

Annual Audit Letter

Thanet District Council

Audit 2008/09

December 2009



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Key messages

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

Audit Opinion

- 1 I issued an unqualified opinion on the financial statements dated 30 September 2009.
 - 2 The audit cannot be formally concluded and an audit certificate issued until I have completed my consideration of matters brought to my attention by local authority electors. I am satisfied that these matters do not have a material effect on the financial statements.
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Financial Statements

- 3 The financial statements were approved by the Governance and Audit Committee on 25 June 2009. Officers worked hard to present a comprehensive set of accounts and working papers. We did however identify a number of technical accounting issues during the audit and these stretched the capacity of the Council to respond, particularly given the ill health of a key member of staff. Senior finance officers recognise capacity needs to be strengthened within finance and are working hard to address this.
- 4 Full details of matters arising during the audit were set out in the Annual Governance Report presented to the Governance and Audit Committee. This includes two material accounting adjustments, in respect of the following:
 - valuation of council dwellings; and
 - recognition of the Council's share of East Kent Opportunities LLP.

Both the adjustments were corrected by the Council and the Governance and Audit Committee re-approved the revised accounts 29 September 2009.

Value for money

- 5 Based on the results of my work undertaken in relation to the Council's arrangements to secure economy, efficiency and effectiveness in the use of its resources, I issued an unqualified value for money conclusion for the year ended 31 March 2009.

- 6 The Council has sound arrangements in place to manage its finance, govern the business and manage other resources. Good progress has been made during the year in strengthening arrangements, notably in financial management. However the financial position is tightly drawn. Balances and reserves are lower than has been set in the Medium Term Financial Strategy, primarily due to the change in accruals for severance costs. In order to retain future financial integrity there is a need for further savings. The success of the Council's shared services programme across East Kent will be critical in enabling future success.

Actions

- 7 Our key recommendations, which are also set out in the body of the report, are as follows:
- Review and strengthen the year end valuation and impairment arrangements, ensuring greater co-ordination between the finance team and the Estates Surveyor.
 - Confirm the accounting treatment and proposed audit arrangements for all material partnership/joint working arrangements as part of the inception process, seeking agreement with other partners as appropriate.
 - Review and strengthen the asset register to ensure it provides all the information on individual assets required for the purposes of International Financial Reporting Standards.
 - Undertake post year-end review of this year's accounts process, identifying common areas for improvement in 2009/10 and ensuring an appropriate action plan is in place.
 - Work with partners to develop governance arrangements for joint working across East Kent, and use this as a platform to deliver better services for local people.
 - Ensure both workforce planning and financial management continues to be sufficiently robust to deal with the many uncertainties and changes facing local government nationally and Thanet locally.

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

- 8 I issued an unqualified opinion on the accounts on 30 September 2009.
 - 9 I reported on the detailed matters arising from the audit to the Governance and Audit Committee on 29 September. The following were the key matters arising:
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Asset valuations

- 10 In the accounts presented for audit there was a discrepancy of £2.2 million between the closing carrying value of council dwellings as stated in the accounts and that stated in the valuation certificate provided by the Council's Estates Surveyor as at the year end date. The revaluation had been accounted for as if it was as at 1 April 2008 rather than 31 March 2009. As a result, the depreciation charged in the year of £2.2 million was not added back by way of the revaluation entries posted in the accounts and the closing carry value of council dwellings was understated. This was amended by the Council in the final certified accounts.
 - 11 In the course of our review of fixed assets we also identified scope to improve the process for impairment reviews, something which is particularly pertinent in the current economic climate. Key areas for improvement include the need for greater clarity about the exact nature and timing of the valuation process and more regular dialogue between the valuer and finance officers. We have discussed this in detail with officers, who recognise the need to strengthen arrangements and are already taking action to do so.
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East Kent Opportunities

- 12 In August 2008 the Council and Kent County Council ('KCC') signed a joint members' agreement in relation to their 50:50 ownership of East Kent Opportunities LLP ('EKO'). EKO is jointly developing and marketing the authorities' pooled property interests at or near Manston Airport, aiming to create an environment which it is hoped will attract high quality companies and jobs in a phased and coordinated manner. As EKO has been classified for accounting purposes as a joint arrangement not an entity, the Council is required under CIPFA guidance to include its share of EKO's assets, liabilities, income and expenditure within its own accounts.

