

Annual Governance Report

South Cambridgeshire District Council

Audit 2008/09

November 2009

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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
 - any third party.
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Ladies and Gentlemen

2008/09 Annual Governance Report

I am pleased to present my report, an earlier draft of which was discussed and agreed with members and officers at the Corporate Governance Committee on 23 October 2009.

I have now updated the report to take account of my audit work since the Committee meeting.

The report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before publishing the revised audited financial statements (pages 7 to 13);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the error; (Appendix 3);
- provide a letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4);
- note the Use of Resources (UoR) key findings and conclusion (Appendix 5); and
- agree your response to the proposed action plan (Appendix 6).

Yours faithfully

Debbie Hanson
District Auditor
13 November 2009

Key messages

This report summarises the findings from the 2008/09 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.

Financial Statements	Results	Page
Unqualified audit opinion	Yes	7
Financial statements presented for audit free from error	No	7
Adequate internal control environment	Yes	9
Use of resources	Results	Page
Use of resources overall judgement	2	14
Adequate Arrangements in place to secure value for money	Yes	15

Audit opinion

- 1 The financial statements submitted for audit were complete. They did however contain a number of material errors, as set out in this report. Other than trivial errors, the remaining errors identified are also set out in the remainder of this report.
- 2 The audit is substantially complete and subject to my final review, I propose to issue an unqualified opinion. Appendix 1 contains a copy of my draft audit report.

Financial statements

- 3 The financial statements have been amended for a number of material and non trifling disclosure and valuation errors identified during the audit. Management have not amended for the errors set out in Appendix 3.

Use of resources

- 4 The Council achieved an overall score of 2 out of 4 for its use of resources. The individual theme scores are shown in Table 3. The key findings and conclusions for the three themes, and the underlying key lines of enquiry (KLOE), are summarised in Appendix 5. I expect to issue an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

Audit Fees

- 5** Our pre statements work identified the need for an additional audit fee of £8,521. This was notified to the Chief Executive in June 2009, but has not yet been billed. The need for additional fee arose due to the extra work that was necessary to obtain assurance in respect of the:
- Valuation of fixed assets
 - Depreciation calculation and subsequent write off
 - Accounting for the revaluation reserve
 - Gain/loss on disposal calculation
 - Infrastructure asset accounting
 - Fixed asset classifications
 - Investment income accrual
 - Disabled facilities grants
 - Building control account
 - Asset allocation.
- 6** Since the completion of our pre-statements work we have identified a number of material and non trivial errors in the accounts, as set out in this report. Specific additional audit work has been necessary to obtain sufficient audit assurance in respect of:
- existence of assets within the fixed asset register
 - reconciliation of the fixed asset register, the housing maintenance database and the housing rents database; and
 - allocation of properties to beacon groups
 - subsequent accounting adjustments.
- 7** In addition, the absence of audit trails for key balances such as council tax receipts in advance, fixed asset movements and the lack of initial documentation to support assertions (for example absence of single status provision) have further increased the audit workload beyond that anticipated at the fee planning stage.
- 8** As a result of the above issues we will be required to raise additional fee in excess of the level initially notified to the Chief Executive in June. The final supplementary fee levied will be discussed with the Executive Director – Corporate Services on the conclusion of the audit.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

9 I ask the Corporate Governance Committee to:

- consider the matters raised in the report before publishing the revised audited financial statements (pages 7 to 13);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified which management has declined to amend or set out the reasons for not amending the error (Appendix 3);
- take note of the VFM Conclusion and Use of Resources score;
- provide a letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements.

Opinion on the financial statements

- 10 Subject to satisfactory agreement of the final agreed amendments to the signed version of the financial statements and completion of my final review of the accounts and audit work, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.
 - 11 Should any further matters arise in concluding the outstanding work that needs to be reported, we will raise them with the Executive Director – Corporate Services and the Chair of the Corporate Governance Committee.
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Errors in the financial statements

- 12 Our audit work identified a number of material disclosure errors in the financial statements. These are to be amended in the revised financial statements. Details of these amendments are set out below.
- 13 The non trivial errors that have been amended in the revised financial statements are set out in Appendix 2. The non trivial errors that management have decided not to amend are set out in Appendix 3. These Appendices include all errors identified as part of the audit, including those previously reported to the Corporate Governance Committee in October.

Revaluation reserve

- 14 The failure to allocate the Major Repairs Allowance (MRA), which was used as a proxy for depreciation, and capital expenditure to beacon groupings in 2007/08 meant that the opening balance on the Revaluation Reserve at 1 April 2008 was overstated by some £3.424 million and the Capital Adjustment Account understated by a similar amount. This resulted in disclosure of an in-year Prior Period Adjustment in the audited accounts.
- 15 As a consequence, the 31 March 2009 balances on the Revaluation Reserve and the Capital Adjustment Account in the initial financial statements were also overstated. Together with the consequential impact in respect of housing stock figures and garages; material and significant changes have been made to a number of the primary and supplementary statements as well as the associated notes. The full detail is shown in Appendix 2.

Housing stock figures

- 16** The fixed asset register, the housing maintenance database and the housing rents database had not been reconciled. The differences between these records which were identified during the audit were material to the accounts. A reconciliation exercise has subsequently been carried out and this has identified that:
- The original fixed asset register included 25.81 equivalent dwellings more than it should have, four of which related to properties held on operating leases
 - The allocation of dwellings to beacon groups was significantly misstated
 - Unoccupied dwellings awaiting demolition were included within beacon groups at full value, rather than under surplus assets held for disposal
 - Dwellings transferred in advance of sale to Registered Social Landlords (RSL) were accounted for inconsistently, with these dwellings being either excluded from the beacon groups or included at full value. Depending on their use by the RSL these should have either been within beacon group or surplus assets held for disposal
 - Two properties identified as 'To be sold' within the housing rents systems were included as operational assets within beacon groupings rather than surplus assets held for disposal
 - The housing rents system includes within the gross debit properties that have either been sold or demolished. Although all these properties were identified as void it indicates a weakness in control.
- 17** The movement of assets between council dwellings and surplus held for disposal changes the valuation basis. Council dwellings are valued at Existing Use Value for Social Housing (EUV-SH), which is 46% of EUV for the Eastern Region, whereas surplus properties are valued at market value. As a result of the above the opening balances on the Council dwellings, Capital Adjustment Account and Revaluation Reserve have been overstated and surplus held for disposal understated. The full detail is shown in Appendix 2.

Garages

- 18** The Council's block garages, with a closing balance of £2.842 million (opening balance £3.162 million), were incorrectly classified in the Balance Sheet and Note 11 as Council dwellings rather than other land and buildings.

Fixed asset register

- 19** The above issues identified that the existing fixed asset register does not comply with all the requirements of CIPFA's Code of Practice on Local Authority Accounting for the United Kingdom 2008, the Statement of Recommended Practice (SORP). In addition, the forthcoming changes arising from the introduction of International Financial Reporting Standards (IFRS) will add additional requirements. This is a significant weakness that is now reflected within the Annual Governance Statement.

