

Annual Audit Letter

Stoke on Trent City Council

Audit 2008/09

December 2009



Contents

Key messages	3
Organisational assessment and managing performance	7
Value for money and use of resources	10
Financial statements and annual governance statement	16
Comprehensive Area assessment	21
Closing remarks	24
Appendix 1 – Action plan	26

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.

Overview

- 1** Overall, Stoke on Trent City Council is making progress with improving services and delivering better outcomes for local people. However, there is still some way to go before all of your services are performing on a par with other parts of the country.
- 2** You are making good progress in some of your priority areas but in others much remains to be done. Provision for early years education is good, but once they get into primary and secondary school many children are underachieving compared to most other parts of the country. Teenage pregnancy rates are amongst the highest in the country, although the Council and other agencies are working well to address this. Crime is going down, partly due to good partnership working between the Council and other public agencies such as the Police but crime rates are still above average.
- 3** The health of people in Stoke on Trent is much worse than the national average. Adults tend to be less physically active, more people smoke, and deaths from heart disease and cancer are above average.
- 4** There have been significant changes to the way the Council manages itself, and is managed. The Mayor and Council Manager constitutional model was formally replaced by a Leader and Cabinet in June 2009 and a new Chief Executive will take up his full-time responsibilities in January 2010. There are signs that the new constitutional arrangements are having a positive outcome on decision making, such as addressing the budget deficit, however not all councillors demonstrate the collective leadership that the city needs.
- 5** Some of the key recommendations from the 2008 Stoke on Trent Governance Commission have not been implemented, and as a result the government is using its legal powers to impose all out elections for the City from 2011. Some councillors show poor public behaviour, which damages the city's reputation. The many different political groupings on the Council create uncertainty and make it more difficult for the Council to conduct its business smoothly. Councillors have demonstrated in the past that they can make difficult decisions, for example by modernising care services for older people. It is vitally important for the people of Stoke on Trent that councillors now collectively demonstrate the leadership and good governance that the city needs.

Use of resources and value for money

- 6 This is the first year in which you have been assessed using the more demanding and more outcome focused approach for Use of Resources. Overall, for 2008/09 I assessed you as 'performing well' in your arrangements for Managing Finance, and 'performing adequately' in your arrangements for Governing the Business and Managing Resources.
- 7 I am required to use this work to help me conclude whether you put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources. This is known as the value for money conclusion. I issued a qualified value for money conclusion stating that you have adequate arrangements to secure economy, efficiency and effectiveness except in your arrangements to promote and demonstrate the principles of good governance.
- 8 You are good at planning and managing finances. You look carefully at how much services cost, how they perform, and how they compare with other councils, and have used this information to improve value for money in a number of areas. However, you are not yet consistently delivering good value for money across all services. A number of services that are important to local people are still performing below average compared with other parts of the country.
- 9 You are willing to look at different options for delivering services, and share some services with other organisations with the aim of operating more efficiently. You are actively working with other agencies in the city to improve the quality of life for local people. You are aware that you need to get better at managing and using all of your fixed assets (such as council owned buildings and land), and to improve investment in information and communication technology (ICT). You have recently taken action to improve the way you manage natural resources and are developing an action plan for reducing your impact on the environment.
- 10 However, your Scrutiny Committees (which are meant to hold the Council's executive to account and contribute to service improvement) are not working as effectively as they could. This and the imposition of all-out elections, the uncertain political environment and the behaviour of some councillors (as stated above) has lead me to conclude that your arrangements do not, currently, adequately demonstrate the principles of good governance.
- 11 Key areas for improvement:
 - ensure that you deliver consistently good value for money across all your priority services;
 - ensure that your governance arrangements operate effectively and that all councillors demonstrate the principles of good governance;
 - continue to strengthen asset management; and
 - ensure that procurement delivers good value for money.

Financial statements

- 12 Last year I reported that the quality of accounts and supporting working papers had improved. This improvement has not been maintained and in 2008/09. The draft accounts were prepared within the closedown timescales laid down by the Accounts and Audit Regulations. The accounts presented for audit contained material errors and inconsistencies. These related to prior period adjustments and fixed asset valuations.
- 13 During the year you implemented a new asset management system to provide information for the fixed asset entries in the financial statements. The implementation of this system proved more difficult than anticipated and this delayed the preparation of the accounts. In my view this contributed towards an unexpectedly large number of errors and uncertainties in the Statement of Accounts presented for audit.
- 14 Following considerable work by finance staff and the audit team an amended set of accounts was produced correcting the errors and I issued an unqualified opinion on your financial statements on 30 September 2009.

