

# Annual Audit Letter

Welwyn Hatfield Borough Council

Audit 2008-2009

November 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 accounts and the results of the work I have undertaken to assess the way in which you use your resources.**

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## Accounts

- 1** The Council is required to prepare and approve its accounts by the 30 June 2009. The Council met that deadline. The accounts were complete and were supported by a good set of working papers, which enabled me to complete my audit programme by the 30 September deadline.
- 2** Our audit did find some errors in the approved accounts. The Council agreed to correct a number of these but officers chose not to amend for a number of others. These errors were not so significant as to distort the overall financial position of the Council. However, I reported these to the Council's Audit Committee (as those charged with the governance of the Council), who concurred with officers decision not to amend the accounts for those errors. The Audit Committee formally provided me with their rationale for not adjusting the accounts for these errors.
- 3** As a result of my work, I concluded that the accounts 'presented fairly' the Council's financial position at the 31 March (an unqualified audit opinion) and its income and expenditure for that financial year.
- 4** An enhanced reporting framework (International Financial Reporting Standards) is to apply to all Councils accounts in 2010/11. The Council have developed a project plan to implement these standards and is progressing with the implementation of this plan.

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## Use of resources

- 5** We assess how the Council makes use of the resources at its disposal 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.
- 6** The Council is performing well overall (Level 3). It attained the following scores in our assessment:
  - Level 3 in respect of the way it manages its finances;
  - Level 3 in respect of the way it manages its people; and
  - Level 2 (performing adequately) in respect of the way it manages and governs the business as a whole.

### Managing finances

- 7 The Council has robust and integrated financial planning arrangements to support it in delivering corporate objectives which have been developed through consultation with stakeholders. The Council has a good understanding of its costs and factors that affect them, which allows it to make robust decisions based on sound information, including wider implications such as social and environmental impact.
- 8 Financial information is considered with performance information on a timely basis. Capacity gaps within Finance have been addressed and other audit issues identified during the prior year audit have been proactively managed. Accessible formats are used to publish information, with equalities impact assessments undertaken prior to publication. The community was consulted on the format and content of publications, and feedback received has been acted on.

### Governing the business

- 9 The Council has a clear vision, developed with stakeholders and the community, and translated into corporate promises that drive the Council's business and performance against these priorities is monitored.
- 10 The Council understands the needs of its diverse community. The key strength for the Council is the volume of services outsourced which has secured value for money whilst maintaining good satisfaction levels. Arrangements are in place to ensure that good quality data is available for decision making. Data security arrangements are in place and these are monitored.
- 11 Governance roles and responsibilities are clearly defined, promoted and are in place for all significant partnerships. An ethical framework and culture is in place but the whistleblowing policy contains out of date contact information and needs to be updated. Risk management arrangements are in place and these are clearly embedded in business processes. A sound system of internal control is in place.

### Managing resources

- 12 Workforce planning is aligned to service and financial planning. The Council has a productive and skilled workforce in place. An extensive range of policies are in place to manage and reward staff, and support work life balance with positive outcomes achieved.
- 13 As a result of my assessment, I concluded that the Council had proper arrangements in place for the way it manages its use of resources.

## Key messages

### Other supporting work

- 14 In order to support use of resources judgements, we undertook reviews of partnership arrangements for public sector bodies and how health-inequalities are being managed across Hertfordshire. In both instances, we found that arrangements are in place but more could be done to address the issues and use the combined resources within the County to better effect in these areas.

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### Managing performance

- 15 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 the local people.
- 16 The Council scores 2 out of 4 for managing its performance (same scoring mechanism as for Use of Resources above).
- 17 The Council consults with local people and knows that they want to improve the town centres, feel safe, recycle more and tackle problems with parking and traffic congestion, whilst keeping council tax as low as possible.
- 18 The Council is gradually improving its services. The impact of the recession poses even greater challenges, but the Council has strengthened its approach to planning, revised its budgets and improved monitoring of progress. The area is becoming safer but the area needs to be cleaner. Recycling levels have not improved and compare poorly to others and public satisfaction with litter is mixed. Affordable housing and decent homes targets are being met but are not improving.
- 19 The Council has a good approach to equalities and has a strong and inclusive approach to partnership working.

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### Overall organisational assessment

- 20 The Use of Resources and Managing Performance assessments are combined to give an overall organisational assessment judgement for the Council. The Audit Commission has determined that the organisational assessment judgement for Welwyn Hatfield Borough Council is that it performs adequately. Despite the Council having robust financial aspects of the business, it is not consistently delivering quality services and outcomes that matter most to local residents.
- 21 The Council's Managing Performance and Organisational Assessment are being reported separately by the Audit Commission's Comprehensive Area Assessment Lead for Hertfordshire, Gary Hammersley.

