

Annual Audit Letter

Swale Borough Council

Audit 2008/09

December 2009



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 - any third party.
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Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Audit Opinion

- 1 The 2008/09 audit is now complete. We issued an unqualified opinion on the financial statements dated 30 September 2009, and our audit certificate closing the audit on the same date.
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Financial Statements

- 2 The financial statements were approved by the Audit Committee on 30 June 2009. As noted in previous years, officers worked hard to present a comprehensive set of accounts and working papers. We did however identify more technical accounting issues this year that required amendments to be made to the accounts. A combination of sickness absence and staff turnover within the finance team, together with the resultant use of temporary contractors unfamiliar with the Council, adversely impacted on the efficiency and quality of arrangements. In particular, the working papers provided were less clear and complete and as a result additional audit time was incurred. Furthermore, some key reconciliations had not been performed by the time of our audit visit. Senior officers show a strong commitment to improvement and are working hard to rebuild capacity within the finance team as soon as possible.
- 3 Full details of matters arising during the audit were set out in the Annual Governance Report presented to the Audit Committee on 30 September 2009. This included one material accounting adjustment, in respect of the following.
 - Correction of the balance sheet ageing of national non-domestic rates arrears and contribution to the pool to reflect deferred repayment terms granted to a number of business ratepayers following new legislation implemented from March 2009.
- 4 All the necessary adjustments were corrected by officers, and the Audit Committee approved the revised accounts on 30 September 2009.

Value for money

- 5 Based on the results of our work undertaken in relation to the Council's arrangements to secure economy, efficiency and effectiveness in the use of its resources, we issued an unqualified value for money conclusion on 30 September 2009.
- 6 The Council has sound arrangements in place to manage its finances, govern the business and manage other resources. There is an improved link between medium term financial planning and service delivery and an adequate governance and decision making process. The Council is improving its understanding of costs, but performance is inconsistent across services and overall costs are above average. Performance monitoring has improved, but is not consistent across the authority.
- 7 The Council's improved corporate plan is underpinned by its programme of joint working with partners across Mid Kent. The success of this will be critical in enabling the Council to maintain a secure financial position and deliver the improvements in services which it aspires to.

Actions

- 8 Our key recommendations, which are also set out in the body of the report, are as follows.
 - Review the way in which the new legislation regarding NNDR was implemented and seek to identify if there are any lessons to be learnt to ensure the Council is not exposed to business risks.
 - Ensure future levels of NNDR bad debt provisions are adequate and sufficient by closely monitoring associated ratepayers' adherence to Schedules of Payments and their underlying creditworthiness.
 - Ensure more timely preparation of working papers as part of the closedown process and ensure they are complete by the start of the audit visit.
 - Make more comprehensive use of benchmarking to determine why overall costs remain above average and performance is mixed.
 - Improve performance management and data quality standards, and ensure that they are applied consistently across service departments.
 - Develop a procurement strategy and consider improving in-house procurement capacity.

Financial statements and annual governance statement

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

Significant issues arising from the audit

9 We issued an unqualified opinion on the accounts on 30 September 2009, and reported on the detailed matters arising from the audit to the Audit Committee on the same date. The following were the key matters arising.

NNDR deferred payments

- 10** The material error relates to how the Council has introduced deferred repayment terms put in place with a number of NNDR ratepayers following new legislation. The Non-Domestic Rating (Collection and Enforcement) (Local Lists) (Amendment) (England) Regulations 2009 ('SI 204/2009') came into force on 9 March 2009. This meant that businesses facing certain backdated business rates bills issued before 31 March 2010 will, subject to meeting certain criteria, be able to pay their backdated liability in equal interest-free instalments over up to eight years, rather than immediately. Under this new legislation, in April 2009 the Council granted deferred repayment terms to eight ratepayers in relation to liabilities of £6.7 million.
- 11** Our review of the Council's implementation of the new legislation identified that the liability included with the deferred repayment schemes granted was more generous than that specified by SI 204/2009. In total, some £0.9 million of liability has been included in excess of that defined by the statute as 'backdated liability'. Whilst this issue does not impact on the Council's accounts for 2008/09, it does impact on the timing over which future payments should be made to the national NNDR pool. If the Council adheres to the schemes it has granted it could potentially incur unbudgeted financing costs over the eight years as the £0.9 million will be immediately payable to the national NNDR pool.
- 12** The above issue also had significant implications for the annual 2008/09 NNDR return to the CLG which we certified on 25 September 2009. We have raised this issue with CLG, and they are currently in discussion with officers about the best way to manage the cash flow implications of the deferred repayment schemes.