Financial statements

20 Our review of the fixed asset register also identified inclusion of assets that were fully depreciated. Full depreciation of assets should only occur once the asset is no longer of use and the asset should be written out of the accounts and fixed asset register. Although not significantly impacting on the net book value of the fixed assets, these have been understated. The fixed asset register should only include assets that are still held or in use and have a value.

Pension disclosures

21 The “pension interest cost and expected return on pension assets” line in the Housing Revenue Income and Expenditure Account was understated by £1.976 million. This had been compensated for by a similar understatement of the “HRA share of contributions to the Pensions Reserve” line in Statement of Movement on the Housing Revenue Account balance.

Recommendation	
R1	Introduce a fixed asset register that fully meets the SORP and forthcoming IFRS requirements.
R2	Establish an integrated housing database that ensures that the fixed asset register, housing maintenance database and housing rents database are fully reconcilable.
R3	Include the significant weaknesses and planned actions in respect the following systems within the Annual Governance Statement: <ul style="list-style-type: none">• Lack of reconciliation of the fixed asset register, housing maintenance database and housing rents system• Non-compliance of the fixed asset register with the SORP.
R4	Confirm whether fully depreciated assets are still held/in use and amend the fixed asset register if they are not.
R5	Review the methodology for establishing FRS 17 entries in the financial statements to ensure reconciliation to the actuarial report.
R6	The Corporate Governance Committee should consider whether to adjust the financial statements for the errors that I have identified through my audit. Currently management has decided not to amend the financial statements for a number of these errors. If your considerations lead you to concur with management, I would require detail of your rationale for not amending the errors to be set out within the letter of representation.

Material weaknesses in internal control

22 As outlined above, our post statements work identified weaknesses or an absence of controls over the completeness, accuracy, valuation and allocation, existence and rights and obligations of the assets contained within the various housing asset databases and fixed asset register. As a result detailed substantive testing has been carried out to verify the respective core information.

- 23** We have not identified any further weaknesses in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.
- 24** We have not provided a comprehensive statement of all weaknesses which may exist in internal control, or of all improvements which may be made. We have reported only those matters which have come to our attention because of the audit procedures we have performed.

Recommendation

R7 Introduce controls within the integrated housing asset database that ensure the completeness, accuracy, valuation and allocation, existence and rights and obligations of the database are validated.

Letter of representation

25 Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 4 contains my request for the representations I seek to obtain from you.

Key areas of judgement and audit risk

26 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table 1.

Table 1 Key areas of judgement and audit risk

These issues were included in the previous report presented to you in October

Issue or risk	Finding
The Council may not have sufficient capacity to address its challenging growth and improvement agenda.	The delay in filling new Executive Director – Corporate Services post was partly offset by the sharing arrangement with neighbouring council. Use of Resources work indicated that time taken to fill vacant posts further reduces the capacity of the Council to meet its aspirations.
The Improvement Board will continue to meet to monitor progress in implementing recommendations from Corporate Governance Re-inspection.	The final Improvement Board meeting was held in January 2009

Financial statements

Issue or risk	Finding
The Council is proposing to consult tenants on a housing stock transfer in 2009 in order to address projected financial pressures on the HRA and housing stock in future years.	The Council received a 'No' vote to transfer from the tenant ballot that took place in May 2009. The Council is currently reviewing the financial and operational implications in the light of the possible national changes to the financing of the HRA.

Accounting practice and financial reporting

27 I consider the qualitative aspects of your financial reporting. Table 2 contains the issues I want to raise with you.

Table 2 Qualitative aspects of financial reporting

These issues were included in the previous report presented to you in October

Issue or risk	Finding
The adverse impact of the 'Credit Crunch' on the Treasury Management arrangements of the Council.	No impairment of financial instruments required. The reduction in investment income is taken account of in the Medium Term Financial Strategy.
The Council does not possess an asset register that is able to store all necessary data against each individual asset/beacon group to enable the newly introduced capital requirements to be met in future years, e.g. recording revaluations/impairments against individual assets/beacon groups.	A revised fixed asset register that substantially meets the requirements has been produced during post statement work. However, further work is still required to ensure the register is able to provide the required level of information. In particular, linkages between beacon group and individual properties need to be established on a single database.
In respect of HRA expenditure the Council has previously capitalised based upon the MRA criteria. Capitalisation should be based upon FRS 15 as expounded in the SORP.	Our review identified that a year end exercise had been completed to ensure that quoted capital expenditure met the FRS 15 definition and elements were transferred to revenue as a result of this exercise. Our subsequent testing did not identify further elements that did not meet the FRS 15 criteria.
Potential material misstatement due to incorrect application of the capital accounting rules.	See errors in the financial statements.

Issue or risk	Finding
Non compliance with SORP disclosure requirements	See errors in the financial statements.
Legal status of transfer from Building Control Account to the General Fund.	The direct transfer was removed from the General Fund as part of the 2009/10 budget process and 2008/09 closedown.
Incorrect reporting of Member allowances	The total for members allowances quoted in the Statement of Accounts and on the Council website was understated by £868. Incorrect analysis of individual councillor amounts on the website ranged from a £558 understatement to a £488 overstatement.
All balances or key assertions should be supported by appropriate audit trails. This is essential for systems that do not allow retrospective interrogation. It is also important that the absence of expected entries is evidenced.	<p>Our work identified inconsistency in the standard of audit trails supporting key entries in the accounts. Examples included:</p> <ul style="list-style-type: none"> • No breakdown of the council tax receipts in advance (£0.841 million) was available • No reconciliation between the fixed asset register and Note 11 • The council tax debtor analysis was greater than amount in the balance sheet by £0.025 million • Accountancy had no initial evidence to support the absence of a single status provision • There were unexplained movements on earmarked reserves of £0.035 million • Account balances inconsistent with working papers which had not been updated to reflect late changes e.g. bad debt provision calculations

Financial statements

Recommendation	
R8	Complete the review of Housing Services, arising from the 'No' vote, so that changes in service provision and expenditure are fully reflected in the 2010/11 budget and ongoing Medium Term Financial Strategy.
R9	Examine and validate the proposed capital programme against FRS 15 criteria as part of budget setting process. Monitor and confirm compliance with criteria during year rather than as a year end process.
R10	Review existing closedown process and identify balances and system reports that are time specific and integrate their production into the process.
R11	Ensure that all key entries in the financial statements are fully evidenced, with clear audit trails, as is the rationale for the exclusion of expected items.

Use of resources

I am required to consider how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and give a scored use of resources judgement.

I am also required to conclude 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** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 29** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 30** The Council's use of resources theme scores are shown in Table 3 below. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 5.

Table 3 Use of resources theme scores

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

- 31** Detailed findings are included in Appendix 5, along with areas for improvement.