### Financial standing

- 22** The last year has seen the Country enter a significant economic recession on the back of a global economic crisis triggered by the collapse of a number of high profile international banks.
- 23** The consequence locally, is an increasing demand for public services and the likelihood of reduced levels of central government funding. Together, these will provide a significant challenge for local councils as they seek to continue to provide services to local residents, whilst maintaining a sound financial position.
- 24** The Council is responding to this challenge. The implications of the recession are understood and the challenges faced are being acknowledged by the Council as a whole. The latest financial strategy actively considers the impact of the economic downturn and addresses the funding shortfalls and increased demand for services identified.
- 25** The impacts of the recession will continue to present a challenge to the Council in the coming financial year. I will continue to monitor the Council's response and actions in this key area.

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### Audit fees

- 26** I have been able to deliver and conclude my main audit programme within the fee that I planned.

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### Independence

- 27** As the External Auditor appointed to audit the Council, I have to maintain my independence. I confirm that this audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

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### Recommendations

- 28** I have made a number of recommendations within my Annual Governance and Use of Resources reports, to further develop the arrangements in place at the Council.
- 29** The Council should monitor the implementation of these recommendations.

# 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.**

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- 30** I issued an unqualified opinion on the Council's accounts on 29 September 2009, thereby meeting the 30 September 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.
- 31** 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 issued my report on 28 September 2009.

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## Accounting issues

- 32** The draft accounts were approved on 29 June 2009, prior to the 30 June deadline specified in the Accounts and Audit Regulations 2003.
- 33** In general, working papers supporting the accounts were to a good standard, and responses to queries and requests for additional information were helpfully and promptly dealt with by finance staff. There is still some scope for further improvements next year and these have already been discussed with officers.
- 34** The audit did not identify any material errors in the financial statements. However, a number of amendments were made to ensure disclosures met the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2008.
- 35** We found a significant improvement in the capital accounting arrangements this year. Capacity within Finance was strengthened in this area and a proactive approach taken to discussing emerging issues with ourselves during the production of the accounts. There is still scope for further improvement, particularly in relation to the maintenance of the fixed asset register.

- 36** I did not identify any significant weaknesses in your internal control arrangements and the Council's annual governance statement was in accordance with requirements. The Council's internal audit team comply with the requirements of the CIPFA Code. The financial systems underpinning the accounts continue to operate with generally sound controls in place. Internal audit have reviewed these systems and made a number of recommendations. I support the implementation of these recommendations as a way of strengthening the Council's control environment.
- 37** I presented my Annual Governance Report to the Council on 28 September 2009 which included the full details of the issues arising from our audit of the accounts. I reported the adjusted and unadjusted errors that my audit had found. I requested that the Audit Committee formally consider the audit errors, for which officers had chosen not to adjust the accounts for.
- 38** This consideration was formally recorded in a Letter of Representation to me, which allowed me to conclude my audit procedures and issue my audit opinion as set out above.

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### Certification of claims and returns

- 39** We certify the Council's claims and returns on the following basis:
- claims below £100,000 are not subject to certification;
  - claims between £100,000 and £500,000 are subjected to a reduced, light-touch certification; and
  - claims over £500,000 are subjected to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment leads to a reduced certification approach for these claims.
- 40** The Council's housing subsidy, benefits and base data returns required amendment prior to certification and qualification letters were issued in relation to benefits and the housing base data return. The reasons for the amendments and the qualifications are not significant therefore there are no matters to report to those charged with governance.
- 41** Improvements to strengthen the Council's arrangements for the preparation of claims and returns have been agreed with officers.

### International Financial Reporting Standards

- 42 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.
- 43 Applying IFRS will have significant implications for the way in which local authorities prepare their annual financial statements. The Council has a detailed project plan in place, with clear roles and responsibilities, and progress is reported regularly to the Audit Committee. The intention is to restate the 2008/09 financial statements by the end of December 2009.

# 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

- 44** 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.
- 45** 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.
- 46** Although the methodology has changed, the Council's arrangements have improved in comparison to last year. The areas strengthened during 2007/08 are now embedded and delivering outcomes. The Council's use of resources theme scores are shown in Table 3 below.

**Table 1 Use of resources theme scores**

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

- 47** The key findings and conclusions for the three themes, and the underlying KLOE, are set out in my Annual Governance Report. I have provided a more detailed report of my findings to officers. The key theme findings are summarised overleaf.

