

# **Annual Audit** **Letter**

**Brentwood Borough Council**

**Audit 2009/10**

**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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# Key messages

**This report summarises my findings from the 2009/10 audit. My audit includes two elements:**

- **the audit of your financial statements (pages 6 to 11); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 12 to 15).**

**I have included only significant recommendations in this report. The Council has accepted these recommendations.**

## **Audit opinion and financial statements**

**1** I issued a qualified 'except for' audit opinion on 21 October 2010. This meant that the accounts presented a 'true and fair' view of the Council's financial position at 31 March 2010 except for some areas where I was not able to obtain sufficient assurance. These related primarily to the comparative 2008/09 figures.

**2** A number of amendments were made to the accounts as a result of my audit. The overall impact of these changes was to increase the general fund balance by some £2 million.

**3** Whilst I issued my opinion 21 days after the statutory deadline of 30 September 2010, this was considerably earlier than the audit opinion for 2008/09, when I issued a disclaimer opinion on 10 December 2009, and the two previous years, when the audit opinions were issued in February 2008 (in respect of the 2006/07 financial statements) and December 2008 (in respect of the 2007/08 financial statements).

**4** Before giving my opinion, I reported to those charged with governance (in this case the Audit Committee) on the issues arising from the 2009/10 audit. I presented this report on 28 September 2010 and provided a supplementary report to the Chair of the Committee on 21 October 2010.

**5** The fact that I was able to issue an audit opinion, albeit a qualified 'except for' one, is an improvement on the disclaimer opinion that I issued on the 2008/09 financial statements. However, a significant amount of extra work was needed before I was able to issue the 2009/10 audit opinion, and many amendments were made to the financial statements. The main areas where extra work was needed were:

- cashflow statement;
- collection fund adjustment account;
- financial instruments adjustment account;
- HRA and associated notes;
- capital financing requirement; and
- capital accounting.

**6** In some areas, the Council experienced difficulties in complying with new accounting requirements which applied for the first time in 2009/10; for example in relation to the collection fund adjustment account. In other areas, the historical records used for the calculations were poor, and in some cases incorrect, leading to difficulties in establishing the 2009/10 figures.

**7** Material amendments were made to the accounts to:

- remove the creditor in respect of the Assize House Trust Fund (£1.4 million);
- account correctly for the collection fund adjustment account; and
- correct the treatment of a receipt in advance (£613,000).

**8** The quality of the working papers provided by the Council in support of the financial statements was mixed. Some were good, whilst others were inadequate or non-existent.

**9** The 2010/11 accounts will be based on International Financial Reporting Standards (IFRS) for the first time. To meet the new requirements the Council will need to do a significant amount of work, including restating the 2009/10 accounts. As part of a national survey by the Audit Commission, I assessed the Council as being at high-risk of not delivering good quality IFRS-compliant accounts on all areas considered. The Council has outline plans to address the issues relating to the introduction of IFRS, but a clear, detailed project plan is needed to mitigate the risks of non-compliance with the new requirements.

## Value for money

**10** I concluded that, during 2009/10, the Council did not meet the minimum standards for four of the nine criteria I assessed. As a result, I issued a qualified 'adverse' value for money conclusion on 21 October 2010. The criteria not met were:

- planning for financial health;
- timely and reliable financial reporting;
- good governance; and
- managing risks and internal control.

**11** Whilst my value for money conclusion was still qualified, there was some improvement from 2008/09, when I had also assessed arrangements for data quality and workforce planning as inadequate. The Council made improvements in both these areas in 2009/10. I am aware from my ongoing work that, whilst more remains to be done, the Council is working to make improvements in 2010/11, for example in revising and updating the medium term financial strategy.

## Grants

**12** The Council's arrangements for the administration and compilation of government grant claims and returns are weak. I am required to certify the claims and returns the Council prepares in line with arrangements agreed by the Audit Commission with relevant government department. Key claims in respect of housing benefit and council tax benefit subsidy and national non domestic rates were heavily qualified in 2008/09 and my work to date on the 2009/10 claims indicates that little improvement has been made. The claims and returns provide significant income for the Council. Errors in the preparation of claims can result in loss of income for the Council if penalties are applied or subsidy is withheld. As audit work for the certification of claims and returns is charged on an hourly basis, weaknesses in working papers and errors in claims can also result in addition costs for the Council.

## Audit fees

**13** The indicative audit fee of £162,000 was set out in my audit opinion plan issued in February 2010. This was based on a number of assumptions, including the provision of good quality working papers. In my Annual Governance Report issued in September 2010, I noted that the identification and resolution of the issues set out in that report, along with weaknesses in working papers, meant that substantial additional audit work had been required. I also reported that an additional fee would be required and that this would be discussed and agreed with the Director of Finance following completion of the audit. The audit has now been completed and an additional fee of £35,000 has been agreed (Appendix 1).

