Health inequalities report and recommendations.

A review of Partnership arrangements in Hertfordshire

- 70 Hertfordshire Forward (the County wide Local Strategic Partnership) and the Audit Commission both identified the need to examine the approach to strategic partnership work in Hertfordshire. To avoid duplication, and ensure that the work reflects local issues, the Audit Commission and officers from Hertfordshire Forward (HF) have worked closely together to coordinate the project and deliver the findings. Government Office (East of England) has also actively supported the work.
- 71 The organisations participating in our audit were the County Council, the ten district or borough councils, the two Primary Care Trusts (PCTs), Hertfordshire Police, Hertfordshire Probation Service, the Hertfordshire Fire and Rescue Service and the Voluntary and Community Sector.
- 72 The purpose of this audit was to examine whether partnership working between strategic partners is achieving effective outcomes. In particular, looking at the culture of partnership working between tiers of local government and between sectors in Local Strategic Partnerships. This was structured around nine themes: membership; clarity of purpose; relationships; representation; engagement; commitment; performance management; ambition and thematic groups.

- 73** The review was completed over five stages and involved an online survey, telephone interviews and a participative workshop.
- 74** The Key conclusions from our county-wide review were as follows.
- There is evidence of strong commitment and willingness to work together with a range of examples of where partnership working has produced successful outcomes. However, there is a general lack of clarity about the roles and functions of partnership structures, how partnerships link together and their composition which impedes the ability to work across sectors and partnerships.
 - Whilst there are some examples of performance monitoring in partnerships, performance management is generally underdeveloped. There is an overall consensus that there is not a consistent performance management system across all partnerships, for example, priorities are generally not underpinned by targets which are specific, measurable, achievable, relevant and timely (SMART), except those expressed in the Local Area Agreement; and there is very little awareness of how other partnerships are performing. It is also not clear who the different partners are accountable to and how they could collectively demonstrate that they had achieved their priorities.
 - Many partners expressed concern about the capacity to resource partnership working. This suggests that tasks from partnerships are seen as additional workload rather than integral to their organisation's priorities. This in turn points to the need for greater correlation between partnership and organisational priorities and the need to ensure partnership priorities are resourced.
- 75** High level recommendations have been made to all partners to:
- improve the effectiveness of partnership working;
 - develop accountability and representation;
 - develop engagement and communication; and
 - enhance performance management arrangements.
- 76** It is expected that progress against these recommendations will be monitored by Hertfordshire Forward and we will be undertaking a formal follow up later this year.

Health inequalities follow-up

- 77** In 2007, we undertook a review across the East of England to examine how well partners in each county were tackling health inequalities. The aim of this work was to explore how well local authorities, PCTs and the voluntary sector were working in partnership to address health inequalities, what evidence there was of local partners reducing health inequalities and how partners were progressing action to achieve/improve on targets. Our review in Hertfordshire identified that a lot of effort was being made to tackle inequalities at a local level but that the impact of this work was not always effectively measured.

Value for money and use of resources

78 Our follow up work has identified that:

- although the building blocks are in place, partners have not yet implemented a cross-cutting and cross-sector approach to addressing health inequalities but it is acknowledged that health inequalities issues are recognised in other documents;
- strategies and plans at County level are based on clear and comprehensive data about health needs, and there is a clear move to engage GPs in the health inequalities agenda; and
- despite the strategies and plans, joint action to tackle health inequalities has not been developed at County level, including performance management systems.

79 We will continue to monitor progress in tackling this significant agenda.

Financial standing

- 80** 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.
- 81** There are further challenges for policy priorities where patterns of demand for services are changing. I have reflected on the wider environment, specific issues and risks and the Council's response.
- 82** The Council is responding to this challenge; the Council is currently forecasting that 2009/10 general fund expenditure will be in with the budget. While the Council is facing budget pressures arising from reduced interest on balances, and the use of agency staff, the Council is planning to offset these pressures through reduced use of agency staff during the remainder of the year.
- 83** The Council's general fund reserves are, at £4 million at 31 March 2009, adequate relative to its expenditure. The Council's ten year forecast does, however, identify a budget gap of £1.4 million in the three years 2010/11 - 2012/13. It is possible that this gap will be exacerbated by the economic downturn. The reserves available to the Council may also be affected by the public inquiry into the construction of a rail freight terminal on the outskirts of St Albans. 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.
- 84** The Council is forecasting a small overspend on its housing revenue account for 2009/10. The Council has also identified that the future cost of funding repairs and maintenance to council houses are likely to exceed the money available. It is currently investigating how to resolve this problem. Again, this is an area I will consider closely during the course of my 2009/10 audit.

Audit fees

- 85 The actual audit fee is more than planned, as outlined in Table 1 below.
- 86 During the course of my audit, I identified weaknesses in the Council's Internal Audit arrangements. This meant that before I could rely on the work of internal audit, I had to undertake additional audit procedures. I also had to undertake a significant amount of additional audit work to quantify the full impact of the errors I identified during the course of my audit. I levied an additional fee of £8,000 in respect of this work.
- 87 In also identified a number of errors in certifying grant claims, and issued qualification letters in respect of two claims.
- 88 I have therefore been unable to complete my grant work within the indicative fee set out in my audit plan, and I have billed an additional £9,200 in this respect.

Table 2 Audit fees

	Actual	Planned	Variance
Financial statements and annual governance statement	£98,200	£90,200	£8,000
Use of resources	£18,700	£18,700	£0
Data quality	£10,000	£10,000	£0
Whole of government accounts	£1,900	£1,900	£0
Total audit fees	£128,800	£120,800	£8,000
Certification of claims and returns	£50,000	£40,800	£9,200
Total	£178,800	£161,600	£17,200

Closing remarks

- 89 I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Audit Committee on 12 January 2009 and will provide copies to all members.
- 90 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 **2008/09 Outputs**

Report	Date issued
Audit and inspection plan	May 2008
Review of partnership arrangements in Hertfordshire	May 2009
Health inequalities follow up	July 2009
Annual governance report	September 2009
Opinion on financial statements	September 2009
Value for money conclusion	September 2009
Managing Performance and Organisational Assessment	December 2009
Annual audit letter	December 2009

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

Availability of this letter

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

Mark Hodgson
District Auditor
December 2009

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.

Copies of this report

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