Recommendation

R12 Address the areas for improvement identified from our Use of Resources assessment, as detailed in Appendix 5

Impact of the recession

- 32** The economic downturn and banking crisis are having a very significant impact on public finances and the bodies that manage them. The impact on treasury management strategies has been immediate, but there are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams. There are further challenges for policy priorities where patterns of demand for services are changing.
- 33** The Council is responding to this challenge; the latest medium term financial strategy takes account of the impact of the economic downturn and therefore contributes to the challenging financial position. The implications of this are understood and the challenges faced are being acknowledged by the Council as a whole. The Council does not have any investments with Icelandic banks or other 'at risk' institutions.
- 34** Though the economic downturn is presenting specific issues and risks to the Council, I am satisfied that it is taking appropriate steps to respond to this. However, this is an area I will continue to consider closely when assessing how the Council makes effective use of resources during my 2009/10 audit.
-

Value for money conclusion

- 35** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out in Appendix 5.
- 36** I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my draft report.

Appendix 1 – Independent auditor’s report to Members of South Cambridgeshire District Council

Independent auditor’s report to the Members of South Cambridgeshire District Council

Opinion on the financial statements

I have audited the Authority accounting statements and related notes of South Cambridgeshire District Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of South Cambridgeshire District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Executive Director – Corporate Services and auditor

The Executive Director’s responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

Appendix 1 – Independent auditor’s report to Members of South Cambridgeshire District Council

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

Opinion

In my opinion the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority’s Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditor’s Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, I am satisfied that, in all significant respects, South Cambridgeshire District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Debbie Hanson

Officer of the Audit Commission

Audit Commission, Regus House, 1010 Cambourne Business Park, Cambourne, Cambridge, CB23 6DP

November 2009

Appendix 2 – Adjusted amendments to the accounts

The following misstatements have been identified during the course of my audit and management will be adjusting the financial statements. I bring them to your attention to assist you in fulfilling your governance responsibilities. These issues were included in the previous report presented to you in October, although figures have now been included in relation to the first item.

Adjusted misstatements	Nature of adjustment
Material misstatements	
<p>Balance Sheet – Revaluation Reserve, CAA; Income & Expenditure Account; Statement of Movement on the General Fund Balance (SMGFB), Statement of Total Recognised Gains and Losses (STRGL), Housing Revenue Income and Expenditure Account, Statement of Movement on the Housing Revenue Account Balance (SMHRB).</p> <p>The relevant associated notes to the Core and Supplementary Statements.</p>	<p>Our work on capital identified that the Council had not:</p> <ul style="list-style-type: none"> • allocated the MRA and in-year capital expenditure to individual beacon groupings in 2007/08 • reduced the opening value of council dwellings to reflect the impaired state of dwellings identified in setting the capital programme for 2008/09 • reconciled the fixed asset register, housing maintenance database and the housing rents database • correctly allocated properties to beacon groupings • included unoccupied properties awaiting demolition as surplus assets, but included at full value in beacon groupings • established the correct accounting treatment for assets transferred in advance of sale to RSLs • moved all ‘to be sold’ properties to surplus assets • correctly allocated block garages to ‘other land and buildings but included in council dwellings • explained in the text to Note 11 the in-year prior period adjustment to intangible assets. <p>This leads to the following material and significant changes to the primary and supplementary statements.</p>

Appendix 2 – Adjusted amendments to the accounts

	Changed entry	Increase £ million	Decrease £ million
	<i>In year restatement of balance at 1.4.2008</i>		
	Council Dwellings		8.325
	Other land and buildings	3.157	
	Surplus held for disposal	3.011	
	Investment Properties		0.310
	Revaluation Reserve		7.442
	Capital Adjustment Account	4.975	
	<i>In Year transactions</i>		
	Impairment charge to GF and HR I & E	0.954	
	Reversal of impairment charge in SMGFB & SMHRAB	0.954	
	Depreciation charge to GF and HR I&E	1.991	
	Reversal of depreciation in SMGFB & SMHRAB	1.991	
	New line in STRGL in respect of opening adjustment	2.467	
	Deficit arising from the revaluation of assets in STRGL		6.429
	<i>Balances at 31.3.2009</i>		
	Fixed Assets – Council Dwellings (NBV)		3.863
	Fixed Assets – Other land and buildings (NBV)	2.804	
	Fixed Assets – Surplus assets (NBV)	2.379	
	Revaluation Reserve		2.122
	Capital Adjustment Account	3.442	
	The associated Notes to the Core Statements and the Supplementary Statements have also been amended.		

Appendix 2 – Adjusted amendments to the accounts

Housing Revenue Income and Expenditure Account; SMHRB	The “pension interest cost and expected return on pension assets” line in the Housing Revenue Income and Expenditure Account was understated by £1.976 million. This had been compensated for by a similar understatement of the “HRA share of contributions to the Pensions Reserve” line in SMHRB.
Note 4 (Members allowances) to Core Statements	The total for Members allowances was understated by £868 due to errors in the amounts disclosed on the Council website.
Non Trivial misstatements	
Balance Sheet – Creditors and Deferred Liabilities	S106 Developers’ contributions valued at £1.063 million were incorrectly classified as deferred charges rather than as creditors.
Income and Expenditure Account	The ‘HRA Services’ line within the Income and Expenditure Account is required to agree with the ‘Net cost of services as included in the whole authority Income and Expenditure Account’ line in the HRA. The amount in the Income and Expenditure Account is overstated by £0.487 million. This relates to the HRA share of Corporate and Democratic Core. This amount should be included within the Central Services line of the Income and Expenditure Account.
Note 20 (Deferred Credits and Grants) to Core statements	Analysis shows Deferred Government Grants of £0.971 million at 31 March 2009. This is in fact: <ul style="list-style-type: none"> • Deferred Government Grants Applied of £0.370 million • Government Grants Unapplied of £0.601 million.
Income and Expenditure Account, SMGFB, STRGL, Housing Revenue Income and Expenditure Account, SMHRB and Associated Notes to Core Statements	The STRGL incorrectly contains within ‘other gains and losses’ items in relation to the disposal of assets and write out of deferred charges totalling £0.351 million. These should have been taken through the Income and Expenditure Account as part of Gains and Losses on disposal and then reversed out of the SMGFB. The elements in respect of housing should similarly be reflected through the Housing Revenue Income and Expenditure Account and SMHRB.
Income and Expenditure Account, SMGFB, STRGL, Balance Sheet – Debtors/Bad Debt Provision/General Fund, Cash Flow Statement and Associated Notes to the Core Statements	Housing Benefit overpayments at year end of £0.271 million which are to be reimbursed from future benefit payments have not been accrued in the accounts. Allowing for a 75% provision for bad debts, this increases the balance on the General Fund by £0.068 million.

