

Annual Audit Letter

Bromsgrove 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 the way you manage your performance and your arrangements to secure value for money in your use of resources.

Overview

- 1** Bromsgrove District Council has made significant progress in improving service delivery and performance management over the last few years and the last Comprehensive Performance Assessment received a score of 'Fair'. In October 2009 you were informed that the formal engagement process which had been in place in 2004 was no longer considered necessary. This is a reflection of your commitment to improve your performance and your arrangements to secure value for money.
- 2** You have progressed with Shared services through working with Redditch Borough Council, approving the business case for complete integration in August 2009 followed by the appointment of a Shared Chief Executive in September 2009. This work is carrying on apace with a view to having a single management team over both Councils by April 2010 followed by sharing of all services over the next three years. The appointment of Directors is planned for December 2009 with Heads of Service being appointed in early 2010.
- 3** The proposals provide a significant opportunity for better local services but they present a great challenge and will require close monitoring to ensure that services continue to be provided in line with the Council's priorities. The business plan for Shared Services has significant costs in the first year which is to be expected for a project of this nature. The Shared Services project is anticipated to result in efficiency savings of around £1.2 million over a five-year period for both Bromsgrove District Council and Redditch Borough Council. The Council has limited reserves in which to fund the transformation of working.

Audit Opinion and Financial Statements

- 4** The Financial Statements for 2008/09 were presented for audit on 29 June 2009 prior to the statutory deadline of the end of June. They contained several errors and uncertainties. The most significant of these was the capitalisation as intangible assets of costs totalling £4.5 million incurred on the Spatial Project.
- 5** Accounting rules are that expenditure can only be capitalised if it meets certain criteria. The Council had not put appropriate arrangements in place to assess the expenditure incurred on the Spatial Project against the specific accounting requirements for it to be determined as capital.

- 6** In my opinion at least £2.1 million of this expenditure was not capital because it was described as management consultancy. This expenditure should have been charged to the Income and Expenditure account in the year, the value of fixed assets should have been reduced by £2.1 million and the deficit for the year increased by the same amount, resulting in a negative general fund balance of £347,000. The Council is not permitted to hold a negative general fund balance and monies would have had to be identified from other reserves to bring the general fund balance to at least a zero position.
- 7** For the remaining £2.4 million capital expenditure on the Spatial Project I did not receive sufficient evidence to support the capital nature of the expenditure. These amounts are much greater than the materiality level for the audit of £716,000 so I was unable to certify that the accounts were materially correct.
- 8** Therefore I issued a qualified audit opinion on the 30 September 2009 because in my view £2.1 million of capital expenditure on the Spatial Project should have been charged to revenue and because I had insufficient evidence that the £2.4 million balance of expenditure on the Spatial Project was all capital.
- 9** Your Head of Financial Services is taking the necessary actions to analyse the expenditure incurred against the specific accounting requirements to identify how much qualifies as capital. For the amount which does not qualify she is seeking a retrospective capitalisation directive from Central Government, the Department of Communities and Local Government. If obtained this will give the Council permission to carry forward revenue expenditure as capital so there will not be need to fund it from general fund reserves. It is important that this matter is resolved not only for 2009/10 but looking further forwards.

Use of Resources

- 10** This is the first year in which you have been assessed using the more demanding and more outcome focused approach to Use of Resources. Overall for 2008/09 I assessed you as 'performing adequately' in your arrangements for managing finances, governing the business and managing resources.
- 11** Within the overall score I assessed one aspect of managing finances as not meeting minimum requirements: financial reporting. This arose because I qualified your accounts over the way the Spatial Project had been accounted for in your financial statements.
- 12** I also use my work on Use of Resources to help me conclude whether you have put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources, the value for money conclusion. In order to arrive at this conclusion all aspects have to be above minimum requirements. As explained above one of these aspects did not meet minimum requirements and so I issued a qualified value for money conclusion. The qualified value for money conclusion said that there are satisfactory arrangements in place to secure economy, efficiency and effectiveness except that you did not have in place adequate arrangements for ensuring your financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people.

Key messages

- 13** As this is the first year no comparisons can be made with previous year's scores, however it is important to note that the assessment for 2008/09 is a harder test than previously and the Council has done well to achieve its overall score.
- 14** The key areas for you to address going forward are:
- continue to ensure close monitoring of the Shared services transformation initiative with Redditch Borough Council; and
 - improve the quality of the financial statements by thorough supporting documentation and analysis.

Comprehensive Area Assessment

- 15** This is the first year of the new Comprehensive Area Assessment which was published by the Audit Commission on 9 December 2009. I have summarised the findings for Bromsgrove at the end of this letter.

Actions

- 16** Recommendations are shown within the body of this report and have been agreed with the audited body.

