

Annual Audit Letter

Thurrock Council

Audit 2008/09

December 2009



Contents

Key messages	3
Financial statements and annual governance statement	7
Value for money and use of resources	9
Closing remarks	12
Appendix 1 – Value for money criteria	14
Appendix 2 – Action Governance Report action plan	15
Appendix 3 – Use of Resources action plan	17

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 unmodified report including an unqualified opinion on the financial statements on 24 September 2009.

Financial statements

- 2 The financial statements were submitted for audit on time and were complete. Generally, the working papers supporting the financial statements were received in line with the agreed timescale and were of a much better quality compared to 2007/08. This resulted in the audit progressing more smoothly. I would like to thank the officers for the preparation of good working papers and for responding to audit queries on a timely basis.
- 3 There were three material errors in the draft accounts, of which one was identified by the Council after the accounts were adopted but before audit work commenced. The total of all errors that the Council agreed to adjust for within the financial statements was £110.662m. Of this total £95.959m impacted on the Income and Expenditure Account (I&E) (including the Statement of Movement of General Fund Balances (SMGFB)) and £15.290m impacted on the balance sheet. The overall impact was to increase expenditure in the I&E Account by £423k (which was reversed out in the SMGFB) so there was no impact on the Council's overall financial position. There were also three errors/uncertain items that were more than purely trivial and that the Council decided not to adjust for, which had a combined impact of £1.244m on both the Balance Sheet and the I&E Account.

Value for money

- 4 We assess how the Council makes use of its resources to provide local services. A national framework is applied to our assessment, with a score given between 1 (inadequate and below minimum standards) and 4 (performing strongly) in each of three key areas.

- 5** The Council is performing adequately overall (Level 2). It attained the following scores in our assessment.
- Level 2 in respect to the way it manages its finances.
 - Level 2 in respect to the way it manages and governs the business as a whole.
 - Level 2 in respect to the way it manages its people.
- 6** However, in terms of the impact on the value for money conclusion I concluded that the Council did not meet the minimum standards during 2008/09 for four of the nine criteria assessed. As a result of this I have concluded that, overall, the Council did not provide value for money in its use of resources for the year ended 31 March 2009.

Managing performance

- 7** The Audit Commission also 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.
- 8** This assessment replaces the direction of travel assessment undertaken in previous years. The 2007/08 Annual Audit and Inspection Letter, published in March 2009, reported that Thurrock Council was not improving adequately with a score of 1. There was a fundamental breakdown of relationships between some officers and members, adversely affecting the capacity and running of the Council.
- 9** The Council scores 2 out of 4 for managing its performance (the scoring mechanism is as for Use of Resources). This represents an improvement by the Council since March 2009.
- 10** The quality of Council services is mixed. It has undergone some significant organisational changes and is addressing weaknesses and services are improving. Work is under way to put in place effective political arrangements. Leadership is improving. However some political relationships are still developing. Although progress is being made, it is fragile with much remaining to be done.

Overall organisational assessment

- 11** The Use of Resources and Managing Performance assessments are combined to give an overall organisational assessment judgement for the Council. The organisational assessment judgement for Thurrock Council is that it performs adequately.
- 12** The Council's Managing Performance and Organisational Assessment are being reported separately by the Audit Commission's Comprehensive Area Assessment Lead for Essex.

Financial standing

- 13** The last year has seen the country enter a significant economic recession. The consequence locally, is an increasing demand for public services and the likelihood of reduced levels of central government funding. Together, these provide a significant challenge for councils as they seek to continue to provide services to local residents, whilst maintaining a sound financial position.
- 14** The Council's general reserves at 31 March 2009 were maintained at £2m, which was the minimum assessed level the Council considered necessary. The Council also holds earmarked reserves of £10.9m. This reflects a fall in balances and reserves. In 2007/08 general reserves were £2m and earmarked reserves were £12.2m. However the 28 October 2009 Cabinet meeting considered a report on the 2010/11 budget and the optimal level of reserves has been increased to £5m, equating to 5 per cent of the budget. As a result the Council needs to build its reserves to meet this new minimum level and is planning to do this over a period of time.
- 15** The Council is also facing a range of financial pressures in 2009/10 and future years. A number of equal pay claims have been received which, depending on the outcome, may lead to further financial pressures on the Council. There are other significant cost pressures facing the Council as a result of the economic downturn. As a result Members are going to need to consider how to respond to these pressures and to take decisions that will enable the Council to maintain a sound financial position and to set a balanced budget. I will continue to monitor the Council's response and actions in this key area.