Economic regeneration inspection

- 15 We carried out an inspection of regeneration services during the year and assessed the service as fair with uncertain prospects for improvement.
- 16 You and your partners are clear about what you want to achieve through regeneration in the area. There is good understanding both strategically and at community level about what is needed to address the significant economic issues and inequalities that exist in the area. Consultation with local businesses and communities is strong and the North Staffordshire Regeneration Partnership (NSRP) works well with regional agencies, local businesses, national developers and other public bodies to establish what is needed.
- 17 Partnership working is strong and well embedded into the operation of the NSRP and there is widespread support for its business plan. The Council is starting to work well with partners to help limit the potential impact of the recession.
- 18 Whilst there are a number of regeneration agencies and programmes, the Council has not successfully joined up these services to make it easy for customers to find out about and use them. Service standards are not well defined which means customers are not sure what to expect when seeking assistance from regeneration services.
- 19 There are some major risks associated with the NSRP business plan, some of which are a result of the recession which has emerged since its conception. The most significant of these are the level of private sector funding being much lower than originally projected. Further, planned interventions are based on what was successful in other cities prior to the recession but it is currently uncertain where future growth areas will be.
- 20 Governance arrangements for the NSRP are not fully embedded. The Council's approach to procurement within regeneration services is under developed and it is unable to fully demonstrate value for money with some of its key partnerships.

Actions

- 21** I have highlighted areas for improvement where you may wish to ensure that implementation plans are put in place to address the matters raised.

Organisational assessment and managing performance

22 A new output of the area assessment process is an Organisational Assessment which draws upon a Managing Performance element and the findings of auditors from their work on Use of Resources (UoR) and elsewhere. The Managing Performance and UoR assessments are combined to give an overall organisational assessment judgement for the Council. The Audit Commission has determined that the organisational assessment judgement for Stoke on Trent City Council is that it performs adequately (Table 1).

Table 1 Organisational assessment - performing adequately

	Scored judgement
Managing performance (performing adequately)	2
Use of resources (performing adequately)	2

Description of scores:

1. An organisation that does not meet minimum requirements, Performs Poorly
2. An organisation that meets only minimum requirements, Performs Adequately
3. An organisation that exceeds minimum requirements, Performs Well
4. An organisation that significantly exceeds minimum requirements, Performs Excellently

Managing Performance (performing adequately)

- 23** The Audit Commission 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 local people.
- 24** Overall Stoke on Trent City Council performs adequately. It is making progress with improving services and delivering better outcomes for local people. However, there is still some way to go before all of the Council's services are performing on a par with other parts of the country. Likewise, the Council is not delivering consistently good value for money across all areas.
- 25** Whilst provision for early years education is good, once they get into primary and secondary school many children are underachieving compared to most other parts of the country. Teenage pregnancy rates are amongst the highest in the country, although the Council and other agencies are working well to address this. Children in care now have more stable lives, and the proportion of young people not in education, employment or training is reducing.

- 26** Crime is going down, partly due to good partnership working between the Council and other public agencies such as the Police. Local 'action days' are helping to reduce the levels of antisocial behaviour. Steps are also being taken to improve community relations. However, Stoke on Trent does not compare well with other parts of the country – crime rates are still above average, and a significant proportion of people do not feel part of their local community. Recycling has been improving slowly, but this should speed up following the recent introduction of new waste collection arrangements.
- 27** The health of people in Stoke on Trent is much worse than the national average. Adults tend to be less physically active, more people smoke, and deaths from heart disease and cancer are above average. The Council is working hard with other organisations to help people become more active and lead healthier lives, however more needs to be done to reduce the high levels of smoking in the City. Social care services for vulnerable adults are performing well.
- 28** Average weekly wages for residents are significantly below both regional and national averages, and Stoke on Trent has the highest proportion of people on incapacity benefits in the region. The Council has worked with other organisations to develop ambitious, long-term plans for the City's economic regeneration, although the recession has affected these plans. The Council is also focusing on helping people into jobs who have been out of work for a long time, and some progress is being made here.

Regeneration inspection

- 29** We carried out an inspection regeneration services during the year and assessed the service as fair with uncertain prospects for improvement.
- 30** The city has deep rooted long term issues with deprivation and poor economic outcomes including comparatively low levels of employment stemming back to the decline of the coal, steel and ceramics industries in the 1970s.
- 31** The Council and its partner's past interventions, such as North Staffordshire Regeneration Zone, whilst being nationally recognised have been insufficient to address the economic outcomes in the area. There have been and remain significant economic inequalities between Stoke-on-Trent and the rest of the country. Recent data indicates that the city is being more adversely affected by the recession than other areas due to a number of large businesses in the area experiencing difficulties including the remaining ceramics companies and a major heavy plant manufacturer. As a consequence the gap between the city, the region and the rest of the country continues to be significant and is starting to widen in some areas including unemployment.