Financial statements and annual governance statement

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

Audit opinion

17 I issued a qualified opinion on the Council's accounts on 30 September 2009. In my opinion the accounts did not present fairly the Council's financial position and its income and expenditure for the year.

Significant issues arising from the audit

18 The financial statements were presented for audit on 29 June 2009 before the statutory deadline of the 30 June.

19 I identified errors and uncertainties in the financial statements in respect of the Spatial Project. The Spatial Project is a transformational project originally part of the Local Authority Modernisation Programme (LAMP). Intangible assets on the Council's Balance Sheet include the £4.5 million total cost on this project. A breakdown was provided from the supplier of the various elements of their services which included £2.1 million on management consultancy costs. Management consultancy costs do not fall within the definition of expenditure which can be capitalised and the authority was unable to provide any evidence to support capitalising them. Therefore in my view these costs should have been charged to revenue and the accounts contain a material error.

20 The remaining £2.4 million of expenditure on the Spatial Project was for other services from the supplier relating to software, data verification, interfaces and document management. Supporting documentation was not provided to show that these costs should be capitalised in accordance with the appropriate accounting standards. My opinion therefore included a limitation of scope qualification because of the lack of evidence to support this £2.4 million.

21 Your Head of Financial Services is taking the necessary actions to analyse the expenditure incurred against the specific accounting requirements to identify how much qualifies as capital. For the amount which does not qualify she is seeking a retrospective capitalisation directive from Central Government, the Department of Communities and Local Government. If obtained this will give the Council permission to carry forward revenue expenditure as capital so there will not be need to fund it from general fund reserves. It is important that this matter is resolved not only for 2009/10 but looking further forwards.

Material weaknesses in internal control

22 The work did not identify any material weaknesses in internal control. However a number of control and process weaknesses were found that impacted upon the efficiency of the audit and required additional audit testing.

23 The weaknesses identified are as follows.

- The financial statements included a restatement of prior year's balances to recognise fixed assets of £464,000 which relate to industrial units which have been held for some years but were not on the balance sheet.
- During the year the processing of the monthly payroll system transferred to Redditch Borough Council under a service level agreement. Failings were identified in the testing of the controls within the payroll systems' previous and new arrangements. Additional audit work was undertaken to ascertain that no material errors had occurred.
- Failings were identified in the testing of some controls within the creditors systems resulting in additional audit work to ascertain that no material errors had occurred.
- The system for the processing of journals allows any member of the accounts team to process journals on the general ledger without referral to anyone else. The requirement for journals to be authorised by someone else within the team is an internal control that safeguards the Council's accounting systems through the segregation of duties. Additional audit work was undertaken on these journals to be satisfied that no material error had occurred.

24 The Head of Financial Services has put in place procedures to address the areas of weakness identified in fixed assets, payroll and creditors. Officers consider that adequate controls are in place over journals but I disagree. If arrangements remain unchanged additional audit work will be required in order for me to gain assurance over accounting controls.

Looking forward

- 25** The weaknesses in both the accounts preparation process and internal control are being addressed by the Head of Financial Services but they have resulted in an increase in the audit fee for this year as shown in Appendix 1. Recommendations on the areas for improvement are included in my Annual Governance Report which I presented to the Audit Board on 28 September.
- 26** It will be important to improve these areas not only for 2009/10 but looking towards 2010/11 when, in line with sector accounting the basis of the Council's financial statements will change from being UK GAAP (Generally accepted accounting principles) to IFRS (International Financial Reporting Standards).
- 27** Progress on this has been monitored and I have concluded that you are on track to meet these challenges. You have set up a project team, have a clear timeline and have conducted a risk assessment. You have engaged us with the project and the audit team will continue to work alongside you to ensure a successful transition.

Recommendation	
R1	Ensure that my agreed Annual Governance report recommendations are implemented by the agreed deadlines.

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

- 28** This is the first year of the new Use of Resources (UOR) Key Lines of Enquiry (KLOE). These are more broadly based than previously and embrace wider resource issues such as people and workforce planning, and the use of natural resources. The KLOEs are focussed around three themes; managing finances, governing the business and managing resources. These themes focus on value for money achievements, outputs and outcomes rather than on processes, and are therefore more strategic and less criteria driven.
- 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 which are at level 2.
- 30** Overall for 2008/09 I assessed the Council as 'performing adequately' (Level 2) in its arrangements for Managing finances, Governing the business and Managing resources (Table 1). My conclusions on each of the areas are set out below and more detailed findings are in Appendix 2.