Recommendations

- R1** Review the way in which the new legislation regarding NNDR was implemented and seek to identify if there are any lessons to be learnt to ensure the Council is not exposed to business risks.
- R2** Ensure future levels of NNDR bad debt provisions are adequate and sufficient by closely monitoring associated ratepayers' adherence to Schedules of Payments and their underlying creditworthiness.

Material weaknesses in internal control

- 13** I did not identify any significant weaknesses in your internal control arrangements.

Accounting Practice and financial reporting

- 14** Last year we noted an improvement in arrangements for the production of your financial statements. This year however a combination of sickness absence and staff turnover within the finance team, together with the resultant use of temporary contractors unfamiliar with the Council, adversely impacted on the efficiency and quality of arrangements. In particular, the working papers provided were less clear and complete and as a result additional audit time was incurred. Furthermore, some key reconciliations had not been performed by the time of our audit visit.
- 15** Senior officers show a strong commitment to improvement and are working hard to rebuild capacity within the finance team as soon as possible.

Recommendation

- R3** Ensure more timely preparation of working papers as part of the closedown process and ensure they are complete by the start of the audit visit.

Value for money and use of resources

I considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 16** 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.
- 17** 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.
- 18** The use of resources framework applied this year is significantly different to the previous assessment methodology, There is a greater emphasis on outcomes for local people rather than processes, and it is intended to represent a harder test for councils.
- 19** The Council's use of resources theme scores are shown in Table 1 below. The scores have been confirmed following the national quality assurance process. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 1. Our findings were discussed with officers and presented to the Audit Committee on 30 September 2009.

Table 1 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	2
Governing the business	2
Managing resources	2

- 20** The Council has sound arrangements in place to manage its finances, govern the business and manage other resources. There is an improved link between medium term financial planning and service delivery and an adequate governance and decision making process. Although the Council is improving its understanding of costs and achieved its efficiency saving target, performance is inconsistent across services and overall costs are above average. Performance monitoring also improved, but was not consistent across the Council.
- 21** The Council's improved corporate plan is supported by its programme of joint working with partners across Mid Kent. The success of this will be critical in enabling the Council to maintain a secure financial position and deliver the improvements in services which it aspires to.
- 22** We presented our findings to officers on 5 August 2009 and to the Audit Committee on 30 September 2009. Our subsequent discussions with senior officers have identified some key areas where the Council needs to improve the current arrangements, and these are outlined in the following recommendations.

Recommendations

- R4** Make more comprehensive use of benchmarking to determine why overall costs remain above average and performance is mixed.
- R5** Improve performance management and data quality standards, and ensure that they are applied consistently across service departments.
- R6** Develop a procurement strategy and consider improving in-house procurement capacity.

Other local risk based work - health inequalities

- 23** We have now completed our 2008/09 Kent wide review of health inequalities. Presentations have been delivered to the Kent Public Health Board and local Health and Wellbeing boards across Kent.
- 24** We found that the Swale Health and Wellbeing LSP Sub Group (the Group) has a good understanding of the underlying social and lifestyle issues adversely affecting many who suffer poorer health outcomes. The Group felt the following three barriers were most relevant to its ability to have an impact on health inequalities:
- reality/perceptions of affluence versus pockets of deprivation;
 - communications with communities: lack of understanding of how to help selves (eg schools, colleges, older people etc); and
 - culture: need for consistency of expectation and approach.