Organisational assessment and managing performance

- 32** There is now a clear vision for regeneration in the city. In mid 2007 the Council and its partners formed the North Staffordshire Regeneration Partnership (NSRP) to deliver and co-ordinate regeneration in North Staffordshire. This represented a significant step forward towards enabling major economic change in the sub-region. It has support from key partners and funding bodies such as Advantage West Midlands, Staffordshire County Council, the Homes and Communities Agency and two neighbouring district councils. Councillors are now signed up to a strategic approach to regeneration in the sub-region.
- 33** The Council and its partners have undertaken substantial research to assess the needs of the area both at regional and community level and consultation with local businesses is good.
- 34** The NSRP has recently introduced a number of well targeted interventions to help local people access employment and to assist local building contractors bid for contracts.
- 35** However, access to the range of regeneration services such as business and employment advice, although improving, is underdeveloped and it is too soon to assess whether the NSRP is delivering value for money.
- 36** The Council and its partners fully recognise the need to improve the local economy and have produced an ambitious business plan for the period 2008 to 2030 based on a £1.6 billion investment programme. The plan is based on local need and integrates well with other strategic plans such as the Regional Economic Strategy and Corporate Plan. It focuses on: building on the urban core including developing a business district and improving the retail offer; business and knowledge including developing a University Quarter; communities and housing market renewal; and, image and place making. Secured financial resources to deliver the plan from the Council and other public sector sources are significant and reflect its priority status.
- 37** However, there are some sizable risks associated with the NSRP's business plan, some of which are as a result of the recession which has emerged since its conception. The most significant of these are actual levels of private sector funding being much lower than originally projected. Also, planned interventions are based on what was successful in other cities prior to the recession but it is currently unclear where growth areas will be in the future. In the current economic climate it is not clear where growth areas in the private sector are likely to come from. The plan also lacks clear headline milestones which highlight when local people will see economic improvements such as increased levels of employment. The Council recognise this and is in the process of reviewing and refining its regeneration plans.
- 38** Partnership working within the NSRP is strong, corporate capacity improving and public sector investment is significant in the short and medium term. However, the NSRP and Council's programme and project management framework is not fully installed into the NSRP which puts delivery of projects on time and on budget at risk.
- 39** The Council's approach to procurement within its regeneration services is under developed. Not all arrangements are reviewed on a regular basis to ensure they deliver the best value for the Council's investments.

Value for money and use of resources

I considered how well Stoke on Trent City 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

- 40** This is the first year of the new Use of Resources (UoR) Key Lines of Enquiry (KLOE). These are more broadly based than previously and embrace wider resource issues such as people and workforce planning, and the use of natural resources. The KLOEs are now focussed around three themes; managing finances, governing the business and managing resources. They focus more on value for money achievements, outputs and outcomes rather than on processes, and are therefore more strategic and less criteria driven.
- 41** 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.
- 42** Overall for 2008/09 I assessed the Council as "performing well" (level 3) in its arrangements for managing its finances and "performing adequately" in governing the business and managing resources.

Table 2 Use of resources theme scores (performing adequately)

Use of resources theme	Scored judgement
Managing finances (performing well)	3
Governing the business (performing adequately)	2
Managing resources (performing adequately)	2

Overview

- 43** The Council is good at planning and managing its finances. It looks carefully at how much its services cost, how they perform, and how they compare with other councils, and it has used this information to improve value for money in a number of areas. It has made some significant efficiency savings over the last two years, and it is focused on delivering its priorities. However, the Council is not yet consistently delivering good value for money across all of its services.
- 44** The Council is willing to look at different options for delivering services, and it shares some of its services with other organisations with the aim of operating more efficiently. It is actively working with other agencies in the city to improve the quality of life for local people. It has recently taken action to improve the way it manages natural resources. It has measured the amount of electricity, gas, water and fuel that it uses and is developing an action plan for reducing its impact on the environment. It has already ensured that a number of new public buildings have been built to high environmental standards.
- 45** Some of the key recommendations from the 2008 Stoke on Trent Governance Commission have not been implemented, and as a result the government is using its legal powers to impose all-out elections for the City from 2011. The many different political groupings on the Council create uncertainty and make it more difficult for the Council to conduct its business smoothly.
- 46** Councillors have demonstrated in the past that they can make difficult decisions, for example by modernising care services for older people. It is vitally important for the people of Stoke on Trent that councillors now collectively demonstrate the leadership and good governance that the city needs.