- 13** At the date of approval of the accounts in June 2009, the Council had yet to receive EKO's first accounts for the period to 31 March 2009. Officers were therefore unable to reflect fully the impact of the financial position of EKO within the Council's own accounts presented for audit. The Council has subsequently obtained draft unaudited accounts for EKO and is currently awaiting audited accounts.
- 14** Officers have now considered the impact of the draft accounts on the Council's own accounts, taking into account the fact that the draft accounts do not include EKO's liability (£4.4 million) to KCC in relation to the cost of constructing the Eurokent Spine Road. Under the member's agreement, EKO assumes liability (plus interest) for reimbursing KCC for their forward funding of the construction the Spine Road which opened in late 2008. This error in EKO's draft accounts was reported to KCC in their Annual Governance Report dated August 2009. Officers therefore amended the Council's accounts to reflect the Council's share of this liability (£2.2 million), treating this expenditure as revenue expenditure funded by capital under statute in view of the underlying nature of the expenditure. Otherwise the accounting entries already in the accounts presented for audit were materially in line with the draft accounts now received, with the exception that the Council has included its share of land held by EKO at a valuation provided by its own Estates Surveyor.

Recommendations

- R1** Review and strengthen the year end valuation and impairment arrangements, ensuring greater co-ordination between the finance team and the Estates Surveyor.
- R2** Confirm the accounting treatment and proposed audit arrangements for all proposed material partnership/joint working arrangements as part of the inception process, seeking agreement with other partners as appropriate.

Systems and controls

- 15** We identified the following area where improvements can be made to systems and controls:
- The Council does not hold a combined record of all the information required to support its fixed assets. This year the lack of a robust system left the Council vulnerable due to the long term absence of a key member of staff. In addition, further audit work was required to substantiate and test individual assets. This is a particularly key area in light of the additional information requirements arising from the introduction of International Financial Reporting Standards.

Recommendation

- R3** Review and strengthen the asset register to ensure it provides all the information on individual assets required for the purposes of International Financial Reporting Standards.

Accounting Practice and financial reporting

16 We found that working papers provided to us at the start of the audit were broadly complete and in most instances of a good standard with an adequate audit trail. The response to new working paper requests was particularly positive. The main area for improvement is establishing a clear procedure as to whether it is the finance team or individual services that retain working papers and this will be discussed further with senior finance officers as part of next year's planning process.

Recommendation

R4 Undertake post year-end review of this year's accounts process, identifying common areas for improvement in 2009/10 and ensuring an appropriate action plan is in place.

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 Thanet DC 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

- 17** 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.
- 18** 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.
- 19** The Council's use of resources final theme scores are shown in Table 2 below. These have been subject to national quality assurance process. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 5.

Table 1 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	2
Managing resources	2
Overall	2

- 20** The Council has sound arrangements in place to manage its finances, govern the business and manage other resources. Medium term financial planning is effective, and the Council has a good understanding of its priorities and how to achieve them. Good financial management is beginning to enable some strong outcomes for local people.

Value for money and use of resources

21 However in common with most other district councils, the Council's financial position is tightly drawn. Balances and reserves are low and the Council has recognised the need to deliver further savings. The success of the Council's shared services programme with its partners in East Kent will be critical in enabling the Council to deliver its future ambitions.

22 Key recommendations for the Council are to:

Recommendation	
R5	Work with partners to develop governance arrangements for joint working across East Kent, and use this as a platform to deliver better services for local people.
R6	Ensure both workforce planning and financial management continues to be sufficiently robust to deal with the many uncertainties and changes facing local government nationally and Thanet locally.

Other local risk based work

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 Thanet Health and Wellbeing Partnership Group has a good understanding of the underlying social and lifestyle issues adversely affecting many who suffer poorer health outcomes. These include people living in the most deprived wards such as Margate Central/Cliftonville West who may experience isolation, anti social behaviour, crime, lack of employment opportunities, inappropriate housing and lack of skills. In considering ways to bring about success in reducing health inequalities, three key barriers were identified:

- balance issues arising from silo based funding versus cross cutting need;
- improve communication and engagement; and
- improve use of resources.

