

Stratford-on-Avon District Council

2008/09 Annual Audit Letter



The Members

Stratford-on-Avon District Council,
Elizabeth House,
Church Street,
Stratford-upon-Avon,
Warwickshire.
CV37 6HX.

17 December 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 in February.

Yours faithfully



PricewaterhouseCoopers LLP
Encs

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.

Contents

Section	Page
Executive Summary.....	4
Audit findings	6
Appendix A: Use of Resources	10

Executive Summary

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 Stratford-on-Avon District 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 and Inspection Plan that the Audit Commission issued in April 2008.

Audit Findings

We audited the Council's accounts in line with approved Auditing Standards and issued an unqualified audit report on 25 September 2009.

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

The Council already faces a number of financial challenges and there is every likelihood that following the general election in 2010 further significant cuts in public sector expenditure will have to be made.

Earlier this month the Audit Commission published the organisation assessment, confirming that the Council was performing well in overall terms. The new use of resources framework forms part of the Comprehensive Area Assessment (CAA) and organisation assessment. With regard to the use of resources element we reached a score of 2 (performs adequately) for each of the three areas under assessment (namely managing finances, governing the business and managing resources). A score under the old use of resources system cannot be compared to a score under the new system.

We issued an unqualified conclusion on the Council's arrangements for its Use of Resources on 25 September 2009.

Summary of Recommendations

We have made a number of minor control recommendations to the Council during the year, and we have not repeated them in this letter. From a financial perspective we believe that the Council will need to continue to focus on the following areas:

- Sound financial management and keeping to budgets, in spite of service pressures;
- Identifying and achieving the significant savings that will be required in future years;
- Improving and modernising services, making them more efficient and affordable;
- Sound management of the Council's capital programme and developing the Asset Management Strategy.

In addition, during the course of our Use of Resources assessment work we have also identified a number of areas for development which we have included in Appendix A to this letter.

Audit findings

Accounts

We audited the Council's accounts in line with approved Auditing Standards and issued an unqualified audit report on 25 September 2009.

We identified the following main issues from our audit of the accounts:

Unadjusted Misstatements

There were no unadjusted misstatements for us to bring to the attention of members of the Audit Committee following our audit.

Adjusted Misstatements

There was one misstatement which has been corrected by management which we consider you should be made aware of:

Impairment of Fixed Assets

The Local Council Statement of Recommended Practice 2008 (SORP) requires a review for the impairment of fixed assets to be undertaken if events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. In response to the changing economic climate during 2008/09, the Council engaged Gerald Eve chartered surveyors to undertake an impairment review of their fixed assets.

This review identified a total impairment to the carrying value of fixed assets of £6.980 million. The Council charged the whole of this impairment to the Income and Expenditure account. However, the Council had also reduced revaluation reserves where these existed for specific assets. This amounted to £1.409 million.

The correct treatment is to reduce the revaluation reserve to the extent one exists for each individual asset before charging the Income and Expenditure account. Therefore, the deficit on the Income and Expenditure account was overstated by £1.409 million in the draft accounts. This did not have an impact on the general fund balance.

Systems of internal control

No significant weaknesses in the systems of internal control were identified during our work.

Accounting practices

The Council approved its draft accounts within the deadlines set. We agreed a schedule of working papers and other information required with the Council in advance of the audit. These were generally of a good standard. The Council's finance staff were co-operative in helping us to resolve to our satisfaction any queries that we had during the audit process.

The Council has improved the quality of its draft accounts and has allocated more time to undertake effective quality control. However, a number of changes to the disclosures in the accounts were required, and the Council

could improve upon the length of time it takes to respond to specific queries. We are working together with the Head of Resources in reviewing the final audit process to ensure further improvements can be made going forward.

Financial Standing

The Council is responsible for ensuring that it has arrangements in place to secure an adequate financial standing. This requirement has become more pronounced in light of the current economic climate.

One of our responsibilities as auditors is to consider the financial standing of the Council. The Council has reported in the final accounts an underspend of £724,000 against the final budget. This underspend is welcomed given the pressures on the Council's financial position going forward.

Local Authorities, including Stratford, face a significant challenge in the short to medium term resulting from the global economic downturn, the likelihood of a reduction in expenditure across most parts of the public sector and an increase in demand for public services. The need for effective financial management, budgeting and internal control will be critical going forward.

Comprehensive Area Assessment and Use of Resources

Since April 2009, the Audit Commission has been implementing the Comprehensive Area Assessment (CAA) jointly with the other public service inspectorates. The audit year 2008/09 is a year of transition to CAA.

On 9 December 2009 the Audit Commission published its organisational assessment for Stratford-on-Avon District Council. The organisational assessment forms part of the CAA process in 2008/09. The assessment confirmed the Council was **performing well** overall in delivering good services, and increasingly using its services to tackle inequality and issues that are important for local people. The overall organisational assessment took into account the Use of Resources assessment undertaken by ourselves, and reported on below, and the managing performance assessment (performing well) undertaken by the Audit Commission.

The new Use of Resources framework forms part of the CAA and comprises the following areas:

- Managing Finances
- Governing the Business.
- Managing Resources.