Appendix 2 – Adjusted amendments to the accounts

<p>Income and Expenditure Account, SMGFB, Balance Sheet – Pension Liability and Pension Reserve, STRGL, Housing Revenue Income and Expenditure Account, SMHRB and Associated Notes to Core Statements</p>	<p>The STRGL incorrectly contained within ‘other gains and losses’ expenditure (£0.176 million) in respect of FRS 17 which should have been included in the Income and Expenditure Account and SMGFB. The elements in respect of housing should similarly be reflected through the Housing Revenue Income and Expenditure Account and SMHRB.</p>
<p>Income and Expenditure Account, SMGFB, Balance Sheet – Pension Liability and Pension Reserve, STRGL, Housing Revenue Income and Expenditure Account, SMHRB and Associated Notes to Core Statements</p>	<p>FRS 17 charges within the statements are based upon the actuary’s estimate of the Council’s contribution as opposed to their ‘lower’ actual contributions. This has overstated the entries in the Income and Expenditure account and SMGFB and the year end liability is therefore understated by £0.075 million. The elements in respect of housing should similarly be reflected through the Housing Revenue Income and Expenditure Account and SMHRB.</p>
<p>Balance Sheet – Long Term Debtors and Deferred Credits (Deferred Capital Receipts) and Associated Note to Core Statement</p>	<p>Both of these balances were overstated by £0.065 million. This was due to the balances not being written down in 2004/05 to reflect the mortgage payments made in that year.</p>
<p>Authorised for issue – Note to Core Statements</p>	<p>The SORP clarified the requirement for the Council to state within the financial statements the date up to which it had considered the implications of Post Balance Sheet Events in preparing the accounts. This should take place prior to the adoption of the accounts and then again prior to the audit opinion/certification. The authorised for issue date is now included within the Notes to the Core Statements.</p>

Appendix 3 – Unadjusted misstatements in the accounts

The following misstatement was identified during the course of my audit and the financial statements have not been adjusted by management. I bring it to your attention to assist you in fulfilling your governance responsibilities. If you decide not to do so, please tell us why in the representation letter. If you believe the effect of the uncorrected error is immaterial, please reflect this in the representation letter. Please confirm the uncorrected error in the representation letter.

Table 4 Unadjusted misstatements

These issues were included in the previous report presented to you in October. Additional items have also been identified following this meeting and these have been added to this table.

Description of error	Accounts effected	Value of error £Million
Increase in FRS 17 valuation of Pension Fund assets, following receipt of assurance letter from the auditor of Cambridgeshire County Council in respect of the administered Pension Fund.	Income and Expenditure Account, SMGFB, Balance Sheet – Pension Liability and Pension Reserve, STRGL, Housing Revenue Income and Expenditure Account, SMHRB and Associated Notes to Core Statements	£0.536
Issues identified post Corporate Governance Committee on 23 October 2009		
Gain on disposal of assets is understated.	Income and Expenditure Account and SMGFB	£0.225
Gain on disposal of assets is understated	Housing Revenue Income and Expenditure Account, SMHRB	£0.114

Appendix 3 – Unadjusted misstatements in the accounts

Description of error	Accounts effected	Value of error £Million
Reversal of adjustments to Income and Expenditure account in the SMGFB have been incorrectly netted off impairment, depreciation and amortisation rather than allocated to other headings within SMGFB.	SMGFB	£0.218
The total depreciation and impairment within the HRA Income and Expenditure account is less than the fixed asset register working papers. This is in part due to the exclusion of depreciation in respect of garages and infrastructure.	HRA Income and Expenditure; SMHRAB	£0.281
Write out of depreciation on disposals included in depreciation revaluation rather than disposal write off.	Notes 11 and 38	£0.102
Impairment charge for HRA is understated.	Note 41	£0.061
Depreciation charge is understated due to exclusion of garage and infrastructure charges	Note 40	£0.016

Appendix 4 – Request for a letter of representation

Our reference CEN/CA223/2008-9/Letter of representation request

20 October 2009

Alex Colyer
Executive Director – Corporate Services
South Cambridgeshire District Council
Cambourne Business Park
Cambourne
Cambridgeshire CB3 6EA

Direct line 0844 798 4142
Mobile 07879 487172
Email n-gibson@audit-commission.gov.uk

Dear Alex

Audit of Accounts 2008/09 Request for a letter of representation

International Standards on Auditing set out guidance on the use by auditors of management representations (ISA (UK&I) 580) and on possible non-compliance with laws and regulations (ISA (UK&I) 250). We have interpreted this guidance as it affects local authorities and we expect the following points to apply:

- auditors may wish to obtain written representation where they are relying on management's representations in respect of judgemental matters (for example the level of likely incidence of a claim), which may not be readily corroborated by other evidence;
- auditors are likely to request written representations on the completeness of information provided;
- auditors may wish to obtain written representation on issues other than those directly related to the financial statements;
- the letter is dated on or near to the date on which the auditor signs the opinion and certificate;
- the letter is signed by the person or persons with specific responsibility for the financial statements; and
- the letter is formally acknowledged as having been discussed and approved by the Corporate Governance Committee, as those charged with governance of the Council.

I would expect the letter of representation to include the following:

Compliance with the statutory authorities

An acknowledgement of your responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008: A Statement of Recommended Practice which presents fairly the financial position and financial performance of the Council and for making accurate representations to you.

Uncorrected misstatements

Confirmation that the effects of any uncorrected financial statements misstatements (to be listed in the Annual Governance Report) are not material to the financial statements, either individually or in aggregate and that these misstatements have been discussed with those charged with governance. The reasons for not correcting any such items should be given.

Supporting records

Confirmation that all the accounting records, other records and related information, including minutes of all Council and Committee meetings, have been made available to us for the purpose of our audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records.

Going Concern

Confirmation that it is appropriate to adopt the going concern basis in the preparation of the financial statements and that the financial statements include such disclosures, if any, relating to going concern.

Irregularities

Confirmation of responsibility for the design and implementation of internal control systems to prevent and detect fraud or error and that there have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

Confirmation that you have disclosed:

- knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Appendix 4 – Request for a letter of representation

Law, regulations, contractual arrangements and codes of practice

Confirmation that there are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

Confirmation that the Council has complied with all aspects of contractual arrangements, which could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

Confirmation that the significant assumptions within the financial statements that cover, borrowing, investments, provisions, depreciation, and accruals are reasonable. Specifically in relation to:

- the appropriateness of the measurement method;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require adjustment to the fair value measurement.

Assets

Confirmation that the following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- all impairments to fixed assets have been identified and accounted for in accordance with Financial Reporting Standard (FRS) 11;
- there have been no disposals of fixed assets during the year other than those recorded in the financial statements; and
- there are no known intangible assets including patents, trade marks licenses or custodies over intellectual property rights other than those recorded in the financial statements.