25 An action plan has been developed with the board to tackle these areas.

VFM Conclusion

26 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.

27 I issued an unqualified conclusion stating that Thanet DC had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Closing remarks

28 I have discussed and agreed this letter with the Chief Executive and the Director of Finance and Corporate Services. I will present this letter to the Cabinet and Audit and Compliance Committee and copies should be provided to all members.

29 Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to Thanet DC during the year.

30 The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Andy Mack
District Auditor
October 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 - 3
Key findings and conclusions
<p>The Medium Term Financial Strategy is clearly linked to strategic priorities. Robust review of resources has been used to address the existing financial pressures. Resources are prioritised based on public perception, legislative requirements and member priorities. Through engagement, the Council has a good understanding of local needs, translated into corporate priorities and financial plans. For example, resources directed at projects such as 'operation clean sweep', 'Migrant helpline', 'help in kind' and 'I love Dane park' have led to clear outcomes in corporate plan areas.</p> <p>As a result of the Council's comprehensive benchmarking exercises, a value for money programme of reviews has been formulated identifying efficiencies. Service managers have to complete a growth bid form for all new projects, ensuring that resources are allocated only to projects that meet corporate priorities and will provide value for money, based on an informed analysis. A strong corporate culture remains in terms of VFM and it is understood as everyone's responsibility. The Council has a good history of having achieved efficiencies through smarter procurement, collaboration with others and through business process improvements.</p> <p>The Council has good financial monitoring and forecasting processes. The access and reports available to budget managers and members allows them to have all the facts at hand to support spending decisions. The Council's budget and improvement working group considers issues identified by the VFM Board which has 3 year review programme. The Council's 2007/08 financial statements were unqualified and met all requirements. Summarised accounts are published in the Council publication 'Thanet Matters'. A residents' panel was used to consult over content of annual report and feedback was reflected in the 2007/08 summary.</p>

Appendix 1 – Use of resources key findings and conclusions

KLOE 1.1 (financial planning)	Score - 3
<p>Strengths</p> <ul style="list-style-type: none"> • Good integration of financial and service planning • Strong engagement with the public which has been used to inform the way in which resources are prioritised • Good examples of how prioritisation has led to strong outcomes, including "operation clean sweep", "Migrant helpline", "help in kind" and "I love Dane park". <p>Areas for improvement</p> <ul style="list-style-type: none"> • Further develop engagement with hard to reach/vulnerable people • Consider the impact of shared services/ partnership working on future capacity and planned savings 	
KLOE 1.2 (understanding costs and achieving efficiencies)	Score - 3
<p>Strengths</p> <ul style="list-style-type: none"> • The Council has a good understanding of its costs and this has been used to identify high spending areas and areas where efficiencies can be made (e.g. accommodation strategy) • There is clear ownership at political and managerial level of the efficiency agenda. • The Council has a good history of having achieved efficiencies through smarter procurement, collaboration with others and through improvements to business processes. These have provided a platform for improvements in front line service delivery. <p>Areas for improvement</p> <ul style="list-style-type: none"> • Use of whole life costing used to inform major investments • Ensure service standards are maintained/ improved in priority areas, whilst achieving necessary efficiencies. 	
KLOE 1.3 (financial reporting)	Score - 2
<p>Strengths</p> <ul style="list-style-type: none"> • Sound processes in place for budget monitoring, good accounts scrutiny and improved accounts preparation • Engagement with public over format of annual report including through residents' panel <p>Areas for improvement</p> <ul style="list-style-type: none"> • Improvements required to accounts closedown process • Develop environmental impact reporting 	