Value for money and use of resources

- 25** In considering these barriers, Swale Health and Well Being Board members are very clear that tackling health inequalities and promoting well-being is a clear priority for partners working in the borough and have an appreciation for work underway. The group also had a good understanding of the challenges facing local people which contribute to health inequalities. This gives assurance that resources are aligned with need.
- 26** Work is underway to give people more access to facilities to help them have healthy lifestyles, for example, the local partners have been engaged in working together to invest in a new Healthy Living Centre on the Isle of Sheppey.
- 27** In order to make more progress in tackling the health inequalities and more effective use of financial resources in the area, members of the Board felt that longer term funding streams would benefit the work with less provision made against specific programmes and more provided for cross cutting issues.
- 28** The quality of improvement planning is limited by the fact that the group is not clear what overall difference its work is making, for example:
- there were a large number of targeted programmes identified but the group was not clear what overall difference these are making in tackling the long-term issues; and
 - communication with communities formed a significant part of the discussion with no clear agreement on how this should be conducted or how successful previous attempts had been. Part of the discussion focussed on whether there was a 'poverty of ambition' in Swale and if so how this might be dealt with.
- The group needs to find ways of measuring the impact of its initiatives in order to capitalise on those which are most effective going forwards.
- 29** The Board did not see its role as delivering the LAA Health Inequalities target. This will limit the Board's ability to impact on LAA 2 targets.
- 30** This report and high level action plan is being sent to the Swale Health and Well being LSP Sub-Group for further work and conversion into a SMART¹ action plan.
- 31** We intend to do follow up work with all the panels and sub-groups on their progress in implementing their action plans during 2010/11.

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. My conclusions on each of the areas are set out in Appendix 1.
- 33** I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

¹ Specific, Measurable, Achievable, Resourced and Timebound

Closing remarks

- 34** I have discussed and agreed this letter with the Chief Executive and the Interim Head of Finance on 18 November 2009. I will present this letter at the Audit Committee on 15 December 2009. Copies should be provided to all Members.
- 35** The Council has taken a positive and constructive approach to our audit, and I wish to thank the Council's staff for their continued support and co-operation.

Andy Mack
District Auditor
November 2009

Appendix 1 – Use of resources key findings and conclusions

The following tables summarise the key findings and conclusions for each of the three use of resources themes.

Managing finances

Theme score	2
Key findings and conclusions	
<p><i>Financial planning and health:</i> The Council's financial planning process ensures that financial resources are allocated to corporate priorities, and there is evidence that resources have been redirected to achieve new local and national targets. The budget setting process is sound, and the Council's medium term financial plans have ensured that revenue and capital expenditure has been contained within budget, variances have been minimised and resource levels sustained at a healthy level. Stakeholders have been actively engaged in financial planning, and there are plans to extend this further over the next year. Senior officers and members demonstrate a satisfactory level of financial leadership.</p> <p><i>Understanding costs and performance:</i> The Council is improving its understanding of costs, but performance is patchy and overall costs are above average. Financial information supports decision making, and good use is made of cost appraisals and a prioritisation matrix to support investment decisions. Service planning has developed, and benchmarking is improving. Good use is being made of partnership working to identify opportunities for improving services, and the Council is on course to exceed its efficiency savings target.</p>	

Theme score	2
<p><i>Financial reporting:</i> The Council produces reports that integrate financial and performance information, and these are used to support forecasting and decision making. Unplanned variances are examined promptly, and monitoring is focused on high risk budgets. Financial risks associated with significant partnerships are monitored effectively. The Council's accounts are prepared on a timely basis, but there was an increase in the number of errors identified this year. The accessibility of the Council's website has improved, although more work is needed to actively promote this to minority groups</p>	
KLOE 1.1 (financial planning)	Score - 2
<p>Strengths</p> <ul style="list-style-type: none"> • Good integration of financial and service planning • Resources are being focused on priorities • A fully integrated fees and charges strategy <p>Issues to consider</p> <ul style="list-style-type: none"> • Strengthening capacity within the finance team • Measuring effectiveness of policies to address the impact of the economic downturn • Demonstrating outcomes of the area based local engagement forums • Obtaining feedback from budget holders on adequacy of financial training 	

