

# Annual Audit Letter

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Stockport Metropolitan Borough Council

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Audit 2008-2009

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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 I issued an unqualified opinion on your 2008/09 financial statements on 25 September 2009. The accounts were prepared to a high standard.
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## Value for money

- 2 I have assessed your corporate arrangements for securing economy, efficiency and effectiveness in the use of resources against the criteria specified by the Audit Commission. I have concluded that your arrangements are adequate and have issued an unqualified conclusion on the Council's value for money arrangements.
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## Use of resources

- 3 I have assessed how well you are using and managing your resources to deliver better value for money based on the Audit Commission's methodology as follows:
    - Managing Finances - Level 3: Performs Well.
    - Governing the Business - Level 3: Performs Well.
    - Managing Resources - Level 3: Performs Well.
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## Key challenges for the Council

- 4 Through our audit we have identified the following key challenges for the Council:
    - Re-adjusting financial plans in the context of the economic downturn and the likely very significant impact on public finances.
    - Improving the focus on value for money through a top down strategic understanding of costs and performance.
    - Building on some excellent examples of procurement to develop a strategic approach to commissioning.
    - Improving the strategic approach to asset management.
    - Working increasingly in partnership to deliver on improving outcomes for local people, for example through the recent Section 75 agreement.
    - Embedding the recent improvements in internal control and risk management.
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### Audit fees

- 5 I set out in my audit plan in June 2008 my proposed fee of £287,630. I am able to confirm that the audit has been completed in accordance with the plan and no additional fee is required.
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### Independence

- 6 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. I reported my audit conclusions to the Audit Committee on 23 September in my Annual Governance Report.**

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## Significant issues arising from the audit

- 7** I issued an audit report, including an unqualified audit opinion on your financial statements, on 25 September 2009. The accounts were of a good quality and were supported by comprehensive working papers. We did not identify any errors, other than those of a trivial nature, although we agreed a number of minor presentational amendments to the accounts.
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## Material weaknesses in internal control

- 8** As part of our audit we examine your arrangements for internal control within the Council to assess whether there are any weaknesses. In previous years we have identified weaknesses in control account and feeder system reconciliations but the reconciliations at 31 March 2009 were satisfactory. In addition during 2008/09 the Council has undertaken a thorough review of the approach to all key reconciliations. Whilst the new arrangements were not fully embedded in 2008/09, there have been improvements during the year and further improvements are expected in the current year.
- 9** In our Annual Governance Report to the Audit Committee we also highlighted weaknesses in the debtors system due to a lack of appropriate resources and unclear roles and responsibilities. Internal Audit has issued a report recommending improvements in the debtors system and is currently following up progress on implementing these recommendations.
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## Internal Audit

- 10** Internal Audit is an important element of the control environment within the Council. The CIPFA Code of Practice for Internal Audit sets out the standards that must be met by an effective internal audit function. During 2008/09 we carried out a detailed review of the Council's Internal Audit Section against these standards.
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- 11** Over the last few years the Internal Audit service has been subject to significant changes. A number of measures have been implemented aimed at improving the quality and impact of internal audit. These include appointing a new Chief Internal Auditor in December 2007 to lead the transition to a more efficient and modern service. During the improvement process approximately half of the Internal Audit Section's existing staff left the Council due to retirement and were replaced by six new auditors.
- 12** Our overall conclusion is that the Internal Audit Section complies with the CIPFA Code of Practice for Internal Audit. This is a significant achievement given the major changes that the Section has faced. The new Chief Internal Auditor has modernised many of the existing working practices and has undertaken an extensive training programme to develop the new team.
- 13** The high staff turnover has had an impact on the Section's performance with some reports taking longer than anticipated to complete in terms of both budget and timescale. In addition the Section was unable to deliver the entire 2008/09 audit plan although work was prioritised to ensure adequate coverage of high and medium risk areas.
- 14** The changes that have been made, together with the fact that many of the new staff have now been in post for almost twelve months, means that the Section is well placed to deliver the internal audit function in the future.