## Value for money and use of resources

### Managing finances

- 48** The Council has robust and integrated financial planning arrangements, annually and over a rolling three year period, to support it in delivering corporate promises (objectives) which have been developed through consultation with stakeholders. Spending is managed through the collective responsibility of officers and members.
- 49** The Council has a good understanding of its costs and factors that affect them, which allows it to make robust decisions based on sound information, including wider implications such as social and environmental impact. Comprehensive business cases and clear criteria drive investment decisions, and this has led to the effective outsourcing of services and excellent efficiency savings and value for money.
- 50** Timely, reliable and adequate financial monitoring and forecasting information is produced, linked to risk management, which is challenged by senior managers and members. Financial information is considered with performance information, particularly at quarterly performance clinics, and includes commentaries. Financial detail provided differs to meet users' needs. The 2008/09 accounts were prepared in accordance with requirements and supported by good quality working papers. Our audit identified no material errors but a number of non-trivial errors were found. Capacity gaps within Finance have been addressed and other issues identified during the prior year audit have been proactively managed. The latest accounts and annual audit and inspection letter are available on the Council's website, and accessible formats are used to publish information, with equalities impact assessments undertaken prior to publication. The community was consulted on the format and content of publications, and feedback received has been acted on.
- 51** The Council has arrangements in place to effectively manage the investment of its surplus funds that is reviewed annually by internal audit. A treasury management policy and strategy is in place, in line with CIPFA guidance, that clearly outlines the bodies where investments can be made. Regular updates to these bodies are provided by the Council's advisers, as is training in treasury management.

### Governing the business

- 52** The Council understands the needs of its diverse community, and this influences the commissioning and procurement actions taken, in line with robust arrangements, and involving users through to members. The key strength for the Council is the volume of services outsourced which has secured value for money whilst maintaining good satisfaction levels.
- 53** Arrangements are in place to ensure that good quality data is available for decision making, including from partners. Data security arrangements are in place and these are monitored. Performance against priorities is monitored.

- 54** Governance roles and responsibilities are clearly defined and are updated annually. Changes were made to the senior management structure to strengthen focus on corporate promises. Good working relationships exist between members and officers, and development opportunities are provided. Good governance promoted, with CIPFA/SOLACE guidance followed. The Council has a clear vision, developed with stakeholders and the community, and translated into corporate promises and action plans that drive the Council's business. Ethical framework and culture is in place but the whistleblowing policy contains out of date contact information. Governance arrangements are in place for significant partnerships.
- 55** Risk management arrangements are in place and these are clearly embedded in business processes. An anti-fraud and corruption strategy is in place, and this has been communicated internally and externally, together with awareness sessions held. A sound system of internal control is in place. This is underpinned by the Audit Committee, Internal Audit, properly managed and controlled financial systems and by having business continuity plan in place which are regularly tested.

### Managing resources

- 56** The Council has a productive and skilled workforce in place, with training provided to address gaps. An extensive range of policies are in place to manage and reward staff, and support work life balance with positive outcomes achieved. Workforce planning is aligned to service and financial planning. During organisational change, the Council has effective communication processes in place. The policies in place support diversity and the Council has achieved Level 3 of the Equalities Standard.

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### VFM conclusion

- 57** 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.
- 58** Based on the Use of Resources assessment, which was linked to the criteria set out above, I was able to issue an unqualified conclusion, stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

### Specific risk-based work

**59** I carried out the following specific pieces of work to provide me with assurance for my Use of Resources assessment in the following areas:

- a review of Partnership arrangements in Hertfordshire; and
- a follow up of my 2007/08 Health inequalities report and recommendations.

### A review of Partnership arrangements in Hertfordshire

**60** Hertfordshire Forward (the County wide Local Strategic Partnership) and the Audit Commission both identified the need to examine the approach to strategic partnership work in Hertfordshire. To avoid duplication, and ensure that the work reflects local issues, the Audit Commission and officers from Hertfordshire Forward (HF) have worked closely together to coordinate the project and deliver the findings. Government Office (East of England) has also actively supported the work.

**61** The organisations participating in our audit were the County Council, the ten district or borough councils, the two Primary Care Trusts (PCTs), Hertfordshire Police, Hertfordshire Probation Service, the Hertfordshire Fire and Rescue Service and the Voluntary and Community Sector.

**62** The purpose of this audit was to examine whether partnership working between strategic partners is achieving effective outcomes. In particular, looking at the culture of partnership working between tiers of local government and between sectors in Local Strategic Partnerships. This was structured around nine themes: membership; clarity of purpose; relationships; representation; engagement; commitment; performance management; ambition and thematic groups.

**63** The review was completed over five stages and involved an online survey, telephone interviews and a participative workshop.