The scoring definitions under the new Use of Resources process remain the same as under the old system:

- 1 Inadequate performance;
- 2 Performs adequately;
- 3 Performs well; or
- 4 Performs excellently.

The underlying assessment methodology is however fundamentally different. The new assessment is significantly more demanding and represents a much harder test. It is harder in scope and embraces wider resources issues such as people and workforce planning. Unlike previous assessments which were primarily based on a fairly straightforward tick-box assessment of whether, for example, a process was in place or a policy existed, the new assessment involves a higher level of subjectivity and focuses on outcomes.

Across the country the general trend has been for scores to be lower. This is what we had expected given the much harder test.

In mid-October the Audit Commission notified Stratford-on-Avon District Council that its overall Use of Resources score was a level 2, compared to a level 3 under the old system, and that the scores provided by ourselves for each of the three Use of Resources areas were as follows:

Managing Finances – 2 (Key Lines of Enquiry 1.1, 1.2 and 1.3)
Governing the Business – 2 (Key Lines of Enquiry 2.1, 2.2, 2.3 and 2.4)
Managing Resources – 2 (Key Line of Enquiry 3.3).

A score under the old use of resources system cannot however be compared to a score under the new system. There is no like for like comparison. Put simply it was significantly easier to score, for example, a 3 under the previous methodology than is the case now.

As appendix B to this letter we have included a more detailed summary of our views on the Key Lines of Enquiry (KLoE's) within each area. Seven of the individual KLoE's has been scored a level 2 and one a level 3. A number of the individual KLoE's, and in particular 2.1, were considered in our view to be a very high level 2 score. All scores before they were finalised were subjected to a number of Audit Commission and PricewaterhouseCoopers moderation processes. The scoring system does however entail a degree of subjectivity. We are also aware that the Council were already addressing a number of the issues noted in Appendix A. For example, the Council had already set targets and effected changes as part of the 2009/10 Service and Financial Planning process.

There are lessons to be learnt from the first year introduction of this new process. For example, we need to engage with the Chief Executive at an earlier stage in the process and likewise officers will need to consider how they can produce, assuming that is the intention next year, an effective and robust self-assessment of the Council's 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 25 September 2009.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS) which is consistent with guidance issued by CIPFA / SOLACE. The AGS was included in the financial statements.

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE guidance 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

In light of the recent furore nationally on politicians expenses, we briefly 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 did not identify any issues.

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

Appendix A: Use of Resources

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	2
1.2 The Council has a sound understanding of its costs and performance and achieves efficiencies in its activities	2
1.3 The Council's financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people	2

Summary Findings

There are clear linkages between the Council's budget and corporate priorities so that resources are targeted to key areas. A significant value for money exercise was undertaken in 2008/09 in response to emerging budget pressures which involved reviewing the overall costs of each line of service and identifying savings, a process in which members were effectively involved. The positive outcomes from this exercise are being released during 2009/10.

In February 2009, the Council approved a balanced 2009/10 budget. This budget reflected cost reductions of £1.6 million and took into account agreed

actual reductions.

Running in parallel with the savings agenda, the Council has an ambition to transform the way it delivers services, making them more efficient, effective and customer focused. A programme of continuous improvement is being implemented using a variety of models (including lean thinking and SPRINT). However it was acknowledged that a greater focus could be placed on projects which can directly support the delivery of the financial strategy going forward than has been the case to date.

In general the Council uses good quality costing information, and cost variances are analysed and monitored and feed the financial planning process. Timely, relevant and reliable basic financial monitoring information is produced. Budget reports are produced on a monthly basis with a focus on exception reporting and addressing variances. However, the Council acknowledged shortcomings in the existing arrangements and internal budget monitoring required re-design during 2008/09 to make it more relevant and forward looking. The full benefits of this change should be realised during 2009/10.

The Council prepares accounts that meet statutory requirements, financial reporting standards and give a true and fair view of the financial performance and position. The accounts were approved before the key deadlines of 30 June and 30 September and appropriate working papers were provided to enable the audit to be completed and most questions were responded to in a timely manner. However, a number of changes to the

disclosures in the accounts were required and the Council could improve upon the length of time it takes to respond to some specific queries.

Areas for Development

The Council takes account of its understanding of costs and performance in decision making and commissioning. However, more evidence is required to demonstrate how this has resulted in positive outcomes, for example as a result of the recent value for money exercise. The Council has also acknowledged that more effective use of scenario analysis to evaluate options, consider risk, external factors and whole life costs or benefits could be made, with positive outcomes being demonstrated.

The Council has amongst the lowest council tax in the country and in some areas such as waste management performance is high. However, benchmarking against the Council's CIPFA nearest neighbours using the Audit Commission vfm tool indicates some areas of high cost and low to moderate performance, such as in Council Tax, Benefits and Planning where improvements can be made.

The Council seeks efficiencies through partnership working in some areas, for example with Warwick District Council on South Warwickshire Tourism and Business Rates, although more could be achieved. The efficiency savings arising from service redesign could be evidenced more robustly, and the link between the continuous improvement programme, corporate priorities in the medium to long term and achieving planned efficiencies could be stronger.