Managing finances

- 47** The Council has strong processes in place for ensuring financial planning is linked to strategic and service planning on a medium to long term basis. The financial planning process incorporates a soundly based policy on the level and nature of reserves and balances. There is evidence of timely and efficient approval of the budget.
- 48** The Council is developing a good understanding of its costs and underlying arrangements for challenging and improving value for money have significantly improved. The council has significantly exceeded its three year efficiency savings target, delivering 12% savings compared to the target of 7.5%
- 49** The Council produces forecasting information which is relevant, reliable and understandable. The information is produced monthly in summary form and quarterly in more detail. Members receive regular reports that are clear, relevant and concise, highlighting the key financial and performance issues and risks of which they need to be aware. The council regularly reviews and reports on financial performance of significant partnerships.

- 50** The Council has a strong commitment to improving the final accounts, working papers and responding to audit queries and demonstrated significant improvement in 2007/08 compared to 2006/07. The implementation of a new ledger system from April 2009 should have aided the closure and audit process. Additionally, the Council have increased capacity via recruitment of a number of qualified staff and this was anticipated to further improve the quality of the accounts. However the Council experienced problems with the implementation of a new asset register system which adversely affected production of the accounts.

Governing the business

- 51** Councillors are not collectively demonstrating the leadership that the city needs. Some of the key recommendations from the 2008 Stoke on Trent Governance Commission have not been implemented, and as a result the government is using its legal powers to impose all out elections for the City from 2011. The Council's Scrutiny Committees (which are meant to hold the Council's executive to account and contribute to service improvement) are not working as effectively as they could. Some councillors show poor public behaviour, which damages the city's reputation. The many different political groupings on the Council create uncertainty and make it more difficult for the Council to conduct its business smoothly. Ethical conduct training has been carried out for councillors and key senior staff with good attendance levels however there remain significant concerns.
- 52** The Council moved from an Elected Mayor to a Leader and Cabinet structure in June 2009. The new arrangements have been implemented effectively however the run up to the forthcoming Council elections in 2010 will add new uncertainty. There is real political fragility, reflected in the large number of political groups on the council.
- 53** Despite the challenges, including changes in senior staff and a number of interim senior appointments, the council has maintained good focus on its objectives in recent years, led both by the Executive and Members Board and by senior officers.
- 54** The Council's arrangements for ensuring data quality are consistently above minimum requirements. There are sound data security arrangements in place. Business Continuity plans exist for key systems and there are up to date data security policies and guidance.
- 55** There are some sound performance management arrangements in place as demonstrated by improvements in number of key service areas including: services to vulnerable children, benefits services, and adult social care.
- 56** The Council is developing corporate approaches to procurement with the approval of a corporate procurement strategy. There is some evidence of benefits being achieved, for example savings on insurance costs.

Managing resources

- 57** The Council has recently taken action to improve the way it manages natural resources. In response to recommendations from an Energy Saving Trust review it has adopted a Climate Change Action plan. A carbon management group has been established and an Environment Policy is in place.
- 58** The Council's Carbon Management Group is developing action plans to reduce energy use. £74,000 has been invested in control of energy use in Council buildings producing annual financial savings of £35,000 and annual carbon dioxide savings of 232 tonnes. The recently opened Stoke Local Service Centre uses 'Eco-Friendly Design', incorporating many renewable and environmental initiatives as a pilot scheme, with successful concepts being replicated elsewhere, and the Climate Change Working Group is developing an action plan to complement the Mayor's Green White Paper. However, the costs of alternative technologies in the Stoke Local Centre have proved higher than expected, causing an overrun that emphasises the need for careful research when stepping into such unfamiliar territory.
- 59** The Council purchases green electricity for street signals and street lighting. Household refuse is incinerated in an energy from waste plant, providing electricity for the equivalent of 30,000 homes. A number of new council buildings are strongly environmentally friendly. The Council is working closely with the PCT to develop joint initiatives on sustainable development.
- 60** In our audit of strategic asset management in 2008, we concluded that the council was performing at minimum requirements in terms of setting a clear strategic direction for asset management. The council recognised the scale of change required and is taking a more strategic approach. It has an ambitious and comprehensive Corporate Asset Management Plan (CAMP) and Capital Strategy for 2008-11. Council has agreed that land and buildings are corporate assets that are key to delivering better services and outcomes for local people. It has assigned asset management to one of the political portfolios and revised its staffing structures to create a central strategic asset management function. The council has improved the integration of assets into its corporate decision making processes. Slow progress in implementing Overview and Scrutiny recommendations undermines productive challenge to the use of Council assets, despite the clear framework provided by the CAMP. The lack of full commitment by some councillors to regarding assets as corporate will also hamper the pace and extent of change. Where improvements to services have been achieved through a planned approach to providing better assets, this has tended to be in response to external factors like falling pupil numbers or Government initiatives.