## Current and future challenges

**14** The Government has made clear its priority to tackle the budget deficit. The results of the Comprehensive Spending Review announced on 20 October 2010 set spending limits for every government department. As a result, annual spending reductions averaging 7.1 per cent each year for the next four years (28 per cent over the period) will be applied to councils.

**15** A more accurate assessment of the impact of the Comprehensive Spending Review will not be identified until the provisional financial settlement for local authorities is announced in December 2010. It is however clear that the cumulative impact of the savings required will be unprecedented. This comes on top of significant savings already made in 2009/10 and in the 2010/11 budget.

**16** Officers have proposed savings of £1.7 million (net of some growth) in the 2011/12 budget. Further work is needed to identify an additional £0.9 million saving for the year. Alongside this, work is also being undertaken to identify medium term savings (for example through shared services, asset strategy and customer channel migration) to meet the ongoing pressures.

**17** While the general fund balance at 31 March 2010 has increased to £4.250 million, the balance sheet indicates potential weaknesses in financial standing. The Council has few short-term liquid resources other than debtors and significant long-term liabilities, namely the PWLB borrowing. Following debt rescheduling in 2009/10 the Council will have to repay borrowing of £5 million over the next two years. The Council has also reduced its short-term investments to nil at 31 March 2010, compared to £6.25 million at 31 March 2009. Whilst a snapshot at 31 March 2010, this does indicate a risk that the Council lacks sufficient liquid resources to meet its current financial commitments.

**18** In response to these issues, the Council is looking at re-profiling its debt and also its capacity to extend borrowing to fund the capital programme and other ways of generating cash through the sale of assets. The Council has also introduced a cash flow forecasting and management system.

### **Follow-up of 2008/09 section 11 recommendations**

**19** My 2008/09 Annual Audit and Inspection Letter contained a series of statutory recommendations made to Members of the Council under section 11 of the Audit Commission Act 1998. The recommendations related to the Council's finance function capacity and financial position. I presented the letter to the Council at its meeting on 22 February 2010 and included an initial follow-up of progress in addressing the recommendations in my interim audit report presented to the Audit Committee in June 2010.

**20** Now that my 2009/10 audit is complete, I have considered further the progress made by the Council in response to the recommendations. My updated assessment is set out at Appendix 3.

# 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.**

**I gave a qualified opinion on the Council's 2009/10 financial statements on 21 October 2010. This was 21 days after the statutory target date.**

## Overall conclusion from the audit

**21** My issue of a qualified 'except for' audit opinion is an improvement on the disclaimer opinion that I issued on the 2008/09 financial statements on 10 December 2010.

**22** Whilst this was 21 days after the statutory deadline of 30 September 2010, this was considerably earlier than the audit opinions for 2008/09, when I issued a disclaimer opinion on 10 December 2009, and the two previous years 2007/08 and 2006/07, when the audit opinions were issued in February 2008 (in respect of 2006/07) and December 2008 (in respect of 2007/08).

**23** Before giving my opinion, I reported to those charged with governance (in this case the Audit Committee) on the issues arising from the 2009/10 audit. I presented this report on 28 September 2010 and provided a supplementary report to the Chair of the Committee on 21 October 2010.

**24** A significant amount of extra work was needed before I could issue my audit opinion and many amendments were made to the financial statements. The quality of the working papers provided by the Council in support of the entries in the accounts was variable. Some were good, while others were inadequate or non-existent. The main problems identified through the audit are outlined below.

**25** The financial statements presented for audit contained many internal inconsistencies, numerical inaccuracies and spelling and grammatical errors. This required a significant amount of time and resource to resolve. As a result of all the amendments made to the accounts, the general fund balance increased by some £2 million.

**26** Several of the errors identified during the audit were a result of failure to correctly apply accounting standards and the 2009 Statement of Recommended Practice (SORP). For example:

- The cash flow statement was not compliant with the requirements of Financial Reporting Standard (FRS)1. This also required substantial amendment and revision because of changes to other primary statements and notes. The Council needs to revisit the arrangements for producing this statement in future years.
- The draft financial statements presented for audit did not contain the following entries as required by the SORP:
  - collection fund adjustment account; and
  - financial instruments notes.
- The housing revenue account and associated notes, and the capital financing note were not complied in accordance with the SORP. This resulted in significant work by the Council and my audit team.