There is a Consultation Strategy which outlines who will be consulted and how. The local community is engaged with as part of the budget planning process and on other significant projects such as World Class Stratford. However, more evidence is required to demonstrate how consultation occurs more widely throughout the year, how other stakeholders are engaged with as part of managing finances (particularly hard-to-reach groups) and the impact this has had on the decision making process.

There is a need to do more on environmental and social reporting, for example around the council's own environmental impact and addressing diversity issues in reporting, for example by reporting who receives services and where money has been spent across demographic groups.

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	2
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 a clear vision of intended outcomes for local people. The Community Strategy was adopted in 2005 and has recently been updated through a new District Sustainable Community Strategy (SCS) which was adopted in April 2009. This is closely linked to the Warwickshire Local Area Agreement (LAA) and was subject to widespread consultation.

Local people, partners, staff and suppliers are involved in commissioning services. A joint public engagement strategy has been developed which embraces a range of consultation methods to involve local people, although more evidence of the resulting positive outcomes is required.

The Council makes effective use of service re-design, including IT, to help address the challenges of service provision in a predominantly rural district. In 2009 the Council was awarded Beacon status for work on Digital Inclusion through the 'virtual district' concept. Service redesign is also being addressed with partners through Warwickshire Direct.

There is a procurement strategy in place which encourages the appropriate consideration and use of different methods of procurement. However, contract management does not reflect best practice and Internal Audit have

identified some issues in this area.

The Council generally produces data which is relevant and reliable to support decision making. There is clearly defined responsibility and accountability for Data Quality at both officer and member level. Data Quality is embedded into the Council's processes with clear objectives and plans for improvement. There is an action plan to deliver quality data with clearly identified actions. Business critical performance information systems are robust and the continuity of information is secured.

The Council has adopted the principles of good governance, for example through the CIPFA/SOLACE framework which is actively promoted in the organisation. The Council is compliant in all significant aspects. This is supported by the work of the overview and scrutiny committees, standards committee, codes of conduct, and the registers of interests, gifts and hospitality.

The Council maintains a prominent web page specifically for standards issues and it also publishes a periodical newsletter on standards matters, entitled "Decorum.", which is officially considered to be best practice by the Standards Board for England. There is widespread evidence of positive outcomes in promoting the principles and values of good governance.

There is a sound system of internal control with key financial systems in place which produce materially accurate and complete data. Risk management and counter fraud arrangements are sufficient to meet minimum requirements.

Areas for Development

The Council has a basic understanding of the supply market. However, more evidence is needed to demonstrate how the organisation seeks to influence and develop that market. The Council needs to make partners and providers (public, private and third sector) fully aware of future commissioning and community needs to help influence the market further.

More widespread evidence of positive outcomes arising from the Council's approach to procurement is also required. Although there is a shared service strategy, many of the key areas identified are in their infancy and positive outcomes are not widespread.

The processes in place to secure Data Quality are generally sound; however more evidence of positive outcomes is required, for example on the quality

of the information being reported. Data quality issues around the Housing Benefit and Council Tax Benefit process should be kept to a minimum.

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.	-
3.2	The Council manages its assets effectively to help deliver its strategic priorities and service needs.	-
3.3	The Council plans, organises and develops its workforce effectively to support the achievement of its strategic priorities	2

Note: KLoE 3.1 and 3.2 are not a specified KLoEs for 2008/09 for District Councils.

Summary Findings

The Council has a range of policies, strategies, plans and procedures in place which are agreed through consultation with the main union to encourage a productive workforce. This is supported further by job descriptions, person specifications and competencies for all posts with the Council. The Council has a number of arrangements in place to ensure that performance management, people management and the reward of staff is effective. For example, the Council was recognised at the Coventry and Warwickshire Employer of Choice awards 2008 as providing excellent flexible working opportunities for staff.

Short term staff development is arranged through annual personal development plans linked to corporate priorities, which is understood by 77% of all staff. Twice yearly performance appraisals are undertaken.

Where organisational change is planned the Council involves the recognised union and other staff groups as appropriate, supported by regular communication. Evidence of positive outcomes includes the Council holding Investors in People since 1996 across all services and achieving 'Investors in Excellence' in January 2009.

Areas for Development

The medium to longer term plans are governed through the Workforce Development Plan which identifies the changing requirements in the skills base for a three year period. It was produced in 2006, and although still valid in 2008/09 this needs to be updated for the wider People Strategy, particularly in the context of a reducing headcount over the medium term. We understand that the Council is currently replacing the Workforce Development Plan.

Diversity, good people management and compliance with relevant legislation is ensured by the arrangements noted above. The Council has achieved level 2 of the equality standard for Local Government, with some underrepresentation within the disabled and the under 24 age grouping indicating there is some more work to be done. We understand that since our assessment the Council has been re-categorised as level 3.

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.

©2009 PricewaterhouseCoopers LLP. All rights reserved. 'PricewaterhouseCoopers' refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom) or, as the context requires, other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.