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### International Financial Reporting Standards (IFRS)

- 15** In March 2008 the Treasury announced that the annual financial statements of government departments and other public sector bodies would be prepared using International Financial Reporting Standards (IFRS) from 2009/10 onwards. For local government bodies the first full year of application is the 2010/11 financial statements but the starting point for this is 1 April 2009. Local government bodies will be required to produce their 2009/10 Whole of Government accounts return on an IFRS basis.
- 16** As part of my 2008/09 audit I have assessed the Council's progress in preparing for the implementation of IFRS and there are no significant concerns that I wish to raise with you as a result of this initial assessment. Officers have identified the key risk areas for Stockport, undertaken an initial analysis to assess the work required and are in the process of addressing these. Training has also been organised for key members and officers. However, officers recognise that, in keeping with many councils, further work will be needed during 2009/10 to ensure required timeframes are met.

### Treasury management

**17** As part of my 2008/09 audit I have also assessed the Council's treasury management arrangements and again there are no significant concerns that I wish to raise with you as a result of this initial assessment. The Council had no investments with Icelandic banks in 2008/09. In order to address the issues highlighted by the problems in the banking sector, together with the impact of the economic downturn, the Council undertook a mid-year review of its treasury management strategy. A review of the treasury management framework has also been undertaken in the light of updated CIPFA guidance. Actions taken as a result of this exercise include producing quarterly treasury management monitoring reports, revising the reporting lines for treasury management issues and arranging treasury management training for key members.

# 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.

I reported my audit conclusions to the Audit Committee on 23 September in my Annual Governance Report.

## Use of resources judgements

- 18** 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.
- 19** 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.
- 20** The Council's use of resources theme scores are shown in Table 1 below. The key findings and conclusions for the three themes are summarised below. Our detailed findings have been set out in a separate report on Use of Resources.

**Table 1 Use of resources theme scores**

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	3
Managing resources	3

- 21** I have assessed the Council at level 3, performing well, for all of the themes and the Council was able to demonstrate examples of positive outcomes in each of these areas. Areas of particular strength include medium term financial planning, procurement, data quality, promotion of good governance and the use of natural resources.

## Value for money and use of resources

- 22** Whilst the Council achieved level 3 for all the themes, we identified some areas with the potential for improvement. These include understanding costs and performance, strategic commissioning and internal control including risk management and asset management.

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### Managing finances

- 23** Financial planning is strong and provides a stable and responsive environment for service planning and delivery. There are good links between strategic and financial planning through the business planning process. The Council looks to the medium term by setting a three year rolling financial plan that is regularly updated as circumstances change. The Council actively moves resources to meet priorities and changes in circumstances. In addition funding is earmarked for priority areas through the Priority Initiative Fund (PIF) and Priority Improvement Provision (PIP). The Council's financial standing is sound. The Council has a good track record of operating within its budget whilst maintaining good service performance.
- 24** The Council has a good understanding of its costs and performance in some areas eg Children and Young People but this needs to be extended to cover all activities. The newly appointed Value for Money Officer has started to progress this work by applying a more systematic approach to analysing costs and performance across the whole Council. Costs and performance are taken into account when taking key decisions. The Council can demonstrate that it has achieved efficiencies through its corporate efficiency plan.
- 25** The Council's financial reporting arrangements are strong, exemplary in some respects, but the Council has recognised the need to do more to improve its external focus in financial reporting. A customer consultation day was held in May 2009 and there are plans to use the results of this work to develop the Council's future external financial reporting. The Council has a good record of producing quality accounts and supporting documentation in a timely manner. Quarterly performance reports are taken to the same meetings as the financial monitoring reports although there is scope to integrate these further.

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### Governing the business

- 26** The Council has a vision of its intended outcomes for local people through the Council Plan, Sustainable Communities Strategy and Neighbourhood Renewal Strategy. This vision has shaped some good service procurement which is robust and well developed in seeking competitiveness and value for money. Examples of where procurement has been used to gain efficiency in existing services include Solutions SK, Stockport Homes and NPS Stockport. Strategic commissioning is less well developed than procurement. There is an opportunity to develop this for some but not all issues through the new Section 75 agreement with the PCT which has yet to deliver any new commissioning or improved outcomes.