**27** Capital accounting is an area the Council have had difficulty with. My audit of the 2009/10 financial statements found improvements in the robustness of the asset register. However errors were identified in the classification expenditure that was capital in nature, added to the value of a fixed asset in the balance sheet, expenditure that was revenue in nature and that should be charged to the income and expenditure account.

**28** Material amendments were made to the accounts for the following.

- The Assize House trust fund: the creditor (£1.314 million) was not a valid obligation for the Council. As a result, the cash and bank balance had to be reduced by £501,000 and £813,000 written back to the income and expenditure account as an exceptional item.
- Collection fund: the Council did not implement the changes required by the SORP. As a result, the Council continued to recognise a Collection Fund Reserve instead of a Collection Fund Adjustment Account. Correcting this error resulted in material amendments to the debtors, creditors and reserves figures.
- The writing back to the income and expenditure account of government grants deferred (£631,000); these were incorrectly treated as receipts in advance within the balance sheet despite there being no continuing justification for this treatment.

## Significant weaknesses in internal control

**29** The Council's Annual Governance Statement was consistent with the 2009/10 Head of Internal Audit Opinion and my understanding of the Council. The Head of Internal Audit Opinion gave limited assurance on the system of internal control.

**30** During 2009/10 Internal Audit issued the following opinions on their audits:

- three areas received substantial assurance;
- 12 areas received limited assurance; and
- three areas received no assurance.

**31** In addition to the weaknesses identified by Internal Audit, my interim audit report, which I presented to the Audit Committee on 28 June 2010, identified several weaknesses within the Council's financial systems. As a result, I was unable to obtain the level of assurance from controls that I expected for debtor income, creditor payments, cash receipting and housing benefit systems. My report included recommendations to improve controls within these systems. Implementing these recommendations would both improve internal control and also enable me to place greater reliance on these controls, thereby improving the efficiency of my audit and potentially leading to a lower audit fee.

### Recommendation

**R1** Address the recommendations made in my annual governance report and interim audit report to improve internal control.

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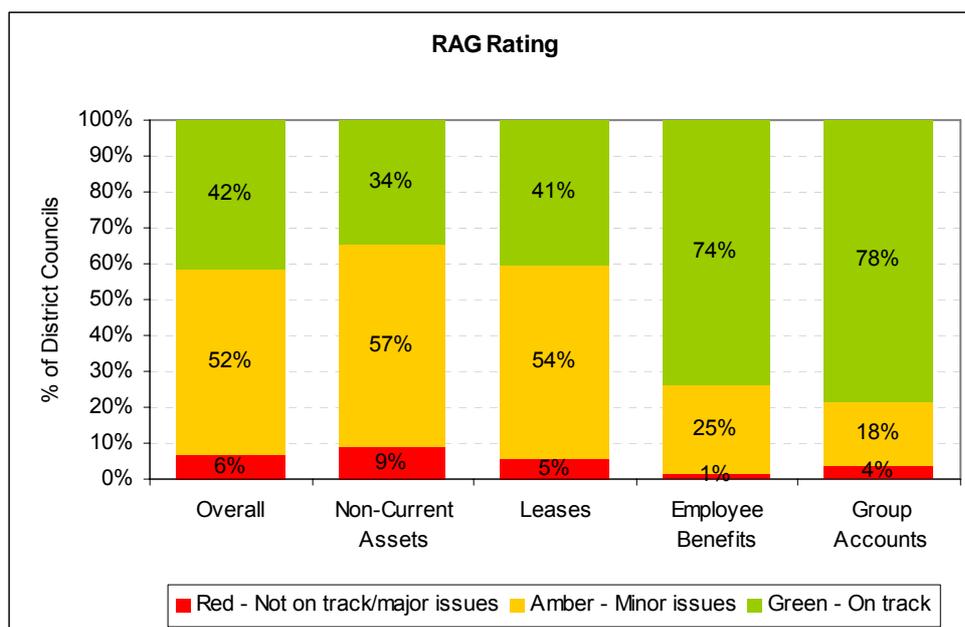
## International Financial Reporting Standards

**32** Local authorities have to produce their accounts under International Financial Reporting Standards (IFRS) for 2010/11. The Council has an outline plan for this work and has briefed the Audit Committee on the background to the requirements. A clear, detailed project plan is needed to mitigate the risks of non-compliance with the new requirements.

**33** The Audit Commission undertook a survey of auditors of all local authorities in summer 2010 to assess local authority readiness for IFRS. As part of this survey, I rated Brentwood as being at high-risk of not delivering good quality IFRS-compliant accounts on all areas reviewed. My assessment of Brentwood's readiness compared to other district councils is highlighted in Figure 1.