Table 1 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances How effectively does the organisation manage its finances to deliver value for money?	2
Governing the business How well does the organisation govern itself and commission services that provide value for money and deliver better outcomes for local people?	
Managing resources How well does the organisation manage its natural resources, physical assets, and people to meet current and future needs and deliver value for money?	2

Overview

- 31** Within the overall score I assessed one aspect of managing finances as not meeting minimum requirements: financial reporting. This arose because I qualified your accounts as described earlier due to lack of evidence on and disagreement over how the Spatial Project had been accounted for in your financial statements.
- 32** Apart from this area the Council has the basic policies and procedures in place which are required to achieve a Level 2 score and the direction of progress remains positive.
- 33** The structure of the Use of Resources assessment is that within each theme are KLOEs and within each KLOE are focus points. Elements of working at Level 3, performing well, on several focus points were identified but were not across the whole of a KLOE. Examples where the Council performs well are the redirection of resources from lower to higher priority areas and for the first time a variety of budget consultation techniques were used including the use of a Budget jury to engage with the community as part of the budget preparation process.

Managing Finances (Performing adequately)

- 34** Your medium term financial plan is clearly linked to corporate objectives identifying cost pressures and efficiencies. An integrated financial and corporate planning process is in place and the delivery of objectives is monitored by using quarterly integrated performance and finance reports. The public were engaged in the budget preparation process by the use of a variety of forms including using a Budget Jury and on-line techniques.
- 35** The Council's knowledge of its costs is improving although the Council does not routinely compare its costs with other Councils. There is a robust system for managing efficiencies and delivering cost savings from non priority services. Spend is relatively high compared to others and the public's satisfaction of services is average or lower than average. You have an improved understanding of the reasons behind this.
- 36** The qualified opinion on your financial statements means that KLOE 1.3's focus point of 'prepares accounts that meet statutory requirements, financial reporting standards and present fairly, or give a true and fair view of, the financial performance and position' and overall is assessed at Level 1.
- 37** An area for further improvement is the quality of the financial statements by ensuring the use of thorough supporting documentation and analysis. Your Head of Financial Services is putting arrangements in place to address this area of weakness.
- 38** The review found that the basic policies and procedures were in place for all other areas of this theme.

Governing the Business (Performing adequately)

- 39** You have a clear vision of what you want to achieve based on a sound understanding of local need. Partnership arrangements are in place with the Local Strategic Partnership and the Voluntary Community Sector to deliver outcomes for the community.
- 40** The basic policies and procedures of good governance are in place for example standing orders, financial instructions, scheme of delegation and a code of conduct for members. Working relationships between members and staff have improved and are generally good.
- 41** The Council is improving its understanding of the market for procuring and commissioning services and goods and collaborative arrangements are in place with Redditch Borough Council.
- 42** A framework is in place to produce relevant and reliable data and information to support decision making and manage performance. The national indicator set was introduced by the government department from April 2008. As part of my work spot checks on three of these new indicators found that arrangements for 2 were not in place by the end of the year. Your officers have taken steps to put in place better arrangements.

- 43 Access to services has improved by the transformation of procedures and use of technology. Standards, procedures and the implementation of the national Government Connect gateway are in place to keep data secure.
- 44 You have embedded risk management procedures and those for project management are being developed to become more robust.
- 45 The review concluded that the basic policies and procedures were in place for all areas of this theme.

Managing Resources (Performing adequately)

- 46 The Council is Investors in People accredited and operates a Modern Managers Framework setting out the standards required of managers. Through the visible and open leadership of the Shared Chief Executive organisational change is effectively managed.
- 47 All staff received Personal Development reviews during the year and preparations have been made for a workforce plan to be implemented in winter 2009. The Council has assigned resources to Diversity and Equality and has achieved Level 3 of the Equality Standard.
- 48 The review concluded that the basic policies and procedures were in place for all areas of this theme.

Recommendation

R2 Ensure actions plans are in place to address the key improvement areas from my Use of Resources review
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VFM Conclusion

- 49 I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. The Audit Commission specifies each year which of the use of resources KLOE's 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 2.
- 50 During my work weaknesses in your arrangements were identified to prepare accounts that meet statutory requirements, financial reporting standards and present fairly the financial position of the Council.
- 51 Insufficient consideration was given to the accounting treatment of the Spatial Project in the Council's financial plans and in its preparations of its 2008/09 accounts. As the funding for the Spatial Project had not been adequately considered I have concluded the financial information to support strategic decision making was therefore weak and consequently the Council has a significant funding gap to address. During the audit of the accounts the Council was unable to provide any valid evidence to support the accounting treatment as capital of expenditure incurred in relation to this project.

Value for money and Use of resources

- 52** The Council is providing value for money in the way it provides and improves service to communities except that you did not have in place adequate arrangements for ensuring your financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people.
- 53** I issued a qualified Value for Money conclusion on 30 September 2009 stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources, except that it did not put in place adequate arrangements for ensuring its financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people.