Audit fees

- 16** I reported the reasons for an increase in the original proposed 2008/09 audit fee in my supplementary fee letter of 5 March 2009. Table 1 shows that the actual fee is in line with the supplementary fee letter.

Table 1 Audit fees

Audit area	Planned fee 2008/09	Revised fee 2008/09	Final fee 2008/09
Financial statements	£122,400	£138,900	£138,900
Use of resources assessment and performance reviews	£90,000	£110,500	£110,500
Data quality	£35,500	£35,500	£35,500
Whole of government accounts	£4,000	£4,000	£4,000
Total audit fee	£251,900	£288,900	£288,900
Total inspection fee	£55,600	£55,600	£55,600
Total audit and inspection fee	£307,500	£344,500	£344,500

Actions

- 17** Recommendations are contained within my Annual Governance Report and Use of Resources report and the agreed action plans for these reports are included at Appendices 2 and 3 respectively for completeness.

Independence

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

Financial statements and annual governance statement

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

Summary

- 19** I issued an unqualified opinion on the Council's accounts on 24 September 2009, thereby meeting the deadline set within the Accounts and Audit Regulations 2003. In my opinion the accounts present fairly the financial position of the Council as at 31 March 2009 and its income and expenditure for the year then ended.
- 20** Before giving my opinion, I reported to those charged with governance, in this case the Audit Committee, on the issues arising from the 2008/09 audit. I presented my report on 23 September 2009.

Significant issues arising from the audit

- 21** The material errors contained within the draft accounts approved in June 2009 related to:
- double counting of recharges (identified by officers at the start of the audit);
 - double counting of income and expenditure for schools which do not have their own bank account; and
 - the Council had incorrectly valued a surplus asset on a basis properly used for an asset in use, which led to an overvaluation.
- 22** The Council capitalises subsequent expenditure on fixed assets and then writes out to revenue expenditure any amounts that do not increase the value of the asset. However, there was insufficient evidence to show that some of the expenditure items should have been capitalised in the first place.

Material weaknesses in internal control

- 23** I reported weaknesses in internal control in my interim audit report. The main weaknesses identified were as follows.
- Documentation to support operation of controls to check payroll amendments was not always retained to evidence the operation of the check.
 - Checks were not routinely made to ensure the accuracy of starters and leavers on the payroll.

- Monthly reconciliations are not performed between all the main feeder systems and the general ledger: these are only undertaken at year end and not all differences identified were fully resolved, although I obtained sufficient evidence to be able to conclude these did not lead to material misstatements within the accounts.
- Budget monitoring information was only reported to senior officers and members from month 5 onwards during 2008/09.
- Improvements are needed to the reporting of information from within the Saffron housing rents system and also over access to the administrator password within the system.

Accounting Practice and financial reporting

24 I considered the qualitative aspects of your financial reporting. I would highlight the following issues.

- Some officers and members failed to submit related party transaction declaration forms.
- A number of areas of non compliance with local authority accounting requirements were identified in relation to the Housing Revenue Account.

25 I have made recommendations in relation to all these areas in my Annual Governance Report which was presented to the Audit Committee on 23 September 2009.

Treasury management arrangements

26 The Council did not have any investments with Icelandic banks. I have reviewed the Council's arrangements for making loans and investments and have concluded they are adequate.

International Financial Reporting Standards

27 The national timetable for the implementation of International Financial Reporting Standards (IFRS) means that these will be first applied in the 2010/11 financial year. However, comparative figures for the 2009/10 financial year will be required.

28 Applying IFRS will have significant implications for the way in which local authorities prepare their annual financial statements. The Council has a project plan in place, but this needs to set out the key milestones more clearly and the resource implications of them. The plan has slipped and needs to be brought back on track.

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

- 29** 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.
- 30** 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.
- 31** The Council's use of resources theme scores are shown in Table 2. The key findings and conclusions for the three themes, and the underlying KLOE, are set out in my separate Use of Resources report.