Figure 1: **Overall readiness for IFRS**

Compared to other district authorities, Brentwood is at higher risk



Source: Auditor survey summer 2010

**34** The Council plans to restate the opening balance sheet at 1 April 2009 and the 2009/10 financial statements and produce a skeleton set of 2010/11 IFRS-compliant accounts by 31 January 2011. This is behind the timescale advised by CIPFA however there should be time for external audit review of the work undertaken before the financial year-end. Failure to meet the planned timescale increases the risk of the 2010/11 draft accounts being produced after the statutory deadline of 30 June. There is also a higher risk that I may not agree with the Council's treatment of key items within the draft accounts. Both risks would increase the likelihood of either a late or qualified audit opinion for 2010/11.

**Recommendation**

**R2** Prepare a detailed action plan for producing IFRS-compliant accounts within the relevant timescales.

**Grant claims**

**35** I reported the results of my work on the Council's 2008/09 grant claims and returns in my 'Certification of Claims and Returns report' in February 2010. My report noted significant weaknesses in the Council's arrangements. I am required to certify claims and returns under arrangements agreed by the Audit Commission with the relevant government department. The following paragraphs set out the issues arising from my initial work on the 2009/10 claims and returns, which is ongoing.

**36** The administration of the Housing and Council Tax Benefit Subsidy Return is weak, affecting my ability to complete the necessary audit work on the 2009/10 claim. The Department for Work and Pensions (DWP) has also requested that I undertake follow-up work on the 2007/08 and 2008/09 claims. The Housing and Council Tax Benefit Subsidy provides significant income for the Council which can be adversely affected by errors in the preparation of the claims, if penalties are applied or if subsidy is withheld. As audit work for the certification of claims and returns is charged on an hourly basis, weaknesses in working papers and errors in claims can also result in additional costs for the Council.

**37** The Housing Revenue Subsidy return was heavily qualified in 2008/09. All the issues reported on the 2008/09 claim have continued in 2009/10. The Council needs to address all the issues that in my qualification letters to ensure the issues identified are being addressed.

**38** The Council did not undertake a survey of their housing stock in accordance with the housing revenue account guidance as required for the Housing Stock Base Data Return. This has resulted in a qualification of the return.

**39** The 2009/10 Pooled Housing Capital Receipts return submitted for audit was incorrectly compiled, for example in not including the allowable cost of capital improvement works made to its housing stock. As a consequence, the Council may potentially over-contribute to the pool. Officers are currently amending the return to address this error. The Council needs to ensure staff are fully trained to ensure the Council is making the correct contribution to the pool.

**40** Delays in receiving the grants to be certified combined with delays in receiving responses to audit queries, increases the risk that certification deadlines will be missed. This potentially presents a risk of penalties being applied or subsidy withheld, and of additional costs to the Council through extra certification work.

## Recommendations

**R3** Ensure that the Housing and Council Tax Benefit claim is prepared accurately, reflecting its importance to the Council.

**R4** The Council should undertake a full housing stocktake and to ensure that housing data is fit for purpose in the future.

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## Recommendations

- R5** Ensure that the Pooled Housing Capital Receipts return is correctly compiled and ensure that the Council is making the correct contribution to the pool
  - R6** Address the recommendations in my 2008/09 Certification of Claims and Returns report, and all relevant qualification letters that have been issued, to improve the grant certification process.
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# Value for money

**I considered whether the Council is managing and using its money, time and people to deliver value for money.**

**I assessed your performance against the criteria specified by the Audit Commission and as a result have qualified my value for money conclusion.**

## **2009/10 use of resources assessments**

**41** At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on Comprehensive Area Assessment (CAA) would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

**42** However, I am still required by the Code of Audit Practice to issue a value for money (VFM) conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

**43** I report the significant findings from the work I have carried out to support the VFM conclusion.

## **VFM conclusion**

**44** I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

**45** My findings are summarised in the following table.

Table 1:

Criteria	Adequate arrangements?
<b>Managing finances</b>	
Planning for financial health	No
Understanding costs and achieving efficiencies	Yes
Financial Reporting	No
<b>Governing the business</b>	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	No
Risk management and internal control	No
<b>Managing resources</b>	
Natural resources	Yes
Workforce	Yes

46 As a result, I issued a qualified 'adverse' conclusion stating the Council had inadequate arrangements to secure economy, efficiency and effectiveness in its use of resources. This was due to the number and significance of the weaknesses identified.

