

Government and Public Sector

November 2009

Staffordshire County Council 2008/09 Annual Audit Letter



The Members
Staffordshire County Council
St Chad's Place
Stafford
ST16 2LR

27 November 2009

Ladies and Gentlemen

We are pleased to present our Annual Audit Letter summarising the results of our 2008/09 audit. We look forward to presenting it to members of the Audit Committee on the 17 December 2009.

Yours faithfully

PricewaterhouseCoopers LLP
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Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In April 2008 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

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Introduction

The purpose of this letter

The purpose of this letter is to provide a high level summary of the results of the 2008/09 audit work we have undertaken at Staffordshire County Council that is accessible for members and other interested stakeholders.

We have already reported the detailed findings from our audit work to those charged with governance in the following reports:

- Audit opinion for 2008/09 financial statements, incorporating the conclusion on Use of Resources
- Report to those charged with Governance (ISA (UK&I) 260)

The matters reported here are those that we consider are most significant for the Council.

Scope of work

Our audit work is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Council is responsible for preparing and publishing its financial statements, including the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements;
- reviewing the Council's Annual Governance Statement;
- forming a conclusion on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources; and
- undertaking any other work specified by the Audit Commission.

Our 2008/09 audit work has been undertaken in accordance with the Audit Plan dated 19 May 2008.

Audit Findings

We audited the Council's accounts in line with approved International Auditing Standards and issued an unqualified audit report on 11 September 2009.

We have not identified any material weaknesses in the Council's accounting or internal control systems during the audit.

The accounts presented for audit, were of a good standard and were supported by good quality working papers; these were produced on a timely basis.

The new use of resources framework forms part of the Comprehensive Area Assessment (CAA). We evaluated the arrangements against criteria set by the Audit Commission and reached the following scores across the assessment areas:

	Assessment score	
Managing Finances	3	'performs well'
Governing the Business	3	'performs well'
Managing Resources	2	'performs adequately'

It is important to note that although the one to four scoring definition is the same as that used in previous years; the underlying assessment methodology is fundamentally different. A score under the former use of resources assessment cannot therefore be compared to a score under the new one. There is no like for like comparison. A further explanation of the scores and changes to the assessment process is provided in the 'Audit Findings' section below.

We issued an unqualified conclusion on the Council's arrangements for its Use of Resources on 11 September 2009.

Audit findings

Accounts

We audited the Council's accounts in line with approved Auditing Standards and issued an unqualified audit report on 11 September 2009.

The key issues arising from our audit of the 2008/09 accounts were reported to the Audit Committee on 2 September 2009. There were no unadjusted differences arising from the audit process. There were, however, a small number of adjustments identified from our audit which the Council adjusted for. The most significant of these items are described below:

£4.6m increase in government grants deferred

This was a classification amendment which had no impact on the general fund balance.

This adjustment related to the treatment of 2 grants (NHS Campus Closure and Waste Infrastructure) which were treated as revenue creditors in the draft accounts. Further inspection of the grant terms identified that these grants were awarded for capital schemes and therefore should have been classified as government grants deferred on the Balance Sheet.

£3.3m increase in net assets in the restated 2007/08 Balance Sheet

The Council restated the 2007/08 accounts in order to remove the value of those assets owned by Church Schools. The £3.3m adjustment relates to

revaluation reserves that were being held for by these schools. The resulting adjustment was incorrectly deducted from the Fixed Asset balance in the draft accounts. The adjustment was reversed and taken to the Capital Adjustment Account in line with SORP guidance.

This was a technical accounting amendment which has no impact on the General Fund balance.

Systems of internal control

We are pleased to report that we did not identify any significant weaknesses in internal control during the course of our work. A small number of minor control weaknesses were identified as part of our assessment of the control environment, which have been reported to management, and appropriate action taken in response.

Other audit matters

As with any audit process, there have been a number of matters which we have considered and satisfactorily concluded on. Below, we have recorded the most significant of these matters.

Impairments

The Council's accounting policy for Fixed Assets states that all major classes of assets will be reviewed at year end to identify any indication of impairment. Given the current market climate, the Council has recorded a downward movement in the value of their Land and Buildings of approximately 20%.

The charge to the Income and Expenditure account for this movement is £91.2m, and has no impact upon Council Tax.

Prior Period Adjustment – Church Schools

The 2008 Statement of Recommended Practice (SORP) provided clarification on the treatment of Church Schools. The Council undertook an exercise ahead of the year end to analyse the level of control held over Church schools on their Balance Sheet. It was concluded that the risks and rewards of owning these assets laid with the respective Churches and therefore a prior period adjustment was made to remove these assets from the Council's 2007/08 Balance Sheet. The total value of these assets was £143.3m. This adjustment had no impact on the income and expenditure account or the General Fund Balance.