Contingent liabilities

Confirmation that there are no contingent liabilities other than those, properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

Confirmation of the completeness of the information disclosed regarding the identification of related parties and that the Council's registers of interest are complete and up to date in respect of members and senior staff. The Council has ensure that all directors and key managers are aware of the requirements to declare all interests relevant to the Council, including interests of families, partners and entities controlled by them.

Post balance sheet events

Confirmation that since the date of review of the financial statements by the Corporate Governance Committee, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements and that the Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Pension provision:

Confirmation that there are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements.

The above matters are examples only. There may be other matters which you would wish to include in the management letter of representation.

I should be grateful if you could, after discussion with the Chief Executive, Monitoring Officer and other officers as appropriate, provide a signed* management letter of representation for South Cambridgeshire District Council at the appropriate time.

Yours sincerely

Neil Gibson
Audit Manager

* - Signed by the Chief Executive, Executive Director – Corporate Services and Chair of the Corporate Governance Committee (as 'those charged with governance' at South Cambridgeshire District Council).

Appendix 5 – Use of resources key findings and conclusions

The following tables summarise the key finding and conclusions for each of the three use of resources themes.

Table 5 **Managing finances**

Managing Finances: How effectively does the organisation manage its finances to deliver value for money?	
Theme score 2	
KLOE 1.1: Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
<p>The Council draws upon a variety of detailed plans to support the Medium Term Financial Strategy (MTFS) and the budget process. There are clear policies on the level of reserves, which have been adhered to. The difficult decisions necessary to tackle the underlying shortfall in the current budget, which is currently supported by reserves, have been deferred to later years. The budget process is timely and provides Members opportunity to discuss and influence the content and overall council tax or rent levels. Similarly, the MTFS is regularly reviewed and updated taking account of changes within the economic environment e.g. credit crunch. What is not always apparent is a clear linkage between the changes in spending and the consequential impact on the levels of operational performance that this will generate in either the budget or the MTFS. Review of capital programme has identified that for Housing the Council had been using the MRA definitions to decide whether items could be capitalised rather than FRS 15 criteria. The latter is a tighter criterion and has led to some elements of the capital programme being reclassified as revenue with consequential funding implications. There is limited evidence of benchmarking being actively used to challenge the apportionment of resources. Key vacancies in financial posts and the failure to appoint the new Executive Director – Corporate Services in a timely manner have delayed planned improvements in financial management.</p> <p>The Council does and has sought to involve residents and stakeholders within the financial planning process. This has involved changing the methods used and the timing of events. The approaches have not been as successful as Members would wish and the Finance Task and Finish Group put forward a number of proposals to improve in this area and achieve increased and informed input. Consistently managed outturn within overall budget, although there have been significant variances from original budgets. As a result, Members have established the need for a better understanding of why underspends occur and more timely reporting to avoid unexpected underspends that occurred in 2008/09.</p>	

Appendix 5 – Use of resources key findings and conclusions

The need for regular financial training for both Members and officers is fully recognised and was partly addressed in 2008/09 by in-house training for both. The Finance Task and Finish Group highlighted that although there was a high level of satisfaction with the training provided; Members needed more focussed training to reflect their financial involvement. Similarly, it considered that the unexpected underspends indicated that the training had not fully addressed the need to improve financial awareness at the budget holder level.

Areas for Improvement:

- Medium term financial strategy does not adequately address the underlying budget deficit
- There is a lack of clarity over the impact of spending changes on the operational performance of the Council within decision making reports
- The capital programme takes account of MRA criterion rather than FRS 15
- Planned improvements in financial management have not been achieved
- Members consider that residents and stakeholders do not have sufficient involvement in the financial planning process
- There is a variable level of understanding of why variances occur between budget and outturn
- The expected outcomes from additional finance training have not been identified or measured.

KLOE 1.2: Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?

Score

2

VFM criterion met

Yes

Key findings and conclusions

The Council understands what its costs are, but has a less well developed understanding of the cost drivers and their direct impact on service performance. It is introducing different analysis to ensure that the linkages between changes in spending can have clear performance target implications. The improvement in Housing Voids over the last year recognised that reducing voids was one of the few improvements that would financially benefit the HRA given the negative subsidy position of the Council. The move in the approach to Homelessness to preventative work rather than subsequent housing has cost benefits. These have however been only partially reflected within the budget process with resultant year end underspends. Major initiatives such as Orchard Park and Windmill Estate have been less clear in the linkage between changes in approach and the subsequent impact on costs and performance. Whilst accepting that these are ongoing projects the expected outcomes have not been clearly defined. Council tax levels are one of the lowest in the country, although this is as a result of previous use of reserves and the Council is now trapped in a 'capping' position with reserves reducing. The reporting of financial and management information is not integrated throughout the year, although changes have been implemented towards the end of the year. The Statement of Accounts financial variances are not explained in Foreword by reference to operational performance e.g. fall in planning fee income due to reduction in planning applications.

Appendix 5 – Use of resources key findings and conclusions

Fully costed options are not always provided for relevant alternatives within the decision making process. Stock retention was one of the options for the Windmill Estate, yet the report recommended redevelopment and therefore only evaluated the full or partial redevelopment options. Consequently, Members took a decision without having a key option evaluated. Similarly, reports on the Orchard Park project report make references to no cost implications or that these are covered in other reports. It is therefore not possible to see that Members have had sufficient information to enable informed decisions to be taken. The Council at both Member and officer level has a strong cost focus. It is proud of the low level of council tax. However, such a cost focus impacts upon performance levels and the interrelationship has not always been closely analysed before spending decisions have been made in respect of the case studies provided.

The Housing Futures issue and potential transfer of the Housing stock to a RSL was evaluated and involved external advisers. This approach carried out whole life (30 year) costings for the option of retaining in-house or transferring to a RSL. The analysis for the in-house option included the implications for the HRA in terms of needing to reduce both capital and revenue spend and the areas in which this would have to be achieved and what that meant to the tenant. The focus was therefore on the impact on the HRA and the tenants. What the Council had not assessed prior to the ballot was the impact on the shape, size and workload of the slimmer council that would be required if the transfer had taken place. This should have been a key factor in understanding the implications of the proposed ballot and was not provided to Members prior to their decision to go to ballot.

The Council has adequate arrangements for managing and improving value for money but there is little benchmarking to assess the value for money of services. Post implementation reviews on improvements and knowledge sharing between departments to embed value for money achievements are not widespread. Evaluation of value for money in partnership working is evolving but visible outcomes cannot yet be demonstrated. In 2007/08, only 24 per cent of the Council's performance indicators were in the top quartile nationally; compared to a district council average of 33%.

Areas for improvement:

- Identification of costs drivers and their consequential impact on operational service performance is not well developed
- The 'good practice' standards' approach to reviewing Housing Voids is not uniformly adopted for service reviews
- Outcomes for initiatives are not always clearly defined at the onset
- There is a lack of integration in performance and financial reporting
- Post implementation reviews and knowledge sharing between departments is not an organisational norm
- VFM resulting from partnership working has not been fully established or monitored on a consistent basis.