- 61** The Council has used property reviews and performance information to challenge its utilisation of specific properties and drive some service improvement. It is proposing a more systematic approach to property review, led by the stated priorities of the Council and its partners. The Council has effectively challenged traditional practice in the redesign of corporate office space in the Civic Centre. It has responded effectively to the challenge of falling pupil numbers by carrying out comprehensive reviews of primary and secondary schools. The many difficult decisions and negotiations with stakeholders arising from these reviews have resulted in a programme of school closures and plans for major replacement or refurbishment. It has engaged users in designing Hanley Forest Park skateboarding facility. These improvements show the way forward.
- 62** The Council is working more effectively with public sector partners to provide better access to a range of public services in the same premises, for example with the NHS, as in the Bentilee Centre and early Sure Start centres. Plans are advancing on a more strategic approach to joint provision with the NHS through the LIFT company, as with Planet Wharf, a health centre with community facilities. Partnership with Staffordshire BIC has provided more flexible business unit premises on the former Chatterley colliery site which give opportunities for businesses to move on. Discussions with Staffordshire Police have been constructive and offered the potential for locating a simple base for Police officers in new joint premises. However, the lack of records confirming the Council's title prevented agreement of the proposed joint occupancy.

Risk management

- 63** This year, we worked with the Council to evaluate strategic risk management arrangements. We used an Audit Commission methodology, based on HM Treasury's Risk Management Assessment Framework, consisting of an online survey backed up with interviews
- 64** Arrangements are generally adequate. A Council policy for managing risk is in place and has recently been refreshed. The policy sets out a mechanism for understanding risk appetite and tolerance. Risk management is well integrated with programme management. Increasing knowledge and use of project and programme management has assisted in the spread of risk management understanding and technique, including the use of risk registers. The Council is now working towards having programme boards setting the 'appetite' within each programme.
- 65** Risk management is weaker in partnerships. Partners do not share a common risk language, and there isn't a shared understanding of the appetite for risk in partnership. There were also issues raised about the provision and testing of contingency arrangements in partnerships.

Value for money and use of resources

- 66** Risk management can be used to support and drive innovation through the identification and seizing of opportunities. Doing things differently will usually involve some element of risk, but to improve services and increase value for money the Council will need to do things differently. Opportunities are rarely risk free, but if risks are understood and managed then opportunities for improvement can be taken. Sometimes these innovations won't be successful, but good risk management will limit the consequences of failure and will ensure that relevant lessons are learnt. Our survey has shown that the risk management arrangements in Stoke are not sufficiently advanced or embedded to support officers in taking controlled risks when trying something different.

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. My conclusions on each of the areas are set out in Appendix 1.
- 68** I issued a qualified conclusion stating that Stoke on Trent City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009 except that it did not put in place adequate arrangements to promote and demonstrate the principles and values of good governance.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Stoke on Trent City Council accounts for its stewardship of public funds.

Audit opinion

69 I issued an unqualified opinion on the Council's accounts on 30 September 2009. In my opinion:

- the accounts presented fairly the Council's financial position and its income and expenditure for the year.

Significant issues arising from the audit

70 We identified a large number of errors in the financial statements and reported these to the audit committee in our annual governance report. You agreed to correct most of these errors. The impact of these amendments only had a minimal impact upon the amounts to be met by council tax payers. The most significant errors which were amended were as follows.

- The Council changed its techniques for estimating depreciation in the year in order to ensure the accounts better reflected the cost of providing services. The Council incorrectly viewed this as a change in accounting policy and made prior period adjustments of £13.484 million.
- Other prior period adjustments totalling £3.877 million were made correcting errors from last year and which also did not comply with the requirements of the Statement of Recommended Practice for local authority accounting or with financial reporting standards (FRS) 3 and 18.
- The incorrect prior period adjustments should have been reflected as in year transactions within the 2008/09 accounts and has therefore resulted in the need to restate a large number of entries throughout the statements.
- There were errors in the fixed asset entries resulting in the value of assets being understated by £5.595 million. A number of these errors were identified by the Council's officers during the course of the audit.
- The cash flow statement in the draft accounts could not be reconciled to the other financial statements. I identified a number of differences with a total value of £7.03 million (net impact of £3m).
- Pooled budget arrangements were not accounted for in accordance with the requirements of FRS9.