Job Evaluation

In prior year, the Council provided for the costs of all payments that would be made to Council employees under the Job Evaluation scheme. During 2008/09 the vast majority of payments were paid out of this provision. The provision held at the year end (£5.2m) represents the potential future costs of the Job Evaluation scheme, including any potential equal pay claims from employees. We are satisfied that the Council has been prudent in their provision and has adequate reserves in place should additional costs be incurred.

Increase in PFI Energy Commitment

As part of their Private Finance Initiative (PFI) for Street Lighting, the Council pays a Unitary Payment to cover the provision of this service. The payments made in year and the future commitments at year end are disclosed in note 28 to the main financial statements. The commitment disclosed in the 2008/09 (£241m) has increased by £31m from prior year. This change reflects an adjustment in the commitment calculation by the Council to reflect the general increase in energy costs. We are satisfied that the Council has been prudent in acknowledging the current market trend and has reflected this in their future liabilities.

Financial Standing

The Council's Medium Term Financial Strategy (MTFS) sets out how the Council will ensure their financial standing over the next 3 years. A key aim in the Council's financial planning process is to produce a 'good and balanced' budget which is medium term focussed, supports priorities and is informed by consultation. In our assessment of the Council's financial standing we have considered the following:

- Council Tax will be raised by 2.45% in 2009/10 which is 1.05% lower than planned in initial budget considerations.
- The Council has a track record of realising planned savings, totalling circa £50 million over the last 3 financial periods.
- Investments, savings and pressures are brought by each directorate to the member led Service Review Board (SRB). Further savings of £10m in 2010/11 and £25m in 2011/12 will be explored and if achieved create headroom of £3.9m in 2010/11 and £13.7m in 2011/12 which can be re-directed to support key priorities
- The Council's approach to cash management allows for an average return on investments of 0.5% in line with current Bank of England base rate.
- Review of earmarked reserves to identify a potential release of £2.5m to support one-off spending

The Council has considered the economic climate, the state of public finances and financial markets and has put in place plans to ensure their financial standing going forwards. The MTFS is regularly reviewed and examples of developments include taking on board the impact of the new administration, responding to wider economic considerations and extending the planning framework from 3 years to 5 years. The Council has reviewed

its performance indicators in light of the economic downturn and is producing regular performance monitoring information to key stakeholders. The Council will need to continue monitoring performance against these targets on a regular basis and potentially revisit and revise its Strategy in light of any changes in circumstances.

Use of Resources

The new use of resources framework forms part of the Comprehensive Area Assessment (CAA) and comprises the following three areas:

- Managing finances.
- Governing the business.
- Managing Resources.

We evaluated the arrangements against criteria set by the Audit Commission in underlying Key Lines of Enquiry (KLoE) and reached a score for each based on the following:

- 1 Failure to meet minimum requirements – inadequate performance;
- 2 Meets only minimum requirements –performs adequately
- 3 Exceeds minimum requirements –performs well; or
- 4 Significantly exceeds requirements – performs excellently.

The scores for these KLoEs then determine the overall score for each area, using rules issued by the Commission. The Commission in turn then determines an overall score for the Council.

It is important to note that although the above one to four scoring definition is the same as that used in previous years, the underlying assessment methodology is fundamentally different. A score under the old use of

resources system cannot therefore be compared to a score under the new system. There is no like for like comparison. The 2009 use of resources assessment framework was intended to be more demanding than previous use of resources assessments. It is broader in scope and embraces wider resource issues such as people and workforce planning, and the use of natural resources. It also places more emphasis on considering outcomes for local people. It is particularly important to recognise that the key lines of enquiry are more strategic and focus much more explicitly than previously on value for money achievements rather than on processes. Put simply, it was significantly easier to score, for example, a 3 under the previous methodology than is the case now.

Managing Finances

We have scored the KLoEs for managing finances reporting as follows:

Key Line of Enquiry		Score
1.1	The Council plans its finances effectively to deliver its strategic priorities and to secure sound financial health	3
1.2	The Council has a sound understanding of its costs and performance and achieves efficiencies in its activities	3
1.3	The Council's financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people	2

Summary Findings

Staffordshire has a well established approach to financial planning which is integrated into the strategic and service planning processes on a medium-term basis. The local community and key stakeholders are actively engaged in the process through a number of initiatives. The Council has been able to deliver significant efficiency savings historically and has a track record of balancing this with tangible service improvements. In the last three financial years the Council has realised planned savings over £50 million whilst maintaining focus on corporate priorities. Examples of where savings efficiencies have resulted in service improvements include: £0.95 million

through the continued reshaping of the Staffordshire Highways partnership arrangement through project VISTA; and £2.25 million from modernising service delivery models for vulnerable adults and children.

Cost analysis and benchmarking has been responded to effectively in a number of specific strategic level plans. The Council has utilised ‘systems thinking’ methodology effectively across a number of work-streams which are starting to come to fruition.