Appendix 1 – Use of resources key findings and conclusions

Governing the business

Theme score - 2	
Key findings and conclusions	
<p>The Council invests in its priority services. It consults residents' groups on changes and improvements and understands its supply market as demonstrated by. East Kent authorities procurement group, choice based lettings, migrant helpline, Thanet Gateway, energy efficiency and procurement.</p> <p>The Council's overall data quality arrangements are consistently above minimum requirements. A strong corporate culture is in place in terms of VFM and the Council actively uses information to review and challenge e.g. energy contracts. Dealing with equalities is a growing strength as equalities impact assessments have occurred in all service areas.</p> <p>The Council can demonstrate good governance arrangements in terms of its constitution, code of corporate governance, standards committee, member and officer training and response to whistleblowing. However, it has a high number of instances where contract procedure rules were not followed. The draft Vision for Thanet to 2030 is linked to the draft East Kent Sustainable Community Strategy and feeds into the refreshed corporate plan. The Council has established a partnership framework and partnership register to monitor and report on partnership arrangements. The Council can demonstrate where partnership has been used to provide real outcomes for local people such as "Thanet gateway" and "operation clean sweep". The Council has an electronic complaints system to monitor progress and feed into their "You Said, We did" summaries.</p> <p>Risk management arrangements are in place in terms of a strategy, register and assessment for each PI. The Council's counter fraud and corruption policy applies to all aspects of the Council's business. Their benefits team is ranked amongst the top 25% in the country. Internal control arrangements include an audit committee, effective internal audit, constitution, standards committee and Annual Governance Statement. The Council has not tested its business continuity plans in 2008/09.</p>	
KLOE 2.1 (commissioning and procurement)	Score 2
<p>Strengths</p> <ul style="list-style-type: none"> • Good use of benchmarking, including Kent Price Book, which helps drive decision making • Good examples of improvement through service redesign, for example the Gateway • Successful examples of working with partners to make better use of the supply market, notably the energy efficiency partnership bid <p>Areas for improvement</p> <ul style="list-style-type: none"> • Demonstrate that better procurement is driving lower costs, improvements in efficiency and better outcomes for local people • Demonstrate the tangible benefits of its approach to sustainable development 	

Appendix 1 – Use of resources key findings and conclusions

KLOE 2.2 (data quality and use of information)	Score 2
<p>Strengths</p> <ul style="list-style-type: none"> • The introduction of a comprehensive data quality framework setting out a clear strategic approach has led to an improvement in the robustness and reliability of data • The Council has taken action to address known weakness in data quality – for example by establishing the migrant helpline - and this in turn has resulted in better service outcomes • The Council is working with partners to deliver efficiencies for example through participation in the Laser Energy Buying Group <p>Areas for improvement</p> <ul style="list-style-type: none"> • Reduce/ learn from security incidents • Ensure continuous improvement in the quality of the data which it provides for decision makers 	
KLOE 2.3 (good governance)	Score 2
<p>Strengths</p> <ul style="list-style-type: none"> • A Vision for Thanet has been developed to 2030. This is linked to the draft East Kent Sustainable Community Strategy and used to inform corporate planning • An partnership framework is in place and the Thanet Compact, provides a framework for improving relationships between local public and Voluntary and Community Sector organisations • The Member code of conduct follows national best practice and arrangements are in place to deal with complaints about Member or officer conduct. <p>Areas for improvement</p> <ul style="list-style-type: none"> • Further develop governance arrangements for partnership working across East Kent • Members should demonstrate more visibly the values of leadership and good governance 	
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. Risk register updated in 2008/09 to include partnership risks and training for members, officers and corporate management team • Joint internal audit function across East Kent is resulting in shared good practice and efficiencies <p>Areas for improvement</p> <ul style="list-style-type: none"> • Further develop a more pro-active approach to tackling fraud (e.g. raising of awareness/ increased publicity for successful prosecutions) • Demonstrate how the Audit Committee gains necessary assurances that actions are taken • Ensure robust is business continuity planning • Ensure internal controls are adhered to at the same consistently high standard across the organisation 	