Financial statements and annual governance statement

- Additions to HRA assets included £617,000 which related to areas of dispute for work by Kier Stoke.

71 We also identified a number of non-material errors which, after consideration, you did not adjust in 2008/09 but will review in 2009/10.

72 The Council was late in completing the required submission for Whole of Government Accounts, which was due to be audited by 1 October 2009. This delay was a result of problems experienced with the annual accounts reported above.

Material weaknesses in internal control

73 In carrying out our audit testing on creditor payments of less than £1m we found that in a sample of 20 invoices:

- one had not been signed as authorised but was still processed;
- two invoices were signed but it was not possible to identify the authorising officer; and
- a further four invoices in our sample of 20 could not be agreed to original specimen signature forms.

74 These findings meant that we could not place reliance upon controls in the system as we had planned. We therefore carried out additional substantive testing of payments of less than £1m (it should be noted that for payments over £1 million there is a different system in place where controls were operating satisfactorily). After considerable work we did not identify any improper payments and are satisfied that we have adequate assurance to support the audit opinion.

75 During our testing we identified further areas of concern in relation to the use of purchase cards. The creditor payments section does not receive invoices or statements relating to expenditure incurred on purchase cards. Approval of expenditure incurred through purchase cards is delegated to the cardholder's line manager. There are no Council wide procedures in place for the guidance of card holders or managers. Whilst we have not identified any inappropriate use of the cards and have sufficient evidence to support our audit opinion there are a number of weaknesses in the controls within the creditor payments system that need to be addressed.

Accounting Practice and financial reporting

- 76** I considered the qualitative aspects of your financial reporting. There were particular difficulties this year arising from the implementation of new asset accounting software. The problems impacted significantly upon the preparation of parts of the accounts although the work involved in implementing the system also enabled the Council to identify and correct a number of omissions in its records. I reported the details to the audit committee bringing their attention to the following matters.
- Prior to the commencement of the audit of the accounts we agreed a timetable with the Council setting out when work on the various sections of the accounts would be carried out. This included assessing the degree of risk of different sections of the accounts to ensure that the highest risk areas were addressed first. The accounts were presented to the audit committee on 30 June and the audit was scheduled to start on 6 July. The agreed timetable assumed that a full set of working papers supporting the accounts would be available at the start of the audit.
 - On 6 July we did not have a complete set of working papers, as had been agreed, and the Council continued to submit working papers over the following six weeks. The delays made it necessary to reschedule the planned work and delayed the start of key areas of the audit. Regular liaison meetings were held with finance staff throughout the course of the audit to review progress and identify issues arising. The assistance of finance staff in resolving some of these issues has helped us to minimise the delay in completing the audit.
 - The quality of the working papers supporting the accounts was variable. In previous years we have given presentations and training on the subject of working papers. There were significant improvements last year but these have not continued into 2008/09. A number of working papers did not provide a clear audit trail and only consisted of copies of transaction lists or prints from the ledger system with no supporting evidence. Addressing this issue would help the Council in both improving the quality of accounts submitted for audit and facilitating the audit process.

Treasury management

- 77** In October 2008, a number of Icelandic banks went into administration. A large number of councils and other public bodies were directly affected by the collapse of the Icelandic institutions. The Council had an investment of £5m with the Landsbanki at the time of the collapse but was fully compliant with its Treasury Management policy at the time the investment was made.
- 78** We have undertaken an overview of the Council's treasury management arrangements. The Council has reviewed its Treasury Management policies in order to ensure this area of activity continues to be kept under close control and to avoid exposure to unacceptable levels of risk. The Council is of the view that the short and medium term impacts are manageable and current forecasts are predicting in excess of 80 per cent of the investment being recovered over the next few years