Shared services

- 54** A review of the arrangements for the joint Chief Executive and for shared services has been carried out so that I can gain assurance that the process so far has been fair and independent, and will continue to be so. Although a formal report has not yet been issued on this review the outcome of the review to date is positive.
- 55** Sound procedures have been put in place to support the delivery of a joint Chief Executive and shared services at Bromsgrove District Council and Redditch Borough Council. The Councils have made good early progress. However, it involves a longer term programme of work and there are risks
- 56** We identified a strong desire by the lead Councillors, officers and other key representatives to make the process for sharing a Chief Executive and moving towards shared services work well and to learn from the lessons of others.
- 57** The legal issues arising from the proposals have been identified and are being worked through by the Councils' legal advisors. I do not anticipate any significant problems and will continue to monitor progress in resolving these.

Recommendation

- R3** The members should monitor delivery of savings expected from shared services and ensure any outstanding legal issues resolved.

Other matters

Financial standing

- 58** 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 local government as they seek to continue to provide services to local residents, whilst maintaining a sound financial position.
- 59** In January 2009 the Council approved a budget which identified the requirement to achieve savings of £566k in 2009/10, a further £1,035k in 2010/11 and a further £1196k in 2011/12. In November 2009 members received a report which included a projected overspend of £376k for 2009/10 and actions have been put in place to address this position. You are in the initial stages of reviewing the medium term financial plan for the three years 2010 /13. In November 2009 the cabinet received a report identifying a shortfall of £2 million over the three-year period. This shortfall is not covered by balances and will necessitate difficult decisions having to be made.
- 60** The impact of the recession will continue to present a challenge to public services and the Council in the coming financial year. I will continue to monitor the Council's response and actions in this key area.

Your Business at Risk

- 61** A web-based survey Your Business at Risk (YB@R) has been undertaken to focus on the business risks associated with Information and Communications Technology (ICT). This survey is part of a portfolio of tools developed by the Audit Commission's Good Conduct and Counter Fraud and IT knowledge network.
- 62** Despite improvements in the percentages of organisations which have developed Information and Communications Technology (ICT) security policies recent national studies have shown that as few as 20 per cent of staff have actually been provided with a copy and only 33 per cent have been informed about the policy and its implications for them. This has been accompanied by a significant increase in the inappropriate use of the internet and email.
- 63** In order to gain assurance that policies and procedures are effective the review was undertaken to determine how well these are embedded within the Council.
- 64** The survey focused on business risks in four areas of business disruption, risk of financial loss, risk of reputational damage and awareness of related key legislation. The survey was undertaken in two forms one aimed at users of ICT and the other at ICT staff available for completion over a seven week period.
- 65** The results of these surveys were collated and summary report issued with recommendations on these four areas. This was presented to the Audit Board at its meeting in December 2008.

- 66 The survey found that policies and procedures had been introduced and highlighted those areas in which staff required their awareness to be refreshed.

Recommendation

- R4** Ensure that my agreed Your Business @ Risk report recommendations are implemented by the agreed deadlines.

Project Management

- 67 In my Audit Plan a key risk for my Value for Money Conclusion was highlighted from our planning work on project management. In order to address this risk a review of project management arrangements was undertaken.
- 68 The audit reviewed project management processes at a corporate level and then assessed their application in practice in specific projects. It assessed performance at different stages in the project lifecycle of project set up and initiation; planning and design including procurement; implementation and project management and review and benefits realisation.
- 69 Considering these four stages the key findings which have been reported to the Audit Board were as follows.
- Conception - a framework is in place for setting up and initiating projects but options appraisals are limited and the identification of resources on projects is not yet embedded.
 - Planning and design - a sound structure is in place but project plans could be more detailed in some cases and the consideration of quality is still being embedded.
 - Implementation and project management - a comprehensive and structured approach to monitoring projects is being embedded but reports differ in levels of detail and analysis of risk extended.
 - Review and benefits realisation - a framework is in place but this area is still in its early stages of development.

Recommendation

- R5** Ensure that my agreed Project Management report recommendations are implemented by the agreed deadlines.

Treasury management

70 An overview of the Council's Treasury Management arrangements has been undertaken. This found that the Council scrutinises the treasury management framework and policies annually with formal reporting to the Council on treasury management activities twice a year. Further quarterly performance is reported to Cabinet and the Performance Management Board.

Follow up of Previous Years' work

71 We have followed up the actions identified as needed by the Council made in the previous year and satisfactory progress is being made.

National Fraud Initiative 2008

72 The arrangements in place to investigate and report the findings arising from the National Fraud Initiative 2008 have been reviewed and concluded that these arrangements are satisfactory.