Appendix 1 – Use of resources key findings and conclusions

Managing resources

Theme score - 2	
Key findings and conclusions	
<p>The council has processes in place for ensuring a productive and skilled workforce, addressing the need to upskill staff. The competencies for Managers are outlined in the Managers' Charter. In 2008 the Council successfully retained Investors in People Status, reflecting that Learning and Development is high on its agenda. The Council's objectives are well communicated to all levels of staff and people have a clear understanding of how their own objectives cascade. The Thanet Manager course provides a number of benefits to staff and Council.</p> <p>From the budget prioritisation exercise a three year plan has been developed, which reviewed current staffing structures against anticipated workloads and skills requirements. This has allowed for selective service reduction and staff restructuring supporting the delivery of key aims, rather than an arbitrary reduction in staffing resources, which could otherwise detract from the delivery of the Council's stated priorities.</p> <p>The latest staff survey indicated that the majority of staff said they knew how to make their views known within the organisation, and that staff felt the organisation kept them informed of change. Also, most staff understood the aims and objectives of the organisation and what they needed to do to help it succeed. On the other hand, most staff did not feel involved in decisions about how their service is run. Equality is given a high profile and is delivered through a range of mechanisms, including Cabinet member champion for equality. In August 2008, the Council retained its two ticks award, reflecting its commitment to employing disabled people and is preparing to apply for level 3 of the Equalities Standard later in 2009/10.</p>	
KLOE 3.3 (workforce planning)	Score - 2
<p>Strengths</p> <ul style="list-style-type: none"> • Staff restructuring has been well thought through and prioritised. This is enabling the Council to manage reductions in a planned way which is consistent with Council aims • Consultation with staff has been effective and this has helped to manage the impact of change • Equality, diversity, staff development and training are all given a high profile and this is resulting in increased motivation and improved staff performance <p>Areas for improvement</p> <ul style="list-style-type: none"> • Ensure capacity plans are sufficient to deliver all long term plans • Ensure workforce planning is sufficiently robust to deal with the many uncertainties and changes facing local government nationally, and Thanet locally, notably the impact of the recession, reduced government funding and the impact of increased partnership working 	

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Audit Letter 2008/09 Recommendations						
6	R1 Review and strengthen the year end valuation and impairment arrangements, ensuring greater co-ordination between the finance team and the Estates Surveyor.	1	Interim Capital Accountant/ Valuation Team	Yes	There will be greater liaison between the new interim capital accountant and the valuation team. The whole valuation process will also start considerably earlier for 2009/10.	October 2009
6	R2 Confirm the accounting treatment and proposed audit for all proposed material partnership/joint working arrangements as part of the inception process, seeking agreement with other partners as appropriate.	2	Sarah Martin	Yes	The accounting treatment of new partnership arrangements will be addressed at the outset of the partnership.	Ongoing
6	R3 Review and strengthen the asset register to ensure it provides all the information on individual assets required for the purposes of International Financial Reporting Standards.	1	Interim Capital Accountant	Yes	An experienced interim capital accountant is being brought in. He will be responsible for reviewing and improving the asset register and will ensure it complies with the requirements of IFRS.	December 2009

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R4 Undertake post year-end review of this year's accounts process, identifying common areas for improvement in 2009/10 and ensuring an appropriate action plan is in place.	1	Sarah Martin	Yes	An accountants' final a/cs 'post-mortem meeting will be held to discuss the matters arising from the audit and what action needs to be taken to address these.	September 2009
9	R5 Work with partners to develop governance arrangements for joint working across East Kent, and use this as a platform to deliver better services for local people.	2	Harvey Patterson	Yes	A robust governance framework already exists in East Kent based on the principles of transparency, accountability partnership and sovereignty. These include at the democratic level, the East Kent Joint Arrangements Committee (EKJAC) and the East Kent Joint Scrutiny Committee, at the strategic management level, the East Kent Chief Executives Forum and at the programme management level, a Project Leader & Project Team for each of the identified work streams. Within this framework projects are recommended for approval based on a financial appraisal signed off by the Section 151 Officers and a detailed business case. In addition, lawyers from each of the partner authorities meet as required to draft and approve the inter-authority agreements supporting the programme.	Ongoing

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	R6 Ensure both workforce planning and financial management continues to be sufficiently robust to deal with the many uncertainties and changes facing local government nationally and Thanet locally.	2	Sue McGonigal	Yes	The Council recognises the financial position it finds itself in, and as a result has already extended its financial planning timeframe from 3 to 5 years, to better enable the long term sustainability of plans to be taken into account. Workforce matters (including workforce planning) will be even more robust and proactive in the future due to the new HR shared service, and the new Corporate Resources manager role that has been established, within whose remit it is to oversee the Council's resource demands to ensure adequate levels are planned for. New organisational structures and working practices are currently being introduced to further strengthen the Council's business planning and performance framework to better plan for, and integrate, its demand, activity and resource levels.	Ongoing

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