Appendix 5 – Use of resources key findings and conclusions

KLOE 1.3: Is the organisation’s financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
<p>Regular and timely reporting of financial performance against budget is provided. During the year reporting takes account of known/agreed changes to budget and monitoring takes place against the updated budget. No analysis of the reasons for the need for changes to the budget has been carried out, so it is unclear whether this is due to changed circumstances or poor budgeting. This is consistent with non financial areas with performance targets not always being adjusted to reflect the impact of budget or other changes in circumstances. In some instances the financial reporting includes performance information although this is not well developed and an area in which the Council recognises it needs to improve. The in-year and year end reporting are consistent, although the Finance T&F Group found continued examples of unreported underspends that only came to light at the end of the year. No major adverse events have impacted on the budget that had not previously been identified and adjusted for. Overall the General Fund budget was managed to a small underspend. The Council has adjusted the MTFS to reflect the expected longer term implications of the economic crisis. The Council did not have any investments with Icelandic banks at the time of the crash. Service specific management arrangements have identified that Performance Indicators are regularly reported to senior management and Portfolio Holders and are generally used in day to day management of the service. Towards the end of 2008/09, Cabinet started to receive a quarterly integrated business monitoring report detailing financial and performance information, but this arrangement is still under development. Last year there was a material change to the accounts after adoption, although this did not have an overall impact on the General Fund or HRA balances. The Council established a final accounts closure timetable in place for 2008/09. There has been some slippage due to issues around capital accounting errors which resulted in the draft Statement of Accounts being issued to Members on the Friday before the Monday committee approval meeting. Further minor amendments were tabled at the approval meeting. Prior to receipt of the Statement of Accounts our work had identified the following significant issues:</p> <ul style="list-style-type: none"> • The opening fixed asset valuations were materially overstated resulting in an in-year opening adjustment of some £5.7 million due to the failure to impair for the identified capital programme • Stand alone garage blocks, valued at some £3.16m had been misclassified as council dwellings in 2007/08 • The MRA was being used as a proxy for depreciation on housing stock, but this was not the case as MRA value is £3.178 million compared to calculated depreciation figure of £8.898 million • Disabled facilities loans were not recognised on the balance sheet (£0.407 million) • Building Control Account surplus was incorrectly being released to General Fund • Investment interest in previous year shown as debtor rather than as part of the investment balance (£0.887 million) • The proposed impairment valuation was significantly understated, requiring a revisiting of the impairment revaluation by the valuer prior to approval of the accounts. 	

Appendix 5 – Use of resources key findings and conclusions

A decisive factor in the latter occurring was that the accountancy team had not been involved in the process of establishing the terms of reference or engaging the valuer and merely received the summary valuation information. Therefore it is unclear how they had established procedures to ensure that the requirements of the SORP had been complied with.

Further issues regarding the Statement of Accounts are included in Appendices 2 and 3.

The draft Statement of Accounts is available on the Council website as is the previous Annual Audit Letter. The Finance Task and Finish Group did however identify the need for better external reporting of the Council's position to stakeholders and users. It considered that a more user friendly approach should be considered in addition to the statutory reporting framework.

Detailed planning for the implications of IFRS has yet to be carried out and reported to Members.

Areas for Improvement:

- No analysis of the reasons for outturn to budget variances has been completed e.g. changed circumstances or incorrect budgeting
- Integrated business monitoring reports for financial and performance information were in the early stages of development in 2008/09
- Closedown procedures and quality review do not ensure that the Statement of Accounts is fully compliant with the SORP
- External reporting is not seen as being user friendly
- An action plan for the implementation of IFRS has not been prepared and approved by Members.

Table 6 Governing the business

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?	
Theme score 2	
KLOE 2.1: Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
<p>The Council seeks to be involved with third sector, private sector and other public sector bodies in developing approaches to service delivery. The detailed work leading up to the housing ballot is a good example, but other work on new communities (Orchard Park) and affordable homes (Windmill estate and other land/asset transfers) also shows involvement of partner organisations. Although many sectors are involved in the developments mentioned, clearly defined and measurable objectives are not always set, thus making assessment of the success of the schemes difficult, especially when they may have a long project period. The Housing Futures is a good example of assessing the longer term implications of specific services, but this is not prevalent throughout reviews of council services.</p> <p>The Council has introduced plastic bottles into the existing kerbside recycling service. This was successfully developed and implemented as a result of the adoption of a robust project management approach, with the Council working closely with its external contractors. It was implemented on time, on budget and with no disruption to the existing kerbside service and to residents. Early customer feedback indicates increased satisfaction with the service.</p> <p>In April 2009 the Council published an updated 'Procurement Strategy'. This document sets out the steps that officers must go through during a procurement exercise. It is therefore a procurement approach as it does not set out how procurement will assist the Council in achieving its strategic objectives. For major decisions areas the Council has sought to obtain and take account of the views of service users and recipients as well as partners and other stakeholders. However, this has not been the necessarily the case at all stages with approaches being decided upon without the agreement of key stakeholders (Orchard Park). Similarly, changes to services included within the budget process have not achieved the detailed involvement of stakeholders to confirm a shared approach to procurement.</p> <p>In identifying areas to improve, the Council considers the opportunity for service redesign. This can range from the introduction of good practice approaches that other bodies have used to considering whether IT offers new alternatives. The improvement in housing voids reflected the first of these with good practice from all three private, public and voluntary sectors being obtained before redesigning the Council's approach. The outsourcing of the housing stores and the innovative use of IT in identifying usage and vehicle requirements also demonstrates service redesign.</p>	

Appendix 5 – Use of resources key findings and conclusions

The Council is seeking to develop longer term approaches to providing services and a better understand of the supply market. The Council has not taken the opportunity to make best use of the information that it gathers and apply them to similar as well as different, but linked scenarios e.g. Cambourne and Orchard Park, Orchard Park and Windmill estate.

The updated 'Procurement strategy' sets out how to approach procurement and includes carrying out cost appraisal. Our work identified that in a number of instances 'all' options were not evaluated and therefore it was not possible to confirm that the decision taken was made on complete information or was the best option.

Historically, the Council has obtained benefit from service reviews. Currently though delays in the delivery of the programmed service reviews reduces their effectiveness.

Areas for improvement:

- The expected outcomes for partnership initiatives are not clearly established at the onset making it impossible to evaluate the success or otherwise of a project
- The Council has not identified how it will use procurement to achieve its strategic objectives
- The views of other affected and interested parties as well as partners are not always obtained prior to decision making
- The Council needs to acquire a better understanding of the supply market
- The service review programme has not been achieved.

KLOE 2.2: Does the organisation produce relevant and reliable data and information to support decision making and manage performance?