Table 2 Use of resources theme scores

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

-
- 32** The Council has adequate arrangements overall in place for the use of resources. The arrangements in each of the themes assessed are adequate, but within themes there are a number of areas where the arrangements need to be improved.

- 33** The Council has adequate arrangements for managing finances. The 2008/09 accounts have been presented on time and are of a much better standard than last year. The Medium Term Financial Strategy is not robust. It highlighted a budget gap but did not show any planned savings programme to address the gap over a suitable period of time. Links to priorities are unclear. However, there is a good framework to monitor costs and performance. Cumulative efficiency targets are being achieved. Financial and other information is accessible to the public through the Council's website.
- 34** The Council has adequate arrangements for governing the business. There are some good examples of commissioning services in Adult Social Care and Children's Services. However, effective commissioning is not consistent across all areas. Procurement remains weak. The Council is addressing this but it is still early days and there are few tangible signs of improvement. The Council is looking at its procurement and contract management arrangements following some instances of not fully following the relevant procedures. The Constitution does not address all recent legislation, eg Local Government and Public Involvement in Health Act 2007, and the Council is revising it during 2009/10. Although there are a number of actions being taken by the Council to improve its arrangements for governing the business, to date the outcomes are limited.
- 35** The Council has adequate arrangements for managing other resources. The Council has spent the last 18 months developing policies and strategies to improve the management of natural resources. There is now a clear understanding of the current position and challenging targets have been set by the Council. There is no strategic asset management plan in place, although one is currently being developed.
- 36** I have made recommendations relating to use of resources in my separate use of resources report to the Council.

VFM Conclusion

- 37** 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.
- 38** I issued an adverse qualified conclusion stating that the Council had inadequate arrangements to secure economy, efficiency and effectiveness in its use of resources.
- 39** I identified significant weaknesses in the Council's arrangements in four out of the nine areas assessed, summarised as follows.
- The medium term financial strategy in place during 2008/09 did not clearly link to other documents setting out capital and HRA financial plans nor to the organisation's strategic objectives, contained little scenario planning, and highlighted a budget gap but not how it is to be closed.
 - There were clear examples of contracts being let during 2008/09 which did not follow the Council's own procedures and leave the Council open to challenge.

Value for money and use of resources

- During 2008/09 there was a breakdown in relationships between some key members and some officers resulting in fragmented leadership. The Constitution has not been updated since 2007 and is out of date. Delegation arrangements are not consistently understood which led to the failure to comply with the Council's contract standing orders.
- I was unable to obtain sufficient appropriate evidence that the Council had an up to date Strategic Asset Management Plan covering all its services in place during 2008/09. The Council does not routinely challenge whether assets are required, are fit for purpose and provide value for money.

Specific risk-based work

40 I carried out the following specific piece of work to provide me with assurance for my Use of Resources assessment in the following area.

- A follow up of review of procurement arrangements.

41 The main conclusions I drew from this work were as follows.

- There is a lack of clarity and understanding across all Services within the Council over Vertex's role in the procurement function and who to go to for procurement advice.
- Client side management of the Vertex contract during 2008/09 was ineffective. The Council has appointed client relationship managers to enhance this role and improve the engagement between officers and Vertex.
- There are clear examples of final stage contract awards being delivered which did not follow the Council's own procedures in full thus potentially leaving the Council open to challenge by unsuccessful tenderers
- The existing procurement strategy and contract specification are not suitable for the present needs of the Council. The strategy and contract are currently being reviewed.

Closing remarks

- 42** I have discussed and agreed this letter with the Interim Chief Executive and the Interim Corporate Director Resources. I will present this letter to cabinet on 16 December 2009 and will provide copies to all members of the Council by 31 December 2009.
- 43** 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 set out in Table 3.

Table 3

Report	Date issued
Audit and Inspection Plan	May 2008
Supplementary Audit Plan	March 2009
Changes to Audit approach	April 2009
Audit protocol	April 2009
Procurement follow up	May 2009
Interim audit report	June 2009
Annual governance report	September 2009
Use of resources report	September 2009
Post statements memo	November 2009
Organisational Assessment (including Managing Performance)	December 2009
Sustainability review	Included within Managing Performance reporting
Health inequalities follow up	Included within Managing Performance reporting

Closing remarks

- 44 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.