Appendix 1 – Use of resources key findings and conclusions

Theme score	2
KLOE 1.2 (understanding costs and achieving efficiencies)	Score - 2
<p>Strengths</p> <ul style="list-style-type: none"> • The Council has an improved understanding of its costs and this has been used to identify high spending areas and areas in need of service improvements (examples include street cleansing, housing and homelessness, refuse and recycling) • Investment decisions use whole life costing as part of the project appraisal process <p>Issues to consider</p> <ul style="list-style-type: none"> • More comprehensive use of benchmarking to determine why overall costs remain above average and performance is mixed • Developing a clearer view of where partnership resources can be focused to improve service outcomes. 	
KLOE 1.3 (financial reporting)	Score - 2
<p>Strengths</p> <ul style="list-style-type: none"> • Sound processes in place for financial monitoring and forecasting, good accounts scrutiny • Engagement with stakeholders to improve quality of reports and website accessibility <p>Issues to consider</p> <ul style="list-style-type: none"> • Improving links between budget and performance monitoring • Reporting financial information on an accruals basis • Actively promoting Council publications to minority groups 	

Governing the business

Theme score	2
Key findings and conclusions	
<p><i>Commissioning services:</i> The Council has improved corporate plans, and these are used to inform decision making in respect of major contracts. Good use is made of external purchasing groups to support limited internal procurement resources. The Council is starting to identify VFM opportunities through joint working. Service reviews have lead to some improvements - eg housing benefits. Contract monitoring has improved in respect of cleansing contracts.</p> <p><i>Data quality:</i> The Council has adequate policies and systems in place to produce relevant and reliable data, but our data quality spot checks identified errors in data collection and recording. Data security arrangements are sound. Data quality risks are considered and requirements are built into job descriptions. Performance reports have improved, are in an accessible format and are used to challenge performance in priority areas. The new PMS system is not yet used by all departments. Data quality protocols need to be extended to cover local partners.</p> <p><i>Governance:</i> The Council has a sound governance framework. All expected codes, constitutional arrangements and procedures are in place, operating effectively and actively promoted via the website and reception areas. Governance principles are supported by senior members who have received leadership training. The Council has a clear vision articulated via its revised corporate plan, and a good ethical culture is promoted through training programmes and regular bulletins. The governance arrangements of local partnerships are considered and reviewed.</p> <p><i>Risk management:</i> The Council's risk management arrangements operate effectively, and staff receive appropriate training in risk management. The risks of significant partnerships are managed proactively. The Audit Committee is effective and has made a positive impact. The internal audit function is adequate and the Council's systems of internal control are sound. Counter fraud and corruption work is focused on benefits fraud, and good partnerships have been developed locally with DWP and others</p>	

Appendix 1 – Use of resources key findings and conclusions

Theme score	2
KLOE 2.1 (commissioning and procurement)	Score - 2
<p>Strengths</p> <ul style="list-style-type: none"> • The Council has improved its corporate plan and service strategies • Improved contract monitoring arrangements • Better understanding of local needs through cross agency neighbourhood forums <p>Issues to consider</p> <ul style="list-style-type: none"> • Improving in-house procurement capacity • Developing a procurement strategy • Undertaking expenditure profiling to target procurement activity where it can improve efficiency and outcomes for local people 	
KLOE 2.2 (data quality and use of information)	Score - 2
<p>Strengths</p> <ul style="list-style-type: none"> • The Council has basic arrangements in place to produce relevant, reliable and accurate data • Data quality arrangements have been defined through a quality standard, and data security is sound <p>Issues to consider</p> <ul style="list-style-type: none"> • Completing the process to make data quality policies effective, identify the skills gap and train front-line staff • Formalising data sharing policies • Rolling out the new performance management system and culture to all staff 	