Score

2

VFM criterion met

Yes

Key findings and conclusions

The production of relevant and reliable data is a cornerstone of successful delivery of services. The Council has not established a consistent level of data quality monitoring throughout all services. Quality monitoring at a corporate level is restricted to sample spot checks by Internal Audit. Within services the level of data quality monitoring ranges from high level sense checks on Performance Indicators to detailed spot checks of source data. During the year the Council introduced the CORVU performance management system, however, this is underdeveloped and the full benefits of the system are yet to be realised. The existing service data systems do not currently interface with CORVU, which requires data input. As such the local systems are being used for operational management with the information fed into CORVU being used for reporting to Members. The Council has recognised in the Corporate Governance Statement that it needs to fully embed the new performance management system, with appropriate Member and staff training, and link it to service planning during 2009/10.

Our spot checks indicated that officers were not consistently retaining audit trails to support the supplied performance indicators. Reconstruction of audit trails for the performance indicators was eventually possible and no significant errors were identified as a result of our spot check reviews.

The reconstruction exercise did identify examples of a lack of knowledge and understanding of the make up of the performance indicators. It also identified such information residing with a single officer.

Appendix 5 – Use of resources key findings and conclusions

The lack of a consistent approach to the production and retention of up to date detailed guidance and procedure notes could lead to a loss of knowledge if those members of staff left the Council. The lack of understanding of the content of the performance indicator can also lead to incorrect interpretation of the movements of the performance indicator.

Our detailed opinion work has also identified that the Fixed Asset Register does not hold all the information that is required under the SORP nor have the capacity to do so.

Arrangements for sharing and receiving quality information from partners are not well developed. The Council is not maximising the benefit it could gain from holding such partnership information, with performance information needing to be more closely integrated and interpreted with financial information.

Although the financial consequences of decisions are included in reports to Members, this is not automatically accompanied by detailed performance implications (see 1.2). In some instances all the defined options are not included in these reports; the Housing Futures was an exception as it did show implications on both financial and performance/service provision. The Finance Task and Finish Group found that the means of summarising and presenting financial and performance information should be subject to review and changes to link the level of detail to the requirements of the decision makers/stakeholders e.g. strategic, operational, residents, are now ongoing.

The importance of data security both in electronic and hard copy is fully recognised and sound systems exist to comply with the requirements of the Data Protection Act and Freedom of Information Act.

The Council manages against the national data set and some additional local indicators. It does not however always establish targets for projects/system redesign and therefore although performance may improve it does not assess whether this was in line with initial expectations.

Areas for improvement:

- Data quality monitoring is not consistent throughout the Council
- CORVU is not fully embedded with the Council's performance management regime, with additional training and detailed links to service planning being required
- Instances of inadequate audit trails in support of performance indicators which could not be easily reproduced
- Inconsistent approach to the production and retention of detailed guidance and procedure notes with knowledge residing with a single officer
- Fixed asset register does not fully comply with the requirement of the SORP
- The failure to fully develop procedures to share and receive quality information in respect of partnerships reduces the quality of performance monitoring for those partnerships
- The improvements expected from projects/systems redesign are not always identified.

Appendix 5 – Use of resources key findings and conclusions

KLOE 2.3: Does the organisation promote and demonstrate the principles and values of good governance?	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
<p>The Council's constitution reflects the principles of good governance. It was updated in January 2009 and sets out the respective roles and responsibilities and the scheme of delegation in operation. Members are provided with training, but do not have individual development plans. Member training is generic and is not compulsory. Consequently, not all Members have attended training events. Those that have were positive but a more structured, targeted approach would benefit Members ensuring their respective needs are provided for. Formal feedback is sought and reported from attendees; however the feedback covers 'opinion' issues rather than independently verifiable and measurable areas. With no preset targets it is not possible to evaluate the success of the training. Proposed strengthening of senior management capacity has yet to be achieved although the planned improvements in the portfolio holder roles have been delivered and a Corporate Governance Committee is responsible for governance and fulfils the role of Audit Committee.</p> <p>The Council has identified major partnerships and has carried out an overview of the governance arrangements against the 'Partnership Toolkit' criteria. Some of these partnerships are dictated by statutory or variable arrangements such as on new housing developments and it is these specific governance arrangements that must be in place. In a number of the schemes that were put forward as good practice the Council has failed to identify, apart from at a high level, the objectives of the partnership working. The reports establishing/justifying the partnership arrangements do not specify what the change in performance will be as a result. As such, although partnership may be the only way that for example affordable housing will be provided the Council needs to state what at a practical level each partnership will deliver.</p> <p>Progress on customer services and complaints handling had not met the targets set. Through the year response rate for the Contact Centre improved, but general staff training on complaints handling and linked customer care did not meet the planned programme.</p> <p>All Members have signed the Declaration of Acceptance of Office which includes an undertaking to abide by the national Code of Conduct, however a number of Members did not sign the Members 'undertaking' until mid year. Thus the commitment to ethical standards was not fully embedded in the year. Appropriate statutory disclosure of Members expenses takes place with the Statement of Accounts identifying how members of the public can obtain additional information. NFI data is followed up by Internal Audit. The operation of the Standards Committee follows good practice standards.</p> <p>The benefits of Scrutiny are now starting to be realized. There has been greater focus on Scrutiny and steady improvement since the Corporate Governance Inspection. There has been a programme of training and role clarity has improved and there are now liaison meetings between the Chair, the Leader and the Chief Executive. The Orchard Park Task and Finish Group, was successful in identifying lessons to be learned from the project and made recommendations to improve this and future major developments. The Finance Task and Finish Group highlighted improvement opportunities in preparation, management and presentation of financial information. Scrutiny Committee continues to meet in different locations across the district and encourage public involvement in its meetings.</p>	

Appendix 5 – Use of resources key findings and conclusions

Areas for improvement:

- Members do not have individual development plans
- Training feedback is based on 'soft' issues rather than independently verifiable and measurable outcomes
- The strengthening of senior management capacity has yet to be achieved
- The purpose and outcomes that each partnership will deliver have not been established
- Customer services and complaints handling have improved, although not to the planned extent.

KLOE 2.4 Does the organisation manage its risks and maintain a sound system of internal control?

Score

2

VFM criterion met

Yes

Key findings and conclusions

Risk management is carried out at strategic, operational and project level. The strategic risk register is reviewed and challenged at the Corporate Governance Committee on a quarterly basis. The full council considered the risk management register on an annual basis and this took place in September 2008. The revised risk registers are becoming more important in the operational and strategic management of the Council and are used in the review of budgets and budget monitoring. The MTFs now takes account of the wider issues that are raised through the risk management procedure. During the year Internal Audit reviewed how embedded the Council's approach to risk management was in the culture of the organisation and classified it as being between 'risk defined' and 'risk enabled'. Members have received training in the principles of risk management

The Council Code of Conduct for staff is incorporated within the Constitution and is supplemented by an Anti Theft, Fraud and Corruption Policy as well as Capability and Disciplinary Procedures. It is proactive in its management of the risk of fraud. There is a specialist unit in the Benefits team which is successful in terms of prosecuting HB fraud. IA raised issues, regarding the status of control in respect of fraud prevention and security. Although it is recognised that the majority of issues related to security and non material systems, the concern is that the report took almost 18 months old before the detailed recommendations were agreed.