47 The main reasons for my 2009/10 qualification are outlined below:

- Planning for financial health: Financial and operational performance monitoring were not linked and the Council did not prepare a Medium Term Financial Strategy in 2009/10. In addition, the Council's balance sheet indicates potential weaknesses in financial standing due to the low level of short-term liquid resources.
- Timely and reliable financial reporting: Financial information was inconsistent during the year and financial reporting was not robust. I issued a qualified opinion on the 2009/10 financial statements.
- Good governance: The Council did not have a Strategic Partnership Policy in place and there were no formal partnership governance arrangements. The Council's partnerships were not subject to regular review, and there was no complete and up-to-date record of all partnerships.
- Managing risks and internal control: Major control weaknesses were identified during my audit and the Head of Internal Audit Opinion for 2009/10 gave limited assurance on the Council's system of internal control. Risk management arrangements are weak, with no arrangements to manage risks arising from partnerships.

**48** My assessment of the Council's arrangements to secure value for money only considers arrangements in place during 2009/10 (that is up to 31 March 2010). Whilst my value for money conclusion was still qualified, there was some improvement from 2008/09, when I had also assessed arrangements for data quality and workforce planning as inadequate. The Council made improvements in both these areas in 2009/10. I am aware from my ongoing work that, whilst more remains to be done, the Council is working to make improvements in 2010/11. Some of these improvements are set out in the following paragraphs.

**49** Financial management and planning arrangements have been strengthened during 2010. The 2010/11 budget was more robust than in previous years and proposals for setting the 2011/12 budget are comprehensive and in line with best practice. Public consultation has been incorporated into the planned processes with the aim of agreeing a budget in November 2010. The Council is taking steps to improve its financial management and strengthen its financial standing. However the Council has still not developed a Medium Term Financial Plan.

**50** Financial reporting is improving, but the Council needs to ensure its monthly budget monitoring continues to be robust and reliable and that Members are regularly updated with an accurate financial position and forecast.

**51** The Council has now developed a Partnership Framework that considers governance arrangements for partnerships and aims to ensure that partnerships deliver the Council's objectives. The Brentwood Local Strategic Partnership (LSP) has now appointed a dedicated Coordinator and Coordination Group to oversee the work of the LSP. The Council plans to review the levels of governance and monitoring for each type of partnership.

**52** Internal control weaknesses are being addressed by the Council. However a greater emphasis is needed in this area; improving the system of internal control needs to be a clear priority.

**53** The Council has now put in place a number of strategies and policies to manage and deliver the risk of fraud and corruption, including Anti Fraud and Corruption Policy and the Money Laundering Strategy.

## Recommendations

**R7** Ensure Members are regularly updated on the Council's financial position and that monthly budget reporting continues to be robust and reliable.

**R8** Ensure that control weaknesses are addressed and the system of internal control is strengthened.

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## Risk-based performance reviews

**54** To support my consideration of the value for money criteria outlined above, I undertook the following reviews:

- performance management;
- workforce planning; and
- planning services.

**55** I completed sufficient work on these studies to support my value for money conclusion and the key messages from this work have been included as part of my value for money conclusion.

## Approach to local value for money work from 2010/11

**56** Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work for 2010/11.

**57** My future work will be based on a reduced number of reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

**58** I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my work and the key messages for the Council in my annual report to those charged with governance and my annual audit letter.

# Current and future challenges

## Financial pressures

**59** The Government has made clear its priority to tackle the budget deficit. The results of the Comprehensive Spending Review announced on 20 October 2010 set spending limits for every government department. As a result, annual spending reductions averaging 7.1 per cent each year for the next four years (28 per cent over the period) will be applied to councils.

**60** A more accurate assessment of the impact of the Comprehensive Spending Review will not be identified until the provisional financial settlement for local authorities is announced in December 2010. It is however clear that the cumulative impact of the savings required will be unprecedented. This comes on top of significant savings already made by the Council in 2009/10 and in the 2010/11 budget.

**61** The Council will need to build the outcome of the spending review into its financial plans. The Council expects that because of grant reductions and the effects of the recession there will be a shortfall in income of £2 million in the next two years.

**62** The Council's final financial position for 2009/10 was better than anticipated. This was due in a large part to a VAT refund of £1.4 million received late in the financial year. This was reported to Council in February 2010 as part of the budget setting process for 2010/11. In addition the amendments made to the 2009/10 financial statements as a consequence of my audit increased the Council's General Fund balance by some £2 million. As a result the general fund balance stood at £4.250 million at 31 March 2010.

**63** The Council is reviewing its minimum level of reserves and work is continuing to improve the Council's budget management processes. The aim of this work is to provide a more accurate picture of the Council's financial position and to better place the Council to respond to the more challenging economic and financial climate.