Financial standing and the economic downturn

- 79** The Council reported general fund expenditure of £194.7 million for the year, representing an adverse variance of £1.6 million against the budget of £193.1 million. The variance arose mainly due to budgetary pressures in Community Services but also due to a reduction of income as a result of the economic downturn. During the year you identified that savings targets for Community Services were not being achieved. Action was taken to implement a more robust savings plan and re-profile savings. This enabled you to reduce the forecast adverse variance of £2.7 million to the actual outturn of £1.6 million.
- 80** The full impact of the current economic recession was not felt in 2008/09. The consequences of the global and national recession locally is an increasing demand for public services and the likelihood of reduced levels of central government funding. This has already had a major impact locally resulting in reductions in income generation, increased demand on services and reducing the ability to deliver the savings identified when the budget was set. The impact has been greater than anticipated in 2009/10 as reductions in income such as investments, car parks, planning applications, leisure income coupled with increased demand for care placements arising from the baby P case and increased benefit payments have been felt. As a result, the forecast at September 2009 for the year to March 2010 was a predicted adverse variance of £7.874 million with further cost pressures of £3.1 million.
- 81** Reducing this variance presents a significant challenge for the council as it seeks to continue to provide services to local residents, whilst maintaining a sound financial position.
- 82** In considering the financial environment the Council has responded proactively to pressures by:
- announcing a voluntary redundancy programme in October 2009 to help meet target redundancies in 2009/10 coupled with vacancy freezes;
 - developing and implementing recovery plan measures;
 - regularly reviewing savings plan measures and ensuring that these are successfully implemented;
 - refocusing grant funding and area based grant and review of income streams to ensure that these are maximised where appropriate;
 - restructuring of departments and review of budgets on a line by line basis; and
 - recognising expected reductions in investment income in the short-term in its budget setting process and medium term financial strategies.
- 83** It will be important for the Council to continue to closely monitor its financial position and respond quickly and appropriately to the changing economic climate.
- 84** Recent financial monitoring reports note that there has been a positive direction of travel within five of the directorates since the end of August, which reduced the forecast adverse variance by £456,000.

Implementation of international financial reporting standards

- 85** Looking towards 2010/11, in line with other areas of the public sector the basis of the Council's financial statements will change from being based on UK GAAP (Generally Accepted Accounting Principles) to IFRS (International Financial Reporting Standards).
- 86** We have monitored your progress on this and are satisfied that you are on track to meet these challenges. You have set up a project team and have a clear timeline and have conducted an impact assessment. We have been engaged with the project and will continue to work alongside you to ensure a successful transition.
-

Certification of grant claims

- 87** We received 19 grant claims from the Council which required audit certification. Two of these were not submitted to us by the required deadlines.
- 88** We have certified 10 of the claims of which 6 required amendments to be made and/or issues to be raised in a qualification letter to the relevant Government Department. The remaining 9 claims are yet to be certified (all but one of these have a deadline of 31 December 2009 and our audit work on these is currently in progress). The remaining claim relates to the Sure Start Programme and has a submission deadline of 30 October 2009 which has not been met as a result of incorrect compilation of the return and delays in providing us with evidence to support the amounts claimed.
- 89** The significant numbers of claims which needed to be amended or qualified as a result of our audit indicates that the Council needs to take action to strengthen its internal control arrangements for the preparation of claims. In particular, there is a need for improved guidance to be issued to officers responsible for preparing claims and supporting working papers.
-

Questions and objections from electors

- 90** The appointed auditor has a duty under section 8 of the Audit Commission Act 1998 to consider whether, in the public interest, to report on any matter that comes to their attention in order for it to be brought to the attention of the public. In addition there are other responsibilities under the 1998 Act, including investigating questions or objections from electors on the Council's accounts.
- 91** I received a question relating to the Council's sale of shares it held in the Stoke on Trent Community Stadium Development Company Ltd. The Council's internal audit team carried out a review of the sale and in order to avoid duplication of work I have used their work to assist me in answering the question. I am carrying out further investigations to be able to complete my response to the question.
-

National fraud initiative

- 92** The national fraud initiative data returns have been submitted in line with expected timescales and the quality of the data submitted was higher than the national average. Most significant high risk areas have been investigated.
-

Comprehensive Area assessment

Comprehensive Area Assessment (CAA) is a new way of assessing local public services in England. It examines how well local government and other public bodies work together to meet the needs of the people they serve. The results of these assessments have been made available from December 2009 on the Audit Commission's OnePlace website.