The Council fosters an environment where there is good understanding and routine challenge of financial assumptions and performance demonstrated by the level of transparency in reporting and availability of financial and performance information. Achieving ‘more and better for less’ is a well versed organisational value which is widely referred to and a key guiding principle in the Council.

Service managers are largely equipped to analyse and utilise financial information effectively, training is provided routinely as part of the Staffordshire Manager Programme.

We are pleased to report that the accounts presented for audit were of a good standard and were accompanied by effective working papers. Audit queries and issues were resolved on a timely basis and in an efficient manner.

Areas for Development

In order to further improve performance in this area the Council should consider the extent to which its’ annual efficiency savings process is linked to the medium term financial strategy. The process in place has an effective track record of realising annual efficiency savings in line with plans, but has scope to benefit from extending the process over the medium term with direct links to the MTFS. We acknowledge that these are currently linked but that the way in which this is done could be further enhanced by focusing on how this information is used, scrutinized and communicated.

There is an opportunity to demonstrate greater strategic direction for the use and basis for discretionary fees and charges. Whilst the Council has made some progress in this area, the intended outcomes of the medium term are

yet to be realized. Given the increasing financial pressures expected over the medium term for all local authorities, this area presents a significant opportunity for increased focus in the context of the MTFS.

The Council has effective working relationships with a number of key partners; however there is further scope to further integrate partners and key stakeholders into the MTFS process especially in the areas of the third sector, education and housing.

The Council currently uses sensitivity analysis in a number of ways, but could benefit further from increased use in relation to predicting financial outcomes to aid decision making.

Governing the business

We have scored the KLoEs for governing the business as:

Key Line of Enquiry		Score
2.1	The Council commissions and procures quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money.	2
2.2	The Council produces relevant and reliable data and information to support decision making and manage performance	3
2.3	The Council promotes and demonstrates the principles and values of good governance	3
2.4	The Council manages its risks and maintains a sound system of internal control	2

Summary Findings

The Council has the basics in place to commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money. The Council has a Procurement Strategy and a Sustainable Procurement Strategy, which shape procurement across all directorates. Procurement is organised on a category management basis.

The 'selling to the Council' web page has resulted in a number of new providers for goods and services being identified and successfully working with the Council. Effective procurement practices have contributed to the realisation of over £5 million of cash efficiency savings over the past three financial years.

The Council is extensively involved in commissioning arrangements and has evidenced both shaping and creating the market for services. In the area of Adults and Children's services, the Council has established partnership boards to support development and oversee delivery of the strategies and implementation plans for commissioning. These bring together users, carers and all key partners. The Council's Community Learning Partnerships offer a vehicle for locality based commissioning based on local evidence and detailed working knowledge of both local and community views.

The Council works effectively with established partners to produce relevant and reliable data. The Council has worked with partners across the County and region in a number of different areas to finalise data sharing protocols.

There are corporate targets in place including for partnerships which are aligned to corporate and strategic objectives. The Council has effective partnership governance arrangements in place which ensure that partnership performance is integrated into the Council's performance management framework.

The Council has adopted and promotes principles of good governance and has the relevant processes and procedures in place. Corporate Governance good practice is demonstrated through an innovative web tool that puts all governance activity on a page and links through to source documents naming accountable officers on the Council intranet. The need for effective governance is strongly promoted on the Council's intranet and the Chief Executive's monthly bulletin. It is proactively enforced through the Staffordshire Manager Programme.

The purpose and vision of leadership is delivered through the Strategic Plan and MTFs. The aims within the strategic plan reflect the service priorities which are included in the Staffordshire Sustainable Community Strategy. Engagement with service users and the wider community is integrated into the strategic plan through the Staffordshire People's Panel, and service user groups. There are also specific one off events for consultation, for example

the budget consultation. The Council has also introduced web casting for a range of meetings including full Council, Cabinet and Scrutiny Panels.

Areas for Development

Risk management in respect of partnership working is less refined than Council wide arrangements, and may not necessarily be appropriate to meet the risk profile of certain partnerships. The Council needs to demonstrate that active risk management processes have led to better outcomes and that risk management practices are tailored to specific partnership risk profiles.

Some of the initiatives in relation to joint commissioning are embryonic, and whilst there is some evidence of intended outcomes being achieved especially in the area of Adult services commissioning, there is still further progress to be made in realising the intended outcomes of all commissioning initiatives.

The Audit Committee should annually undertake an open and honest assessment of its effectiveness in line with best practice standards and Cipfa guidance; whilst assessments have taken place, there is scope to improve the process and actions undertaken as a result. There has been a significant change in the make up of the Audit Committee during 2009, providing an opportunity to revisit the way in which the Committee assesses its performance. The implementation of actions plans developed from assessment should be actively monitored by the Committee to demonstrate that positive outcomes have been achieved.

