



PUBLIC SECTOR

Annual Audit Letter 2008/09

West Berkshire Council
01 December 2009

AUDIT

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This report is addressed to the Council and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Greg McIntosh, who is the engagement director to the Authority, telephone 020 7311 6430, email greg.mcintosh@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4000, email trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

Executive Summary

Purpose

This Annual Audit Letter (the Letter) summarises the key issues arising from our 2008/09 audit at West Berkshire Council (the Council). Although this Letter is addressed to the Members of the Council, it is also intended to communicate these issues to key external stakeholders, including members of the public. The Letter will also be published on the Audit Commission website at www.audit-commission.gov.uk. It is the responsibility of the Council to publish the letter on its website at www.westberks.gov.uk. Throughout our audit we have highlighted areas of good performance and also provided recommendations to help you improve performance. A summary of our key recommendations is set out in Appendix 1. We have reported all the conclusions in this letter to you throughout the year and a list of all reports we have issued is provided in Appendix 2.

Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998. Our main responsibility is to carry out an audit that meets the requirements of the Audit Commission's *Code of Audit Practice* (the *Code*) which requires us to review and report on your:

- *use of resources* - whether you have made proper arrangements for securing economy, efficiency and effectiveness (value for money) in your use of resources (UoR). Our work is summarised in section 2; and
- *accounts* – the Financial Statements and the Annual Governance Statement, summarised in section 3.

Key Messages

- Our **use of resources** assessment, the first under the Audit Commission's new UoR regime, demonstrated that the Council had sound processes in place for all elements of the assessment. Scores of level three ('performing well') were achieved in respect of the 'Managing Finance' and 'Governing the Business' and a level two ('performing adequately') in respect of 'Managing Resources'. We concluded that the Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Our value for money conclusion was therefore unqualified.
- We issued an unqualified opinion in respect of the **audit of the accounts**. Some amendments were required, however, these had no impact on the general fund and were not considered to significantly impact on the reader's interpretation of the accounts.

Fees

Our fee for the audit was £225,000. This was at the level agreed in the Audit and Inspection Plan.

Future Issues

- From 2010/11, local government bodies are required to prepare their financial statements under International Financial Reporting Standards (IFRS), which contain a number of significant differences from the current financial reporting regime. The Council has started preparing for this transition, and has a detailed implementation plan in place.
- Those local authorities in the Carbon Reduction Commitment scheme will need to start reporting their usage from 1 April 2010 and recording these transactions within their financial statements with effect from 1 April 2011. There will be implications for cash flow, energy bills, and investment decisions and these could be significant. There are opportunities in addressing sustainability with clear cost reduction benefits from saving energy which will become more significant over time. There are also opportunities to use the sustainability agenda to support the achievement of business challenges. It puts carbon reduction firmly amongst the priority areas for local authorities, with the opportunities outlined above applying even for those authorities who are not captured by the scheme.
- Sustainability performance - The Treasury is developing guidance for 2010/2011 which will require all public sector bodies to report publicly on sustainability performance in annual reports. CIPFA is in discussion with the Treasury about when and in what form this requirement will be formalised for local authorities. The reported information will be subject to audit and scrutiny. Sustainability reporting will be difficult to implement and many organisations will need to act quickly to implement new information gathering processes.

Future Issues (cont)

- Public expenditure forecasts indicate that there will be significant pressure on local authorities' funding in the medium term. Future financial settlements will be tight, increasing the need for local authorities to have comprehensive efficiency programmes supported by sound financial management arrangements. It is likely that bold measures will be required to generate sufficient savings to mitigate the impact on priority services. More than ever before, officers and Members will need to focus on identifying these significant savings measures and ensuring that robust arrangements are in place to monitor their delivery to ensure they are realised. The Council has a good track record in delivering such efficiency and savings targets. It will, however, be necessary to continually assess and update the Council's plans to ensure that you can deliver the levels of savings required for the future, particularly as pressure increases to minimise council tax rises.

Acknowledgement

We would like to thank the Council's management and staff for the help, support and co-operation they have provided throughout our audit.

Use of resources

The main elements of our use of resources work are:

- *Use of Resources* - from 2008/09, the Audit Commission introduced a new UoR assessment framework which forms part of the Comprehensive Area Assessment (CAA). This replaced the former UoR assessment which was predominantly focused on processes. The scope of the new regime is wider as it also considers whether public bodies have achieved significant and sustainable outcomes. UoR assessment comprises three themes which consider:
 - Managing finances – focusing on sound and strategic financial management;
 - Governing the business – focusing on strategic commissioning and good governance; and
 - Managing resources – focusing on the management of natural resources, assets and people.
- *Value for money conclusion* – we issue a conclusion on whether we are satisfied that you have put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources. This is based on the UoR assessment.
- *Specific risk based work* – we did not carry out any specific risk area reviews in 2008/09.

The findings from this work are summarised below.