Theme score	2
KLOE 2.3 (good governance)	Score - 2
<p>Strengths</p> <ul style="list-style-type: none"> • Established constitution with clearly defined roles and duties • Code of Conduct for Members and Standards Committee which follow national best practice • Adopted Local Code of Corporate Governance <p>Issues to consider</p> <ul style="list-style-type: none"> • Measuring effectiveness of the revised complaints procedures • Demonstrating outcomes from the increased focus on community cohesion • Implementing the partnership governance protocol to deliver improved governance arrangements for local partnerships 	
KLOE 2.4 (risk management and internal control)	Score - 2
<p>Strengths</p> <ul style="list-style-type: none"> • Sound risk management and internal control arrangements • Clear programme of counter fraud activity focused on benefits fraud <p>Issues to consider</p> <ul style="list-style-type: none"> • Promoting the role of the Audit Committee in ensuring action plans are implemented • Securing a more streamlined fraud service through planned partnership working • Raising staff awareness of financial regulations 	

Appendix 1 – Use of resources key findings and conclusions

Managing resources

Theme score	2
Key findings and conclusions	
<p><i>Workforce:</i> The Council's workforce planning is soundly based. Competencies have been redefined and are being used to inform service planning. A training needs assessment is feeding into the Council's skills development programme which in turn focuses on the key management development areas. The training plan needs to be updated, and IIP have made recommendations in this area. A workforce plan is being developed in conjunction with other authorities through the Mid Kent Improvement Partnership and joint working on human resources is being considered. Poor performance is addressed, and sickness absence managed effectively. Recruitment practices have improved, although recruitment exercises are not yet targeted on specific groups. Internal communications are good, and there is evidence that staff have a generally positive view of the Council and its direction of travel. Progress has been made against the equalities standard, but more needs to be done to demonstrate outcomes from this work.</p>	
KLOE 3.3 (workforce planning)	Score - 2
<ul style="list-style-type: none">● Strengths● Workforce planning is being developed in conjunction with other authorities through MKIP, and is soundly based● Internal communications are good, and staff have a positive view of the Council's direction of travel● Progress has been made against the equalities standard● Issues to consider● Addressing the outstanding learning and development issues from the IIP assessment and consolidating workforce planning activity at corporate and service level● Implementing Equality Impact Assessments to secure real improvements to services.	

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Audit Letter 2008/09 Recommendations						
5	R1 Review the way in which the new legislation regarding NNDR was implemented and seek to identify if there are any lessons to be learnt to ensure the Council is not exposed to business risks.	3	Revenues Manager, Chief Accountant.	Yes	The Council held a 'lessons learnt' meeting on the 2008/09 accounts which will include Finance and other relevant departments. This included a review of the implementation of the relevant NNDR legislation and processes required to ensure early involvement of all relevant officers	September 2009
6	R2 Ensure future levels of NNDR bad debt provisions are adequate and sufficient by closely monitoring associated ratepayers' adherence to Schedules of Payments and their underlying creditworthiness.	2	Chief Accountant	Yes	Bad debt provision will be agreed between Finance and the relevant service departments.	April 2010

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R3 Ensure more timely preparation of working papers as part of the closedown process and ensure they are complete by the start of the audit visit.	2	Chief Accountant	Yes	The 2007/08 audit was complimentary on the Council's working papers and we will arrange resources to achieve this standard again.	July 2010
8	R4 Make more comprehensive use of benchmarking to determine why overall costs remain above average and performance is mixed.	3	Head of Finance through VFM Group Heads of Service	Yes	VFM Group HoS reps to produce assessment by service of comparative spend and performance. VFM Profile being updated and analysed by LG Futures as part of Kent wide initiative. VFM Consultant recruited to work with HoS to update vfm strategy and provide framework for action including review of benchmarking arrangements in place/needed.	End December 2009 January 2010 (tbc) Mid February 2010
8	R5 Improve performance management and data quality standards, and ensure that they are applied consistently across service departments.	3	Head of Policy, Policy and Performance Officer	Yes	A programme of performance training and covalent surgeries will be rolled out from January to March 2010, attendance will be compulsory for all data quality and performance indicator leads.	January 2010

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R6 Develop a procurement strategy and consider improving in-house procurement capacity.	3	Initially Head of Finance and Head of Internal Audit Head of Commissioning and Customer Care	Yes	A new procurement strategy will be developed following category spend analysis and research. Restructure to raise profile and include provision for commissioning/improvement.	January 2010 January 2010

The Audit Commission

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