**64** Key conclusions were:

- There is evidence of strong commitment and willingness to work together with a range of examples of where partnership working has produced successful outcomes. However, there is a general lack of clarity about the roles and functions of partnership structures, how partnerships link together and their composition with impedes the ability to work across sectors and partnerships.
- Whilst there are some examples of performance monitoring in partnerships, performance management is generally underdeveloped. There is an overall consensus that there is not a consistent performance management system across all partnerships, for example, priorities are generally not underpinned by targets which are specific, measurable, achievable, relevant and timely (SMART), except those expressed in the Local Area Agreement; and there is very little awareness of how other partnerships are performing. It is also not clear who the different partners are accountable to and how they could collectively demonstrate that they had achieved their priorities.

- Many partners expressed concern about the capacity to resource partnership working. This suggests that tasks from partnerships are seen as additional workload rather than integral to their organisation's priorities. This in turn points to the need for greater correlation between partnership and organisational priorities and the need to ensure partnership priorities are resourced.

**65** High level recommendations have been made to all partners to:

- improve the effectiveness of partnership working;
- develop accountability and representation;
- develop engagement and communication; and
- enhance performance management arrangements.

**66** It is expected that progress against these recommendations will be monitored by Hertfordshire Forward and we will be undertaking a formal follow up later this year.

### Health inequalities follow up

**67** In 2007, we undertook a review across the East of England to examine how well partners in each county were tackling health inequalities. The aim of this work was to explore how well local authorities, PCTs and the voluntary sector were working in partnership to address health inequalities, what evidence there was of local partners reducing health inequalities and how partners were progressing action to achieve/improve on targets. Our review in Hertfordshire identified that a lot of effort was being made to tackle inequalities at a local level but that the impact of this work was not always effectively measured.

**68** Our follow up work has identified that:

- although the building blocks are in place, partners have not yet implemented a cross-cutting and cross-sector approach to addressing health inequalities but it is acknowledged that health inequalities issues are recognised in other documents;
- strategies and plans at County level are based on clear and comprehensive data about health needs, and there is a clear move to engage GPs in the health inequalities agenda; and
- despite the strategies and plans, joint action to tackle health inequalities has not been developed at County level, including performance management systems.

**69** We will continue to monitor progress in tackling this significant agenda.

# Financial standing

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- 70** The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. The impact on treasury management strategies has been immediate, but there are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams.
- 71** There are further challenges for policy priorities where patterns of demand for services are changing. I have reflected on the wider environment, specific issues and risks and the Council's response.
- 72** The financial position of the Council is becoming increasingly challenging, in particular, for future financial periods (2009/10 onwards):
- increased use of balances to support the budget in 2009/10. The use of reserves has increased from £0.3 million to £0.7 million, mainly as a result of a reduction in income receipts; and
  - medium term financial planning has identified significant funding gaps of £0.5 million in 2010/11, rising to £0.9 million in 2011/12.
- 73** The Council is responding to this challenge; the medium term financial strategy actively considers the impact of the economic downturn and addresses the funding shortfalls identified. The implications of this are understood and the challenges faced are being acknowledged by the Council as a whole.
- 74** Though the economic downturn is presenting specific issues and risks to the Council, I am satisfied that it is taking appropriate steps to respond to this. However, this is an area I will continue to consider closely when assessing how the Council makes effective use of resources during my 2009/10 audit.

# Audit fees

**75** The actual audit fee is more than planned, as outlined in Table 1 below. Whilst we have been able to place reliance on the control environment surrounding the preparation of a number of the Council's claims and returns, a number of issues were identified in relation to the benefits claim which resulted in additional work being required.

**Table 2     Audit fees**

	<b>Actual</b>	<b>Planned</b>	<b>Variance</b>
Financial statements and annual governance statement	£90,138	£90,138	£0
Use of resources 2007/08	£23,602	£23,602	£0
Data quality 2007/08	£13,574	£13,574	£0
Whole of government accounts	£4,027	£4,027	£0
<b>Total audit fees</b>	<b>£131,342</b>	<b>£131,342</b>	<b>£0</b>
Certification of claims and returns	£62,983	£58,050	£4,933
<b>Total</b>	<b>£194,325</b>	<b>£189,392</b>	<b>£4,933</b>

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# Closing remarks

- 76** I have discussed and agreed this letter with the Chief Executive and the relevant Director (Finance and Operations). I will present this letter at the Audit Committee on 9 December 2009 and will provide copies to all Members.
- 77** 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.

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**Table 3**

<b>Report</b>	<b>Date issued</b>
Audit and inspection plan	June 2008
Annual governance report	September 2009
Opinion on financial statements	September 2009
Value for money conclusion	September 2009
Annual audit letter	November 2009
Use of resources report	November 2009
Review of partnership arrangements in Hertfordshire	May 2009
Health inequalities follow up	July 2009
Managing Performance and Organisational Assessment	December 2009

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- 78** 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.

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## Availability of this letter

- 79** This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk), and also on the Council's website

Mark Hodgson  
District Auditor  
November 2009

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# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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