Managing resources

We have scored the KLoEs for managing resources as:

Key Line of Enquiry		Score
3.1	The Council makes effective use of natural resources.	2
3.2	The Council manages its assets effectively to help deliver its strategic priorities and service needs.	2

Summary Findings

The Council has developed and integrated a strategic approach to reducing energy, waste and emissions, articulated in the document 'A Hard Rain' and managed through the Climate Change Working Group. Carbon dioxide emissions have been classified by sector and also by Directorate, enabling each Corporate Director to manage a carbon budget including required annual savings. The council has a dedicated Energy Management Team which monitors use of gas and electricity. A separate system exists for street lighting which is accurately monitored through a charging code attached to each lighting unit. The Council is currently negotiating a contract for a single supplier of vehicle fuel, via a fuel card. This will enable monitoring of fuel use on a monthly basis. Mileage is currently monitored and recorded as part of the servicing regime. The Council also monitors staff commuting patterns and the resultant carbon dioxide emissions through regular staff questionnaires. Results from monitoring are fed to the Climate Change Team, which uses the approved Carbon Trust methodology to calculate the Council's carbon dioxide emissions. Water use is also monitored for the 300 schools (approximately 75% of the total) which subscribe to the monitoring and management service provided by the Energy Management Team. For the last two years, climate change has been adopted as a key strategic priority for the Council and is reflected in its Strategic Plan 2009 to 2012.

The Council has had an asset management plan for over three years and it has been rated as good by Central Government for each of the last three submissions made. The Asset Register is an integral part of SAP and is maintained directly by the Corporate Property Unit as well as being accessible to relevant users within the organisation. The Council has an annual programme of planned maintenance for both schools and corporate property.

Areas for Development

Whilst the Council has developed a clear strategy for effective natural resource management, a number of outcomes are still to be demonstrated in practice. There are some difficulties in accurately measuring resource consumption, one example being in relation to transport fuel usage.

There are further opportunities to work with key partners in assessing and

responding to climate change, and whilst there are some plans in place, these are yet to deliver results.

There are plans to further develop the Council's approach to managing asset usage with key partners, for example, by reviewing options for shared asset usage; but a number of initiatives are in early stages of planning and yet to yield outcomes.

Conclusion on Use of Resources

We were also required to issue a conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources.

We issued an unqualified conclusion on the Council's arrangements for its Use of Resources on 11 September 2009.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS). The AGS was included in the financial statements.

We reviewed the AGS to consider whether it complied with guidance issued by relevant professional bodies and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Treasury Management

During the year, the collapse of the Icelandic banking system, together with the disclosure that a number of public sector bodies in the UK held significant investments there, raised concerns nationally as to the adequacy of treasury management practices within the public sector. In response to such concerns, and as part of our use of resources assessment we completed a Treasury Management 'workbook' issued to us by the Audit Commission. This work, which was in the form of a questionnaire completed with the assistance of council staff, identified no matters for concern. The Council

does not hold funds in Icelandic banks but has in the light of this issue, reviewed its policies and strategies in this area.

Members' Allowances

As part of our work on Use of Resources we reviewed the Council's scheme for members' allowances. We reviewed whether the Council is complying with the regulations applying to Members' Allowances schemes, and whether they have made the required disclosures in respect of the scheme.

We have discussed the matter of expenses with the Council's Section 151 Officer and Head of Internal Audit. These discussions gave no indications that the Council's arrangements in this area were not operating effectively.

Matters affecting future accounting periods

Transition to International Financial Reporting Standards (IFRS)

CIPFA has issued the Exposure Draft and Invitation to Comment on the Code of Practice on Local Council Accounting in the United Kingdom 2010. This will apply to accounting periods starting on or after 1 April 2010. The new Code is the first to be prepared under IFRS. Because of the need to have comparative information for the first set of full IFRS accounts the effective date of the transition is 1 April 2009. The Council will need to have values for assets and transactions as they should be recognised under IFRS from this date.

The Council will need to ensure that it has a good grasp of the changes to accounting requirements under the new Code, and that it has robust plans in place to enable collection and processing of the information needed to comply with the new Code.

In our experience the key features of a successful IFRS conversion project have proven to be:

- Completed impact analysis and comprehensive conversion plans;
- The commitment of key stakeholders in the organisation;

- Operational steering and technical groups;
- Cabinet/audit committee oversight;
- Regular progress reporting against the plan;
- The necessary project management resources; and
- Appropriate and timely training for all members and officers with IFRS involvement.

In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), you are required to disclose any information contained in this report, we ask that you notify us promptly and consult with us prior to disclosing such information. You agree to pay due regard to any representations which we may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such information. If, following consultation with us, you disclose any such information, please ensure that any disclaimer which we have included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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