Comprehensive Area Assessment

- 93** For the first time, local public services will be held collectively to account for their impact on better local outcomes. CAA provides a mechanism to ensure that the needs of the local population are met through agencies working closely together to deliver improved outcomes.
- 94** The area assessment takes the single tier and county council boundary as the starting point and will focus on the prospects for better outcomes (including health outcomes) for the people living in that area. The review draws on a range of sources of evidence and will carry out additional investigation where analysis highlights this is necessary. This could involve any of the partners.
- 95** As part of the approach to CAA new Key Lines of Enquiry (KLOE) have been developed together with a new approach to Use of Resources (UoR) judgements. These judgements are broader than previously and have been applied consistently across all sectors. The full findings are published on the OnePlace website (www.audit-commission.gov.uk/caa). The summary findings on the Stoke Area Assessment are:
- Community safety
 - The Police, Council and other agencies are working well to reduce the levels of crime and disorder in the city. Drug dealing is being dealt with, and people who use drugs have access to effective treatment. Stoke on Trent still has higher rates of crime than similar cities, but partner agencies have good plans in place to keep improving community safety.
 - Improving the lives of vulnerable adults
 - More people die early from heart disease, stroke and cancer in Stoke on Trent than in other parts of the country, reflecting the high levels of deprivation in the city. Partner agencies are extending their services to help improve residents' health, for example by building more health centres, and by encouraging adults to be more physically active. However, not enough is being done to help people stop smoking. A high proportion of the city's residents smoke, and this is likely to have a serious impact on their health.

- Public and voluntary sector agencies in the city are helping more vulnerable adults to live more independently, and to develop the skills they need to find productive work. Agencies are also working to improve arrangements for keeping vulnerable adults safe.
- The city is finding it difficult to get all residents to feel part of the wider community. This is partly because Stoke on Trent is made up of different towns, each with its own identity. Nearly half of residents feel that people from different backgrounds don't get on well together, although more than half feel that people treat each other with respect.
- Improving the lives of vulnerable children and families
 - Not enough is being done to ensure that all children in the city get a good education. Many children in the city achieve less in school than in similar areas or nationally. Partners have to do more to help all children achieve their full potential in life.
 - Stoke on Trent has one of the highest rates of teenage pregnancy in the country. But the Council, NHS and other agencies have plans in place to help teenage girls avoid becoming pregnant, and local data shows the numbers of teenage pregnancies are beginning to come down.
- Improving the lives of vulnerable young people
 - The proportion of young people in Stoke on Trent who are not in education, employment or training (often referred to as 'NEETs') is much higher than the national average. Agencies in the city are working well to help young people back into education or work, and the number of NEETs has come down significantly in the last year. The recession is making this more difficult, but the city has recently been awarded additional money from the government to create more jobs and apprenticeships for young people.
- Improving the lives of vulnerable older people
 - Vulnerable older people in Stoke on Trent are generally receiving the help and support they need to lead more independent lives. Support for carers has improved. The Council and the NHS have been working together to reduce delays in people returning home after a stay in hospital.
- Physical regeneration and economic development
 - Stoke on Trent has some pressing economic problems. Unemployment is relatively high, and wage levels relatively low. Public, private and voluntary sector organisations in the city have put together an ambitious plan for the regeneration of the city. Progress can be seen in a number of areas, such as the City Waterside development in Hanley, although the city has been badly hit by the recession.
 - Housing conditions are improving and more new affordable homes are being built, although there is still much to do to ensure all housing in the city is of good quality.

Comprehensive Area assessment

- Recycling is lower in Stoke on Trent than in other parts of the country, but is expected to improve further due to new waste collection arrangements. Residents tend to be satisfied with the waste collection service, although they are less satisfied with the standards of street cleaning. Some of the city's new buildings meet high environmental standards.
- Worklessness
 - Stoke on Trent has a high proportion of people who are out of work, many for a long time. Agencies in the city are working hard to get people back into work, and this includes supporting the most vulnerable people through the Jobs Enterprise and Training Centres. Agencies are also helping more adults gain basic literacy and numeracy skills, and some progress is being made.

Closing remarks

Independence

- 96 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Audit fees

- 97 There has been no change to the audit fee that was initially agreed with the Audit Committee. This set out in Table 3.

Table 3 Audit fees

	Actual £	Proposed £	Variance £
Financial statements and annual governance statement	240,167	240,167	0
Value for money	187,103	187,103	0
Total audit fees	427,270	427,270	0
Comprehensive area assessment	22,396	22,396	0
Service inspection	31,802	31,802	0
Total	481,468	481,468	0

Reporting

- 98 I have discussed and agreed this letter with the Chief Executive and the Director of Central Services. I will present this letter at the Audit and Risk Committee in February 2010.
- 99 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 as listed in Table 4.

Closing remarks

Table 4

Report	Date issued
Audit Plan	November 2008
Risk management review	April 2009
Economic Regeneration Inspection	October 2009
Report to those charged with governance	September 2009
Opinion on financial statements	September 2009
Value for Money Conclusion	September 2009
Use of Resources - Detailed feedback to management	October 2009
Annual Audit Letter	December 2009
Organisational Assessment	December 2009

100 Stoke on Trent City 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.

Grant Patterson
District Auditor
December 2009

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	Annual Audit Letter 2008/09 Recommendations					

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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