The Internal Audit annual report for 2008/09 stated that the Council "has adequate and effective risk management, control and governance processes" and rated it as amber on their traffic light system of marking. Material systems tested by Internal Audit and External Audit have not identified any material weaknesses, apart from the issues around the Fixed Assets Register, housing management database and housing rents database mentioned earlier in the report. The Annual Governance Statement focuses on processes and actions rather than outcomes which these aim to deliver. This is indicative of the Council focussing on tasks and procedures rather than the improvements that should derive from them. Thus the implementation of a revised approach is deemed to have resolved an issue and is removed from action plans. The Annual Governance Statement has only embedding of the performance management system as an action. Further improvement of risk management is noted as a non significant governance issue.

Appendix 5 – Use of resources key findings and conclusions

IA is independent and externally provided. Attendance at the Corporate Governance Committee (Audit Committee) has identified that robust questioning is directed more at Internal Audit rather than officers. A new chairman of the Committee was appointed during the year. An internal review of their performance as an audit committee is to be carried out in late 2009. Attendance at Corporate Governance Committee has indicated that the new Members are seeking to challenge reports and also the fact that some officers reports have been circulated late and hence have expressed concern that unable to fulfil role without adequate pre warning e.g. Draft Corporate Governance Statement and Statement of Accounts.

Similar to earlier comments in respect of performance indicators systems, procedure notes and manuals are available for some, but not all business critical systems. Although, Accountancy has procedures in respect of anti money laundering regarding treasury management, but similar procedures are not in place for income collection areas.

Areas for improvement:

- Risk registers are becoming more important in the operational and strategic management of the council
- Delay in agreeing internal audit report on fraud prevention and security
- The Annual Governance Statement focuses on processes and actions but does not cover the outcomes that these seek to achieve
- Procedure notes and manuals are not available for all business critical systems

Table 7 Managing resources

<p>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?</p> <p>Theme score 2</p> <p><i>(Note that KLOE 3.1 (use of natural resources) and KLOE 3.2 (strategic asset management) have not been assessed this year)</i></p>
<p>KLOE 3.3: Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?</p>
<p>Key findings and conclusions</p> <p>The Council has an appraisal scheme which includes personal work objectives, personal development and training plans. Personal work objectives are derived from Service Plans and the Council's 3As.</p> <p>Corporate training is delivered in key skill areas such as ICT, customer service and health & safety. The Council has a Workforce Strategy and Action Plan which is reviewed annually. It also has a Recruitment and Selection Policy and procedure and has developed partnerships with other local authorities to develop a countywide jobs portal. The Council has in place an on-line application process.</p> <p>The Council worked towards developing a management competency and learning framework during 2008/09, although this has only started to be introduced during 2009/10. At the same time work is ongoing to introduce workforce plan skills, attitudes and behaviours in job and person specifications. The Council achieved Investors In People accreditation in February 2009. Although the generic benefits of such accreditation were shared with Members, the specific impact, in respect of improvement in operational performance at the Council, was not identified and has yet to be assessed.</p> <p>The Council's workforce strategy and action plan was predicated upon a no ballot result for the stock transfer. The information supplied to Members indicated that the impact on General Fund would be cost neutral based on set assumptions, therefore making the decision an issue in respect of housing. Detailed scenario workforce planning had not been carried out.</p> <p>Failure to fill the new Executive Director post have in part been mitigated by a recent share arrangement with another council, but this still prevents the required increase in senior management capacity being available at a time of significant change. Whilst, such an approach contributes to delivery within budget it should have a consequential impact on service delivery. A number of examples of failure to comply with expected procedures or downward movement in performance indicators have been attributed to staff vacancies e.g. quality checks, best value reviews. Workforce planning is more reactive than proactive.</p> <p>The Council had two major change projects underway in 2008/09, Housing Futures Change project and Job Evaluation project. Staff engagement and communications processes are in place including a staff /internal communications strategy; corporate brief; joint union meetings; staff satisfaction steering group. Similarly, the housing voids project displayed good change management practice with time being spent to bring staff on board before introducing changes.</p>

Appendix 5 – Use of resources key findings and conclusions

In 2008/09, the Council was at Level 1 of the Local Government Equality Standard and it has moved to a Level 2 in June 2009. An Equal Pay audit has been completed.

Areas for improvement:

- Management competency and learning framework developed in 2008/09, starting to be introduced in 2009/10
- Workforce plan skills, attitudes and behaviours are not included in job and person specifications
- IIP accreditation achieved in February 2009 but benefits in terms of operational performance have not been identified or assessed
- Workforce planning is not fully proactive
- Staff vacancies contribute to failure to achieve expected performance
- The Council moved to Level 2 of the Local Government Equality Standard in June 2009

Appendix 6 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Governance Report 2008/09 – Recommendations						
9	Introduce a fixed asset register that fully meets the SORP and forthcoming IFRS requirements.	3				
9	Establish an integrated housing database that ensures that the fixed asset register, housing maintenance database and housing rents database are fully reconcilable.	3				
9	<p>Include the significant weaknesses and planned actions in respect the following systems within the Annual Governance Statement:</p> <ul style="list-style-type: none"> Lack of reconciliation of the fixed asset register, housing maintenance database and housing rents system Non-compliance of the fixed asset register with the SORP. 	3				

Appendix 6 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	Confirm whether fully depreciated assets are still held/in use and amend the fixed asset register if they are not.	2				
9	Review the methodology for establishing FRS 17 entries in the financial statements to ensure reconciliation to the actuarial report.	3				
9	The Corporate Governance Committee should consider whether to adjust the financial statements for the errors that I have identified through my audit. Currently management has decided not to amend the financial statements for a number of these errors. If your considerations lead you to concur with management, I would require detail of your rationale for not amending the errors to be set out within the letter of representation.	3				
10	Introduce controls within the integrated housing asset database that ensure the completeness, accuracy, valuation and allocation, existence and rights and obligations of the database are validated.	3				

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
13	Complete the review of Housing Services, arising from the 'No' vote, so that changes in service provision and expenditure are fully reflected in the 2010/11 budget and ongoing Medium Term Financial Strategy.	3				
13	Examine and validate the proposed capital programme against FRS 15 criteria as part of budget setting process. Monitor and confirm compliance with criteria during year rather than as a year end process.	3				
13	Review existing closedown process and identify balances and system reports that are time specific and integrate their production into the process.	3				
13	Ensure that all key entries in the financial statements are fully evidenced, with clear audit trails, as is the rationale for the exclusion of expected items.	3				
14	Address the areas for improvement identified from our Use of Resources assessment, as detailed in Appendix 5	3				

Appendix 6 – Action Plan

The Audit Commission

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