- 27** The Council generally produces accurate, relevant and reliable data. Testing of performance indicators in 2008/09 and previous years has not identified any significant errors. There is scope to further strengthen partnership data. The Council uses a balanced scorecard to provide a rounded picture of performance and actively seeks to address under performance against its own targets. It is not always evident how performance compares with others although this should be clearer with the introduction of the new performance management system, Covalent, as a central source for all decision making information. Whilst the Council provides information on the way in which poorer communities differ from the general Stockport picture, there is scope to extend this further.
- 28** Members and senior officers understand their roles and responsibilities and have developed effective working relationships. Both are supported by training and development opportunities identified through their personal development plans. The Council has been proactive in its role of raising standards of ethical behaviour amongst members and staff. The Council also applies the principles of good governance to its partnership working. Each key partnership has self assessed its governance arrangements and has developed an action plan for improvement where appropriate. In addition each partnership's effectiveness is assessed and reported annually.
- 29** The Council has sound risk management arrangements many of which were introduced during 2007/08 or early in 2008/09. There is evidence that these are becoming embedded in the Council's business processes and the use of Covalent should help this further. The Council takes partnership risks into account in its own risk register but has yet to develop risk management arrangements for partnerships themselves. The Council has a counter fraud and corruption strategy although this was only introduced towards the end of 2008/09 and many of the anticipated outcomes have yet to be delivered. The Council has procedures in place to maintain sound internal control although there are weaknesses in areas such as reconciliations and debtors that are being addressed.

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### Managing resources

- 30** The Council has a comprehensive strategic approach to making effective use of natural resources which has been developed consistently since 2001. The Council can demonstrate how it uses its key resources such as energy, nature reserves and water. The main influencing factors are understood and the Council has been pro-active in using recognised expertise and science to underpin its approach. The Council can demonstrate a reduction in its impact on the environment. Management of risks in relation to improving the Council's environmental performance is considered as part of the Council Plan. Sustainability appraisals have been carried out on the Local Development Framework and Sustainable Community Strategy. All contracted parties are required to meet the Council's environmental goals.

## Value for money and use of resources

- 31** The Council has developed its strategic approach to asset management and has now moved from a three year to an annual Asset Management Strategic Plan which allows for better alignment to the Corporate Strategy. The Council's arrangement with NPS Stockport is both robust and effective. There is an opportunity for the Council to combine asset management intelligence from the property database with its utilisation reviews in order to better demonstrate value for money across its assets. However there is some evidence that the Council works with partners and community groups. Examples of joint asset use in consultation with partners have been opportunistic rather than embedded across the organisation and more could be done to demonstrate that the role of asset management is contributing towards shared priorities and improvements in access for service users.

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### VFM Conclusion

- 32** 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.
- 33** I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

# Closing remarks

- 34** The economic downturn, public sector funding and the banking crisis are having a very significant impact on public finances and the bodies that manage them. It is envisaged that there will be wide ranging and more fundamental impacts on the ability of the public sector bodies to fund service delivery and capital programmes in the short to medium term, including pressures on income streams. There are further challenges for policy priorities where patterns of demand for services are also changing. The Council is beginning to consider and address the impact of these challenges through its recent review of the financial landscape and prospects for 2009/10 to 2013/14. These challenges and the Council's response will be a key focus of my attention for future audits.
- 35** I have discussed and agreed this letter with the Chief Executive and the Corporate Director Business Services. I will present this letter at the Executive and Audit Committee. All members of the Council will receive a copy of the letter.
- 36** 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 2**

Report	Date issued
Audit and Inspection Plan	June 2008
SAP IT Controls - Follow Up	June 2009
Triennial Review of Internal Audit	June 2009
Annual Governance Report	September 2009
Final Accounts Memorandum (Draft)	November 2009
Use of Resources	November 2009
Annual Audit Letter	December 2009

- 37** 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.

Tim Watkinson  
 District Auditor  
 December 2009

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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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