Paul King
District Auditor
December 2009

Appendix 1 – Value for money criteria

45 The following table summarises the position of the Council on each of the value for money criteria.

KLOE	Met
Managing finances	
Planning for financial health	No
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and Procurement	No
Use of information	Yes
Good governance	No
Risk management and internal control	Yes
Managing resources	
Natural resources	Yes
Strategic asset management	No

Appendix 2 – Action Governance Report action plan

Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Financial statements					
R1 Obtain related party transaction declaration forms from all members and senior officers and ensure that the register of interests is kept up to date for all members and senior officers.	2				
R2 Review all lease agreements or any agreement that may contain a lease in preparation for the implementation of IFRS.	3				
R3 Enhance the presentation of the HRA so that it meets the SORP requirements.	2				
R4 Liaise with the software provider to ensure that the creation of negative balances within the revaluation reserve is eliminated.	2				
R5 Prepare a year to date reconciliation between the accounts receivable system and the general ledger on a monthly basis and explain how the balancing entries arise and are cleared.	2				

Appendix 2 – Action Governance Report action plan

Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
R6 Explain how all the entries in the reconciliation between the accounts payable system and the general ledger arise and how they are cleared.	2				
R7 Produce a STRGL in which entries classified as other items can be fully supported.	2				
R8 Prepare the CFR in accordance with paragraph 85 of the Prudential Code.	2				
R9 Calculate a capital allowance as part of the pooling of capital receipts working papers.	2				
R10 Perform a detail review of capital expenditure at year end and produce a working paper as evidence of how FRS 15 has been met for items of capital expenditure.	3				
R11 Review tangible assets in the light of the capital programme and consider whether there are indications of impairment due to consumption of economic benefit and impair at the start of the year. Then subsequent expenditure, provided it complies with FRS15, can be counted as an addition to assets. This should be done for 2009/10.	2				

Appendix 3 – Use of Resources action plan

Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Use of Resources					
R1 Ensure the MTFS is updated to show a range of scenarios relevant to the Council, with figures covering all services and activities and focuses on how to close any identified funding gaps.	3				
R2 Ensure financial awareness training is delivered successfully to a wide range of Members and Officers.	2				
R3 Provide evidence of outcomes across the full range of services in terms of meeting the Council's priorities from the capital investments undertaken and as a result of the performance management processes in place.	2				
R4 Enhance budget reporting to include forecasting of projected outturn throughout the year.	3				
R5 Enhance financial and performance monitoring to ensure that the linkages between them are made clear and robust.	3				

Appendix 3 – Use of Resources action plan

Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
R6 Extend training in and use of, the flexible reporting tools within the financial reporting system to budget holders.	2				
R7 Ensure reconciliations between all feeder systems and the general ledger are produced on a monthly basis throughout the year, rather than just at year end.	3				
R8 Work with Vertex to improve monitoring of the contract, ensure it meets the Council's current business needs and incorporates outcome based performance measures to clearly demonstrate the strategic partnership contributes to the Council's priorities.	3				
R9 Extend examples of good practice commissioning found in some services across all relevant services at the Council.	2				
R10 Ensure that contracts are let solely in accordance with the Council's procurement procedures.	3				
R11 Incorporate data quality into the risk management system.	2				
R12 Ensure business continuity arrangements are reviewed and tested, as recommended by Internal Audit.	3				

Appendix 3 – Use of Resources action plan

Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
R13 Make explicit judgements on what action the Council wishes to take in respect of performance indicators in the bottom quartile.	2				
R14 Ensure improvements to the processes for dealing with interests, gifts and hospitalities reported to June 2009 Standards Committee are implemented in practice	3				
R15 Review and update the Constitution.	3				
R16 Deliver evidenced outcomes as a result of the data quality, risk management and internal control processes in place.	2				
R17 Deliver measured outcomes against the use of natural resources strategies the Council has developed.	2				
R18 Develop a comprehensive Council-wide strategic asset management plan which seeks to maximise use of assets.	3				
R19 Extend review of assets to incorporate those held by partners to ensure best use is made of them.	3				

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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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