**64** The Council has also recently drawn up a draft Medium Term Financial Plan based on assumptions about the Council's likely financial settlement from government. The Plan covers the four year period 2010/2011 to 2013/2014 and shows budget gaps of £2.6 million for 2011/2012, £1.1 million for 2012/2013 and £0.6 million for 2013/2014. More detailed work has focused mainly on 2011/12 and has identified savings proposals totalling £1.7 million (net of some growth). This leaves a balance of £0.9 million of additional savings to be identified for 2011/2012. Alongside this work, the Council is looking at options to identify medium term savings (for example through shared services, asset strategy and more efficient ways that residents can access Council services (for example through the Internet) to meet the continuing financial pressures.

## Recommendations

**R9** Ensure the 2011/12 budget is balanced and realistic, and that it takes steps to achieve the savings and efficiencies over the short and medium term in response to the financial pressures it faces.

**R10** Assess the impact of the comprehensive spending review and financial settlement on the Council, and ensure that this is reflected in the Council's Medium Term Financial Plan.

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## Financial health

**65** While the general fund balance at 31 March 2010 has increased to £4.250 million, the balance sheet indicates potential weaknesses in financial standing. The Council has few short-term liquid resources other than debtors and significant long-term liabilities, namely the PWLB borrowing. Following debt rescheduling in 2009/10 the Council will have to repay £5 million of borrowing over the next two years (£2.5 million in April 2011 and £2.5 million in April 2012).

**66** The Council has also reduced its short-term investments to nil at 31 March 2010, compared to £6.25 million at 31 March 2009. Whilst a snapshot at 31 March 2010, this does indicate a risk that the Council lacks sufficient liquid resources to meet its current financial commitments.

**67** In response to these issues, the Council is looking at re-profiling its debt and also its capacity to extend borrowing to fund the capital programme and other ways of generating cash through the sale of assets. The Council has also introduced a cash flow forecasting and management system.

## Recommendation

**R11** The Council should review the level of its short-term liquid resources to ensure that they are sufficient.

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## Closing remarks

**68** I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Audit Committee on 4 January 2011 and will provide copies to all Council Members by 30 November 2010.

**69** Detailed findings, conclusions and recommendations in the areas covered by my audit were included in the reports I issued to the Council during the year.

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Table 2:

Report	Date issued
Audit opinion plan	January 2010
HR Workforce Planning	June 2010
Performance Management	June 2010
Interim audit report	June 2010
Health inequalities follow-up	September 2010
Annual Governance Report	September 2010
Supplementary Annual Governance Report	October 2010
Planning Services	November 2010

**70** The Council has taken a positive and helpful approach to my audit, notwithstanding the difficult circumstances of the audit and the issues set out in this letter. I wish to thank the Council staff and Council Members for their support and cooperation during the audit.

Paul King  
District Auditor

November 2010

## Appendix 1 Audit fees

	Actual £	Proposed £	Variance £
Financial statements and annual governance statement	135,600	100,600	+35,000
Value for money	61,400	61,400	
Total audit fees	197,000	162,000	+35,000
Non-audit work	0	0	0
Total	197,000	£162,000	+35,000

The proposed audit fee of £162,000 was set out in my audit opinion plan issued in February 2010 and was based on a number of assumptions, including the provision of good quality working papers. The additional fee of £35,000 reflects issues reported in the Annual Governance Report issued in September 2010. The report noted that the identification and resolution of those issues, along with weaknesses in working papers, meant that substantial additional audit work had been required. The additional fee has been discussed and agreed with the Director of Finance.

## Appendix 2 Glossary

### **Annual governance statement**

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

### **Audit opinion**

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

### **Financial statements**

The annual accounts and accompanying notes.

### **Qualified**

The auditor has some reservations or concerns.

### **Unqualified**

The auditor does not have any reservations.

### **Value for money conclusion**

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

## Appendix 3 2008/09 Section 11 recommendations follow-up

2008/09 Section 11 Recommendation	Council Response	Assessment of progress (November 2010)
<p>The Council should strengthen the capacity of the Finance team and to ensure a fully effective finance function.</p>	<p>The Council in 2009/10 recruited a permanent Head of Resources (section 151 officer) and a Finance Services Manager. A review of existing capability highlighted issues of training and development and while plans for addressing these issues are being developed, it was recognised that an immediate issue related to the closure of 2009/10 account following the serious issues identified during the 2008/09 audit.</p> <p>The Council immediately set about appointing temporary staffing with the specialist skills and knowledge to add capacity and capability stabilise the Finance function and provide coaching and mentoring to permanent staff.</p> <p>In addition, the Council developed a Finance Improvement Plan that includes addressing training and development both for the finance team and council-wide non-financial managers.</p>	<p>The Finance team was well resourced during the 2009/10 post-statements audit, but the Council remains dependant on interim members of staff, which carries an inherent risk of loss of knowledge when these staff leave the organisation.</p>