Element of work	Key findings								
Use of Resources	<p>Our assessment of the Council against the three themes resulted in the following scores on a scale of one (inadequate) to four (performing strongly):</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="background-color: #003366; color: white;">Area</th> <th style="background-color: #003366; color: white;">Score</th> </tr> </thead> <tbody> <tr> <td style="background-color: #e6f2ff;">Managing finance</td> <td style="background-color: #e6f2ff;">3</td> </tr> <tr> <td style="background-color: #e6f2ff;">Governing the business</td> <td style="background-color: #e6f2ff;">3</td> </tr> <tr> <td style="background-color: #e6f2ff;">Managing resources</td> <td style="background-color: #e6f2ff;">2</td> </tr> </tbody> </table> <p>Overall, the Council demonstrated robust processes in place against all assessment areas, and successfully demonstrated how these were being used to generate outcomes. Key areas for focus going forward include:</p> <ul style="list-style-type: none"> ● Consideration of whether the publication timetable for the annual report can be brought forward, and the extent to which stakeholder views can be taken into account in developing the annual report; ● Demonstration of the outcomes being achieved through the Council's sustainability initiatives and projects, many of which have commenced during 2009; and ● Consideration of how the Council can demonstrate outcomes and efficiencies being achieved through the strategic and operational management of its assets. <p>Specific recommendations and our detailed assessment is included in our Report to Those Charged with Governance (ISA 260).</p>	Area	Score	Managing finance	3	Governing the business	3	Managing resources	2
Area	Score								
Managing finance	3								
Governing the business	3								
Managing resources	2								
Value for money conclusion	<p>We issued an unqualified value for money conclusion for 2008/09.</p> <p>This means that we are satisfied that you put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources.</p>								

Financial statements

Audit opinion

We issued an unqualified opinion on your accounts on 29 September 2009. This means that we believe the accounts give a true and fair view of the financial affairs of the Council and of the income and expenditure recorded during the year.

Before we give our opinion on the accounts, we are required to report to 'those charged with governance' any significant matters identified. We did this in our report to the Governance and Audit Committee meeting on 28 September 2009 and the key issues are summarised here.

Accounts production and adjustments to the accounts

- We received a complete set of draft accounts by the 30 June deadline supported by good quality working papers.
- Our audit identified several adjustments, none of which impacted on the general fund balance. The most significant of these in monetary terms included a reclassification between Government Debtors and Collection Fund Debtors and a reclassification between Debtors and Cash for cash received before the year end.
- Our audit resulted in three recommendations regarding financial controls.

There were no other issues raised for the attention of the Governance and Audit Committee.

Appendix 1: Key recommendations

This appendix summarises the main recommendations that we identified during 2008/09, along with your response to them. Only medium priority recommendations have been included here (no high priority recommendations were raised) Other lower priority recommendations are contained, as appropriate, in our audit reports (which are listed in Appendix 2).

Issue/ Recommendation	Management Response / Timescale for implementation
Financial statements audit	
<p>Related Party Transactions</p> <p>Members are not required to complete annual related party disclosure confirmations and are only required to inform Council Officers of any changes since the last related party declaration was completed. Some of these related party disclosures therefore have not been updated or re-confirmed for a significant amount of time.</p> <p>In order to comply with good practice and demonstrated transparency, we recommend that all members complete a related party return on an annual basis.</p>	<p>A revised Related Party Transaction form will be created and sent out to all members (including any co-opted members such as independent members of Standards Committee) on an annual basis after the Council's AGM along with Declaration of Interest returns and reminders sent by the Head of Policy and Communication six months thereafter</p> <p>May 2010</p>
<p>Review of Northgate access rights</p> <p>From our work on IT general controls we noted that there is no regular review of Northgate access rights to ensure that all users.</p> <p>We recommend a regular review is undertaken to ensure that access rights are appropriate and leavers' accounts are disabled.</p>	<p>Controls are in place to ensure system access is only provided as appropriate. These controls will be reviewed to ensure that they remain effective.</p> <p>Immediate</p>
<p>Northgate System parameters for passwords</p> <p>Our review of password criteria in Northgate demonstrated that minimum length criteria is not enforced, meaning that basic non-complex passwords can be used.</p> <p>We recommend that password controls are made more robust to reduce the risk of inappropriate or fraudulent access to the system.</p>	<p>This issue will be addressed as part of the review referred to in 2 above</p> <p>Immediate</p>
Use of Resources	
<p>Managing Finances – KLOE 1.3</p> <p>To achieve an improved score in relation to KLOE 3.3, the Council will need to consider whether the annual report publication timetable can be brought forward. The Council must also ensure that stakeholder views and quality standards are maintained in respect of all external reporting, and that reports are accessible to all stakeholder groups.</p>	<p>The VfM group is collating action plans to help deliver a level 3 for the 2009/10 financial year. These will be reviewed throughout the year as part of WBC's monitoring of Use of Resources</p> <p>On-going</p>
<p>Managing Resources – KLOE 3.1</p> <p>To achieve an improved score in relation to KLOE 3.1 (sustainability), the Council will need to demonstrate the outcomes and benefits being achieved in relation to the initiatives and projects being rolled out. We note that many of these initiatives are new, and would anticipate that, providing the Council can demonstrate that statutory and local targets in relation to the sustainability agenda and carbon reduction are being achieved, that this score will be improved in future years.</p>	<p>The VfM group is collating action plans to help deliver a level 3 for the 2009/10 financial year. These will be reviewed throughout the year as part of WBC's monitoring of Use of Resources</p> <p>On-going</p>

Appendix 1: Key recommendations (continued)

Issue/ Recommendation	Management Response / Timescale for implementation
Use of Resources audit (cont)	
<p>Managing Resources – KLOE 3.2</p> <p>To further improve its score in this area, the Council should consider how it can demonstrate outcomes and efficiencies being achieved through the strategic and operational management of its assets. This should include not only the consideration of its own priorities, but also those of partners and service users. Current initiatives being rolled out, such as 'Timelord' should be carefully monitored and measured to provide evidence of efficiency, effectiveness and improvement being achieved.</p>	<p>The VfM group is collating action plans to help deliver a level 3 for the 2009/10 financial year. These will be reviewed throughout the year as part of WBC's monitoring of Use of Resources</p> <p>On-going</p>

Appendix 2: Audit reports issued

A summary of the reports issued in the year to date is set out below.

Report	Date issued
Audit and Inspection Plan 2008/09	June 2008
Report to those charged with governance (ISA 260)	September 2009
Annual Audit Letter	December 2009