Comprehensive Area Assessment

- 73** Comprehensive Area Assessment (CAA) is a new way of assessing local public services in England. It examines how well local government and other public bodies work together to meet the needs of the people they serve. The results of these assessments are available on the Audit Commission's OnePlace website.
- 74** For the first time, local public services will be held collectively to account for their impact on better local outcomes. CAA provides a mechanism to ensure that the needs of the local population are met through agencies working closely together to deliver improved outcomes.
- 75** This area assessment takes the single tier and county council boundary as the starting point and focuses on the prospects for better outcomes (including health outcomes) for the people living in that area. The review draws on a range of sources of evidence and will carry out additional investigation where analysis highlights this is necessary. This could involve any of the partners.
- 76** The Worcestershire Partnership will respond to the area assessment on behalf of all the bodies concerned. The issues that relate to the Council specifically are summarised in the organisational assessment paragraphs below. These and the findings for the whole county can be found on the One Place website.

Organisational Assessment

- 77** As part of the approach to CAA new Key Lines of Enquiry (KLOE) have been developed together with a new approach to Use of Resources (UOR) judgements. These judgements are broader than previously and have been applied consistently across all sectors.
- 78** One output of the CAA process is an Organisational Assessment score which combines the Managing Performance element and the findings of auditors from their work on Use of Resources (UOR) and elsewhere. The scores for UOR and Managing Performance assessments are given scores on the basis shown in Table 2.

Table 2 Organisational assessment

Description of scores	
1. An organisation that does not meet minimum requirements	Performs Poorly
2. An organisation that meets only minimum requirements	Performs Adequately
3. An organisation that exceeds minimum requirements	Performs Well
4. An organisation that significantly exceeds minimum requirements	Performs Excellently

Audit Commission

- 79** The Audit Commission published the organisational assessment judgement for Bromsgrove District Council in December 2009.
- 80** Bromsgrove District Council performs adequately overall. Local people recognise the Council's priorities as issues that are important to them. Improving the town centre has been made more difficult because of the recession. Crime is reducing and the Council is working with its partners to help people through the recession. But the Council knows where it needs to improve and works closely with other Council to help it improve. The costs of some services are high and the Council doesn't always know if its services are giving good value for money.
- 81** The Managing Performance element assesses how well the Council manages and improves its services and contributes to wider community outcomes. The Council scores 2 out of 4 for managing performance
- 82** The Council involves local people in the work it does and decisions it makes. But it knows it needs to improve the way it tells people what it has done because at the moment they don't feel they can influence decisions.
- 83** The Council provides some good services such as street cleaning and recycling. It uses its own resources (land or money) to help provide more housing that people can afford to rent or buy.
- 84** Work to understand how it can make a difference on climate change is at an early stage. The Council talks to vulnerable people to make sure they are able to get the services they need.
- 85** Bromsgrove is now a safer place to live. Crimes are reducing, but residents are still worried about crime. Because the Council works well with the police and others, anti social behaviour is less of a problem than it has been. The Council is also helping support local people and businesses through the recession.
- 86** The Council has a good approach to engaging with black and ethnic minorities and vulnerable groups. The Council encourages disabled people to have a stronger voice.

- 87** For the 12 months to 31 March 2009, 72 per cent of performance indicators used to measure how well the Council performed improved. Although this number is fewer than the number (79 per cent) in the previous year the Council's performance is overall improving.
- 88** The Council is open and honest about its achievements and the areas that it has to improve.
- 89** The Council scores 2 out of 4 for Use of Resources. Details of this assessment are provided earlier in this document.
- 90** The Council shares a shared Chief Executive with Redditch Borough Council. Services will be shared between the two Councils which should give better value for money, and a shared management team will realise savings of about £1.2 million over five years. The Council is also working with the County Council and all Worcestershire district Councils to share some services.

Closing remarks

Independence

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

Audit fees

92 The audit fees have been reported within the Annual Governance Report and the detail is included within Appendix 1.

Reporting

93 I have discussed and agreed this letter with the Chief Executive and the Head of Financial Services. I will present this letter at the Audit Board in February 2010 and will provide copies to all members.

94 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 as listed in Table 3.

Table 3

Report	Date issued
Audit plan	May 2008
Your Business @ Risk	December 2008
Audit opinion plan	March 2009
Project Management	April 2009
Report to those charged with governance	September 2009
Opinion on financial statements	September 2009
Value for Money Conclusion	September 2009
Use of Resources	November 2009
Annual Audit Letter	November 2009

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

Elizabeth Cave
District Auditor
December 2009

Appendix 1 – Audit Fees

96 The audit fees have been reported within the Annual Governance Report and the detail is shown in Table 4.

Table 4 Audit fees

	Actual £	Proposed £	Variance £
Financial statements and annual governance statement	82,790	61,800	20,990
Value for money	45,800	45,800	0
Total audit fees	128,590	107,600	20,990
Non-audit work	0	0	0
Total	128,590	107,600	20,990

Appendix 2 – 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.