2008/09 Section 11 Recommendation	Council Response	Assessment of progress (November 2010)
<p>The Council should address the significant issues noted in my Annual Governance Report in a time-frame that will ensure the 2009/10 Statement of Accounts are complete, accurate and supported by comprehensive, auditable working papers.</p>	<p>In addition to extra resources set out above, the Council has carried out a robust review of the revised (2009/10) budget which will support the out-turn analysis. Reconciled trial balance on FMS.</p> <p>All accounting records are now captured within FMS and not separate systems.</p> <p>A trial closure programme has been developed to complete identified areas of work before 31 March 2010. The Council is using this to determine any issues likely to affect closure.</p>	<p>The Council prepared its 2009/10 financial statements by the statutory deadline of 30 June 2010, a significant improvement compared to 2008/09. However, in the period up to, and immediately after, the financial statements were approved there were three versions of the financial statements in existence. The version provided for Audit for audit was neither the version approved by the Audit Committee, nor that signed by the Chief Executive and the Leader of the Council.</p> <p>The 2009/10 financial statements provided for audit required a significant amount of extra work before I could issue my audit opinion and many amendments were required. They also contained many internal inconsistencies, numerical inaccuracies and spelling and grammatical errors. This required a significant amount of time and resource to resolve</p> <p>The provision of working papers has also improved markedly in comparison to 2008/09 and internal quality checks are now in place. However there is still scope for improvement as a full set of supporting working papers were not provided at the start of the audit. During the audit, working papers were provided in an ad hoc basis when requested and some did not adequately and fully support the accounts and some contained errors.</p>

2008/09 Section 11 Recommendation	Council Response	Assessment of progress (November 2010)
<p>The Council should put in place proper procedures to ensure that it retains knowledge of key financial systems and processes. This should include system guidance and robust handover arrangements to retain knowledge when there are staff changes.</p>	<p>An 18-month Finance Improvement Plan and Closure Plan are developed to support staff and provide guidance. Interim staff are transferring knowledge and skills through coaching permanent staff and robust handover arrangements to ensure knowledge transfer before each interim leaves the Council.</p> <p>Following a recent skills gap analysis of the finance team a training and development programme is being developed using CIPFA best practice.</p> <p>An away day was held with finance staff with internal audit manager for a 'lessons learned' from 2008/09 issues.</p>	<p>I understand that an Interim member of staff has been tasked with producing system guidance notes, but to date I am not aware that they have been produced.</p> <p>The Council have relieved heavily on Interim members of staff during the 2009/10 closedown and final accounts audit. The Council need to ensure that when these members of staff leave the Council they have a robust handover to ensure that knowledge is retained within the Council.</p>
<p>The Council should ensure that sufficient resources are directed towards addressing control weaknesses in material financial systems.</p>	<p>The temporary and permanent resources are fully involved in the Council budget.</p> <p>In addition, the Statutory Officer has high-level support and validation (where necessary) on the finance output through ECC Senior Finance officers during January and February 2010.</p> <p>Within the ECC audit partnership the Section 151 Officer has access to a number of specialist audit skills including contract audit, anti-fraud and corruption.</p> <p>It is likely the Internal Audit review of key financial systems will highlight weaknesses. These will be addressed through the improvement plan with the oversight of the audit committee.</p>	<p>The 2009/10 Head of Internal Audit Opinion gave a limited assurance opinion on the system of internal control at the Council and three reports concluded that no assurance could be given.</p> <p>The Council are aware of the control weaknesses and are working to make improvements. I will review progress again as part of my 2010/11 Interim audit where I will assess the operation of controls in all material financial systems.</p>

<b>2008/09 Section 11 Recommendation</b>	<b>Council Response</b>	<b>Assessment of progress (November 2010)</b>
<p>The Council needs to determine a clear financial position using robust information. The Council should consider the implications of this financial position and take the necessary steps to ensure that its financial position is sound in short and medium term.</p>	<p>The Council and its management team have put in place measures to set a balanced budget for 2010/2011 and have in place a robust budget monitoring systems to maintain robust budgetary control in the year.</p>	<p>The Council set its 2010/11 budget in February 2010. This contained efficiency savings of £1.5 million.</p> <p>I have considered the Council's financial position and the challenges that it faces. My assessment is set out in paragraphs 14 to 18, and paragraphs 59 to 67. I have made further recommendations in respect of the need to ensure that a balanced budget is set for 2011/12; the need to consider the full impact of the Comprehensive Spending Review and the financial pressures facing the Council; and also the need for the Council to increase its short-term liquid financial resources.</p>

## Appendix 4 Action Plan

### Recommendations

#### Recommendation 1

Address the recommendations made in my annual governance report and interim audit report to improve internal control.