Table 5 Theme 1 - Managing Finances

Theme 1 - Managing Finances score	2
Key findings and conclusions	
<p>The Medium term financial plan is clearly linked to corporate objectives identifying cost pressures and efficiencies. There is an integrated financial and corporate planning process. Consultation on the Council's budget is undertaken in a variety of forms to engage the public including the use of a Budget Jury and the use of the internet by way of an on-line survey. The Council's knowledge of its costs is improving although some of its costs have not been routinely analysed to date. The Council has a robust system for managing efficiencies and delivering cost savings from non priority services. The Council's spend is relatively high compared to others and satisfaction is average or lower than average. The Council has an improved understanding of the reasons behind this. Quarterly integrated performance and finance reports are used for monitoring delivery of objectives. The 2008/09 accounts were approved before the deadline of the end of June. The audit of these accounts found that there was a significant error and uncertainty in relation to relation to the accounting treatment of intangible assets for the Spatial Project of £4.5 million. A qualified opinion was issued on the 30 September. The opinion was qualified on two counts. Firstly regarding uncertainty of £2.4 million as evidence for this expenditure to be capital was not available and secondly regarding a disagreement for £2.1 million of expenditure on management consultancy costs which should have been charged to revenue.</p>	

Appendix 2 – Use of resources key findings and conclusions

<p>KLOE 1.1 (financial planning) score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>Overall the Council performs adequately across this KLOE.</p> <p>There is a process for the setting of its medium term financial plan (MTFP) which is clearly linked to corporate objectives detailing resource requirements, milestones and targets. The MTFP identifies cost pressures and efficiencies however this did not include consideration of the funding of the Spatial Project other than from Capital. There is an integrated financial and corporate planning process with business planning being embedded. Savings are identified to balance the budget. The Council is clear on what resources are or are not a priority and will re-prioritise resources.</p> <p>There is public consultation in a variety of ways including on-line budget consultation, the use of a budget jury, presentation to young people and employees. An annual report is produced which is published in the local newspaper.</p> <p>All budget holders are required to sign up to the efficiency savings as well as ensuring their budget is managed within the set level. There is a regular training program provided to budget holders and members to develop financial skills.</p>	
<p>KLOE 1.2 (understanding costs and achieving efficiencies) score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>Overall the Council performs adequately across this KLOE.</p> <p>The Council's knowledge of the costs it incurs is improving however costs have not been routinely analysed to date. There is some understanding of the additional resources made available through partnership working.</p> <p>Cost information to support decision making is of reasonable quality and where appropriate it is supported by other relevant information for example performance, satisfaction, demographics, diversity. Cost reviews have been undertaken to compare with benefits realised from projects enabling the Council to better appraise options for example the scaling down of the second phase of the Spatial Project.</p>	

Appendix 2 – Use of resources key findings and conclusions

Theme 1 - Managing Finances score	2
<p>The Council's spend is relatively high compared to others and satisfaction is average or lower than average. The Council has an improved understanding of the reasons behind this and is proactively working to improve through developing service reviews and delivering shared services. There is an understanding of local context, how this impacts on spend and on how this may change the shape of future service delivery.</p>	
KLOE 1.3 (financial reporting) score VFM criterion met	1 No
Key findings and conclusions	
<p>All focus points for this KLOE but one were assessed at level 2. One was assessed at level 1 because the focus point of 'prepares accounts that meet statutory requirements, financial reporting standards and present fairly, or give a true and fair view of, the financial performance and position' were not met because a qualified opinion was issued on the financial statements. Under the UOR assessment arrangements this means that the conclusion for this KLOE is that overall the Council performs poorly for this KLOE.</p> <p>The Council produces quarterly integrated performance and finance reports. The reports are presented to the Performance Management board reporting on the Council's financial position for the previous quarter, future pressures and where additional savings can be made. The report also shows forecast outturn for the financial year. Monthly reports are available to budget holders within 4 working days of the month-end. The 2008/09 accounts were approved before the deadline of the end of June. The audit of these accounts found that there was a significant error and uncertainty in relation to relation to the accounting treatment of intangible assets for the Spatial Project of £4.5 million. A qualified opinion was issued before the deadline of the end of September. The opinion was qualified on two counts. Firstly regarding uncertainty of £2.4 million as evidence for this expenditure to be capital was not available and secondly regarding a disagreement for £2.1 million of expenditure on management consultancy costs which should have been charged to revenue. An annual report is produced which is available in a number of formats and the Council publishes summary financial information in the local newspaper.</p>	

Table 6 Theme 2 - Governing the Business

Theme 2 - Governing the Business score	2
Key findings and conclusions	
<p>For the theme of Governing the Business the Council is performing adequately.</p> <p>The Council is improving its understanding of the market in relation to procurement and commissioning and has delivered improved outcomes as a result of working with partners. Different ways of procuring and commissioning services and goods have been considered and collaborative arrangements are in place with Redditch Borough Council. There is improved access to services for its customers.</p> <p>An overall framework is in place to produce relevant and reliable data and information to support decision making and manage performance. Quarterly performance reports including costs are made to members. Data quality procedures have been prepared for performance indicators which include checks by senior managers. The national indicator set was introduced from April 2008 and our spot checks on three of the national indicators found that arrangements for 2 were not in place by the end of the year. Standards and procedures are in place to make sure that data is secure and the Council has implemented the Government Connect gateway.</p> <p>The basics of good governance are in place including code of conduct for members, standing orders, financial instructions and scheme of delegation. Working relationships between members and staff have improved. The Council has a clear vision of what it wants to achieve based on a sound understanding of local need. Partnership arrangements are in place with the Local Strategic Partnership and the Voluntary Community Sector.</p> <p>The Council has embedded risk management procedures with member and staff champions. Risk management within project management is being developed and the approach is becoming more robust. The findings from the 2008/09 and the 2007/08 opinion audits were that the control environment is adequate. There is a small internal audit team supplemented by services from Worcester City Council and a dedicated Benefits Fraud investigation team.</p>	

<p>KLOE 2.1 (commissioning and procurement) score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>Overall the Council performs adequately across this KLOE.</p> <p>The Council's understanding of the market in relation to procurement and commissioning is at an early stage. However there are some good examples of improved outcomes for people as a result of working with partners, eg the improved fitness suite at the Dolphin Centre where the Council learnt from its work with Wychavon District Council and consequently led to better products and more competitive prices being achieved. The Council considers different ways of procuring and commissioning services and goods. It is using collaborative arrangements with other Councils to deliver its payroll service which was introduced in September 2008 with some implementation problems and is pushing forward shared service arrangements with Redditch Borough Council with whom it has a shared Chief Executive.</p> <p>The Council has a clear understanding of the inequalities and diversity of its communities and this is reflected in the Sustainable Community Strategy (SCS). However the links between the Council's procurement strategy and the SCS are at an early stage of development. An example of an explicit link is the commissioning of community transport. The Council has identified the opportunity to work with partners in a number of areas to sharedly commission and procure services and goods.</p> <p>The Council has good arrangements in place to engage with stakeholders, service users and harder to reach groups. Services are now being reviewed taking account of the assessment of needs. This in turn is starting to impact positively on the commissioning and procurement of services, for example the work to deliver the high dependency toilets in the town centre.</p> <p>The improved access to services is improving customer's experience of services and satisfaction levels. For example, customers now find it easier to contact the Council by telephone and more services are web enabled eg the submission and viewing of planning applications on line and the payment of Council Tax bills on line.</p>	

Appendix 2 – Use of resources key findings and conclusions

KLOE 2.2 (data quality and use of information) score	2
VFM criterion met	Yes
Key findings and conclusions	
<p>Overall the Council performs adequately across this KLOE. Data quality procedures have been prepared for performance indicators including the carrying out of checks by the head of service to certify that the data is of good quality and information correct. There is regular challenge of service managers around data integrity and some evidence of scrutiny challenge on performance and quality of data. DQ awareness courses have been run ensuring staff understand the DQ strategy and their responsibilities including the consequences of inaccurate data. There is a performance champions group acting as gatekeepers for performance data. The risk register includes an entry regarding the implications of poor data quality and its management. The data quality spot checks showed that arrangements to support 2 of the 3 National indicators tested were not in place. There is a quarterly financial and performance report to Cabinet along with information on trends and comparatives which means senior officers and members are better placed to make well informed decisions.</p> <p>Information sharing protocols between the Council and partner organisations are not in place and resources have yet to be allocated to move forward.</p> <p>The quality of data given to members and officers to ensure that well informed decisions are made is reasonable. Information is often underpinned by diversity and equality issues and demographic information. Performance targets are set and reported on. These targets are monitored to ensure that they are appropriate to ensure outcomes are met.</p> <p>Standards and procedures are in place to make that systems are secure. There is an IT security policy and the compliance with policies and procedures is checked. The code of connection to the Government gateway was approved and these standard policies are being incorporated into the Council.</p>	

<p>KLOE 2.3 (good governance) score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>Overall the Council performs adequately across this KLOE. Working relationships between members, senior management and where appropriate, with staff have improved and are generally good. Senior roles and responsibilities are set out in the constitution along with delegated powers. Induction and development opportunities for members are good with compulsory training for certain statutory committees and diversity and equalities.</p> <p>A clear vision of what the Council wants to achieve exists based on a sound understanding of local need. The improved relationship between members and staff has led to more public confidence in decisions which may be unpalatable for some, for example the Foyer Scheme half way hostel for young people going from prison to living independently. Planning was approved however the Chief Executive offered to mediate for residents between partners which led to people feeling they had been listened to and action taken.</p> <p>Codes of conduct are in place for members and training on ethics is undertaken by all members. There is publicity about the role of the standards committee. The receipt of gifts and hospitality for members is monitored. Whistleblowing procedures are not widely communicated and there are areas of governance arrangements around staff conduct which could be improved for example declarations of interest.</p> <p>Good governance arrangements are in place with the Local Strategic Partnership. Key partners are invited to Cabinet/corporate management team away days to give their views on budget expectations. The involvement in partnerships is reviewed and the Council will withdraw where the partnership is not providing VFM or the service could be better provided elsewhere. There are close working relations with the Voluntary Community Sector partners.</p>	