<b>Responsibility</b>	Tim Madden
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<b>Priority</b>	High
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<b>Date</b>	Various
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<b>Comments</b>	Detailed action plans are in place to address issues raised. These are being monitored on a regular basis within the Council.
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#### Recommendation 2

Prepare a detailed action plan for producing IFRS-compliant accounts within the relevant timescales.

<b>Responsibility</b>	Peter McKenzie
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<b>Priority</b>	High
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<b>Date</b>	December 2010
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<b>Comments</b>	Implementation Plan in prepared. Actions are now focussed on meeting the deadlines as set out and monitoring is taking place at an officer level but also through the Audit Committee.
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#### Recommendation 3

Ensure that the Housing and Council Tax Benefit claim is prepared accurately, reflecting its importance to the Council.

<b>Responsibility</b>	Peter McKenzie
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<b>Priority</b>	High
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<b>Date</b>	January 2011
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<b>Comments</b>	Currently being worked on with timescales set out for completion of the return.
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## Recommendations

### Recommendation 4

The Council should undertake a full housing stocktake and to ensure that housing data is fit for purpose in the future.

<b>Responsibility</b>	John Whelpdale
<b>Priority</b>	High
<b>Date</b>	2011/12
<b>Comments</b>	Current claim under review. Looking to complete current claim by December 2010. Reviewing approach to completing full housing stock take. Will look to achieve during 2011/12.

### Recommendation 5

Ensure that the Pooled Housing Capital Receipts return is correctly compiled and ensure that the Council is making the correct contribution to the pool

<b>Responsibility</b>	Peter McKenzie
<b>Priority</b>	High
<b>Date</b>	December 2010
<b>Comments</b>	Claim is currently under review and will be finalised in December 2010.

### Recommendation 6

Address the recommendations in my 2008/09 Certification of Claims and Returns report, and all relevant qualification letters that have been issued, to improve the grant certification process.

<b>Responsibility</b>	Peter McKenzie
<b>Priority</b>	High
<b>Date</b>	January 2011
<b>Comments</b>	A review of process to be undertaken to keep a centralised log and register to track grant claims and certification requirements in line with the Audit Commission best practice.

### Recommendation 7

Ensure Members are regularly updated on the Council's financial position and that monthly budget reporting continues to be robust and reliable.

<b>Responsibility</b>	Tim Madden
<b>Priority</b>	High
<b>Date</b>	November 2010
<b>Comments</b>	During 2010/11 budget monitoring has been embedded in the organisation. Managers now receive monthly reports, have direct contact with a link accountant and Heads of Service are subject to a monthly forensic challenge by the Head of Resources and Director of Finance. Monthly reports are taken to Finance Management Board (FMB) and reports are also made to Policy Board.

## Recommendations

### Recommendation 8

Ensure that control weaknesses are addressed and the system of internal control is strengthened.

<b>Responsibility</b>	Tim Madden
<b>Priority</b>	High
<b>Date</b>	February 2011
<b>Comments</b>	This is incorporated with internal audits key financial systems audit. Work being undertaken to address any outstanding issues.

### Recommendation 9

Ensure the 2011/12 budget is balanced and realistic, and that it takes steps to achieve the savings and efficiencies over the short and medium term in response to the financial pressures it faces.

<b>Responsibility</b>	Tim Madden
<b>Priority</b>	High
<b>Date</b>	February 2011
<b>Comments</b>	The budget process is currently being undertaken and is underpinned by a three-year financial forecast. There has been early stage member involvement which begun in early July 2010 and there has also been engagement with staff. A range of savings are being developed to meet the anticipated budget gap.

### Recommendation 10

Assess the impact of the comprehensive spending review and financial settlement on the Council, and ensure that this is reflected in the Council's Medium Term Financial Plan.

<b>Responsibility</b>	Tim Madden
<b>Priority</b>	High
<b>Date</b>	February 2011
<b>Comments</b>	This work is incorporated under the actions for recommendation 9.

### Recommendation 11

The Council should review the level of its short-term liquid resources to ensure that they are sufficient.

<b>Responsibility</b>	Peter McKenzie
<b>Priority</b>	High
<b>Date</b>	December 2010
<b>Comments</b>	A working cash flow forecasting model is in place and shows cash flow surplus to March 2011. Treasury Management Advisors have reviewed balance sheets. A strategy is being development to ensure liquid stability over medium term. A long term borrowing strategy is also being developed.

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