Appendix 2 – Use of resources key findings and conclusions

KLOE 2.4 (risk management and internal control) score	2
VFM criterion met	Yes
Key findings and conclusions	
<p>Overall the Council performs adequately across this KLOE. Procedures are in place to identify and manage corporate risks with departmental and service risk registers being maintained and monitored. Risks are assessed for likelihood and impact with individuals leading on actions. The medium term financial plan includes a risk matrix which highlights the risks for the three-year period together with clear and concise actions which are required to either eliminate or minimise the risk. There is an officer and member risk champion. The risk management process within project management is not effective and the Council has recognised that its current approach needs to be more robust with the use of issues logs, options appraisals, identification of resource requirements and the consideration of value for money in projects.</p> <p>The Council has a counter fraud and corruption strategy. During 2008/09 the internal audit section covered fraud and corruption as part of their role. The Benefits section has a fraud team investigating allegations, securing repayment of fraudulently claimed benefit and successfully taking prosecutions. The Council is piloting a Voice Recognition Analysis tool to provide indicators of fraud. This tool analyses responses by claimants who call the office and uses markers to prompt further follow up. The Council participated in the National Fraud Initiative 2008.</p> <p>The core functions of an audit committee are provided by the Audit Board. There is an internal audit section which has an approved plan of work which regularly reports to members. Standing orders, financial instructions and a scheme of delegation are in place. All reports to members are approved by the monitoring officer and the Section 151 responsible finance officer. The findings from the opinion audits for 2008/09 and 2007/08 are that the control environment is adequate.</p>	

Table 7 Theme 3 - Managing Resources

Theme 3 - Managing Resources score	2
Key findings and conclusions	
Overall the basic requirements are in place. The Council is Investors in People accredited and operates a Modern Managers Framework setting out the standards required of managers. Organisational change is effectively managed through visible and open leadership. Arrangements have been made to prepare a workforce plan to be implemented in winter 2009 and the Council's position is not considered different to that of other district Councils. The Council has achieved Level 3 of the Equality Standard and Job Evaluation was implemented in May 2009.	
KLOE 3.1 (use of natural resources) [not applicable to district Councils in 2008/09]	N/A
KLOE 3.2 (strategic asset management) [not applicable to district Councils in 2008/09]	N/A

Appendix 2 – Use of resources key findings and conclusions

KLOE 3.3 (workforce planning) score	2
VFM criterion met	Yes
Key findings and conclusions	
<p>The Council is improving its services to the public. Gaps in staff skills are identified through the performance management framework and Personal Development review which identifies training and development needs to increase performance and standards. Each member of staff has a monthly one to one with their manager. The Council has improved the way it is perceived as an employer. The level of employee satisfaction is important to senior officers and members and annual surveys of satisfaction are carried out. There are effective performance management arrangements to support management including sickness absence.</p> <p>A workforce plan is being developed in collaboration with Redditch Borough Council with implementation during winter 2009. The Council is Investors in People accredited and operates a Modern Managers Framework setting out the standards required of managers supported by a comprehensive training program.</p> <p>Organisational change is effectively managed through visible and open leadership. The Chief Executive meets staff and gives clear messages whether good or bad and any members of staff can meet with him individually. This is supported by staff and manager forums.</p> <p>There are established policies and practices to support diversity. There is an Inclusive Equalities scheme and an Equality and Diversity Forum has been operating over the last couple of years. The workforce reflects the local population in relation to age and ethnicity, though not in terms of disability. The Council has achieved Level 3 of the Equality standard. Job Evaluation has been implemented in May 2009.</p>	

Appendix 3 – Action plan

Pg no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Audit Letter 2008/09 Recommendations						
8	R1 Ensure that my agreed Annual Governance report recommendations are implemented by the agreed deadlines.	3	Head of Financial Services			
12	R2 Ensure actions plans are in place to address the key improvement areas from my Use of Resources review.	3	Head of Financial Services			
14	R3 The members should monitor delivery of savings expected from shared services and ensure any outstanding legal issues resolved.	3	Chief Executive			
16	R4 Ensure that my agreed Your Business @ Risk report recommendations are implemented by the agreed deadlines.	3	Head of Financial Services/Head of E-Government and Customer Service			

Appendix 3 – Action plan

Pg no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
16	R5 Ensure that my agreed Project Management report recommendations are implemented by the agreed deadlines.	3	Assistant Chief Executive/ Improvement Manager			

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