

Annual Audit Letter

Uttlesford District Council

Audit 2008/09

December 2009



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Status of our reports

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

- any director/member or officer in their individual capacity; or
 - any third party.
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Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your accounts and the results of the work I have undertaken to assess the way in which you use your resources.

Accounts

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

- 5** We assess how the Council makes use of the resources at its disposal to provide local services. A national framework is applied to our assessment, with a score given between 1 (inadequate and below minimum standards) and 4 (performing strongly) in each of three key areas.
- 6** The Council is performing adequate overall (Level 2). It attained the following scores in our assessment:
 - level 2 in respect of the way it manages its finance;
 - level 2 in respect of the way it manages and governs the business as a whole; and
 - level 2 in respect of the way it manages its people.
- 7** The Council has effective financial planning, budget monitoring and statutory financial reporting. It has improved its management of costs and budgets and has revised its medium term financial strategy, so that it reflects agreed priorities. The Council set a balanced budget in 2009/10 and achieved an underspend in 2008/09. There is however

further work required to develop a better understanding of costs and improve budget management arrangements.

- 8** The Council's vision for services is clear through its corporate and service planning. Governance arrangements are in place, however weaknesses in risk management arrangements and understanding and evaluating procurement options were identified. Further improvement opportunities also exist in ensuring data security.
- 9** The Council has identified key people management goals and has managed its staff well through organisational changes. The Council has strengthened performance management and has an effective approach to underperformance. Although the Council has a productive workforce and some HR policies, it has no formal workforce plan.
- 10** In terms of the impact on the value for money conclusion I concluded that the Council met the minimum standards during 2008/09 for five of the nine criteria assessed. For the remaining criteria, weaknesses in the Council's arrangements for securing value for money were identified. Hence we issued a qualified value for money conclusion stating that the Council did not have adequate arrangements in place.

Managing Performance

- 11** The Audit Commission also assesses how well the Council manages and improves its services and contributes to wider community outcomes. The assessment considers how successful the Council is in delivering its corporate priorities. The priorities have been drawn from what matters most to the local people.
- 12** The Council scores 2 out of 4 for managing its performance (the scoring mechanism is as for Use of Resources). The managing performance score is 2 because although the Council is improving, and some services are good, there are still variations in performance in others, such as planning.
- 13** The Council has a top performing waste and recycling service and its streets are clean. It is also pioneering a scheme to increase access to energy efficiency improvements to all residents irrespective of benefits status. Housing services are good with 151 more affordable homes in the last year. It has been proactive in offering choice based lettings with neighbouring councils. It has responded well to local community needs for example by providing new playgrounds, and works well in partnership. It has also responded positively to the recession with advice services and good joint working with JobCentre Plus. However, the time taken to decide new benefit claims increased in 2008/09 following a significant increase in the number of people claiming benefit. Accuracy when processing benefit claims is still well below average although steps have been taken to address this and improvements are being made. In 2008/09 the Council also took a relatively long time to re-let council housing but is taking measures to address this.
- 14** The Council is working in partnership effectively. Services tailored to local need are delivered through this approach, for example, joint working with the Citizens Advice Bureau at Thaxted and a 'Home MoT' project which combines home energy conservation and home safety advice. The Council is also forging partnerships with neighbouring organisations in order to deliver services more efficiently.

Key messages

- 15** The Council is starting to integrate financial planning with strategic and service planning processes. It recognises it needs to develop expertise in risk management and procurement. The Council is also going through a time of radical change and is looking at various strategic options.

Overall Organisational Assessment

- 16** The Use of Resources and Managing Performance assessments are combined to give an overall organisational assessment judgement for the Council. The Audit Commission has determined that the organisational assessment judgement for Uttlesford District Council is that it performs adequately.
- 17** The Council's Managing Performance and Organisational Assessment are being reported separately by the Audit Commission's Comprehensive Area Assessment Lead for Essex.

Financial Standing

- 18** The last year has seen the country enter a significant economic recession on the back of a global economic crisis triggered by the collapse of a number of high profile international banks.
- 19** The consequence locally, is an increasing demand for public services and the likelihood of reduced levels of central government funding. Together, these provide a significant challenge for local councils as they seek to continue to provide services to local residents, whilst maintaining a sound financial position.
- 20** The Council is responding to this challenge. The implications of the recession are understood and the challenges faced are being acknowledged by the Council as a whole. The latest financial strategy considers the impact of the economic downturn and addresses the funding shortfalls and increased demand for services identified.
- 21** The impact of the recession will continue to present a challenge to the Council in the coming financial year. I will continue to monitor the Council's response and actions in this key area.
- 22** Although the Council invested in Icelandic banks in 2007, their overall treasury management strategy is sound. It expects to receive compensation for 83 per cent of the £2.2 million invested and have sufficient reserves to cover the remaining loss.

Audit fees

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

Independence

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

Recommendations

25 I have made a number of recommendations within my Annual Governance and Use of Resources reports to further develop the arrangements in place at the Council.

26 The Council should monitor the implementation of these recommendations.

Financial statements and annual governance statement

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

- 27** I issued an unqualified opinion on the Council's accounts on 30 September 2009, thereby meeting the 30 September deadline set within the Accounts and Audit Regulations 2003. In my opinion the accounts present fairly the financial position of the Council as at 31 March 2009 and its income and expenditure for the year then ended.
- 28** Before giving my opinion, I reported to those charged with governance, in this case the Performance Select Committee on the issues arising from the 2008/09 audit. I presented my report on 29 September 2009.

Accounting issues

- 29** The draft accounts were approved on the 30 June deadline as specified in the Accounts and Audit Regulations 2003.
- 30** The final accounts audit in 2008/09 has been less problematic when compared to prior years. This is a direct result of the significant improvements made to the final accounts closedown processes in 2008/09 as well as the commitment of the Council's Finance Team. In addition, there has been a significant improvement in the quality of the accounts when compared to those presented for audit in 2007/08. There is still some scope for further improvements next year and these have been discussed with officers.
- 31** One material error was identified and amended in the financial statements and a number of further amendments were made to ensure disclosures met the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2008.
- 32** I did not identify any significant weaknesses in your internal control arrangements and the Council's Annual Governance Statement was in accordance with requirements. The Council's internal audit team comply with the requirements of the CIPFA code. The financial systems underpinning the accounts continue to operate with generally sound controls in place.
- 33** I presented my Annual Governance Report to the Performance Select Committee on 29 September 2009, which included the full details of the issues arising from our audit of the accounts. I reported the adjusted and unadjusted errors that my audit had found. I requested that the Performance Select Committee formally consider the audit errors, for which officers had chosen to not adjust.

- 34** This consideration was formally recorded in a Letter of Representation to me, which allowed me to conclude my audit and issue my audit opinion.
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Certification of claims and returns

- 35** We certify the Council's claims and returns on the following basis:

- claims below £100,000 are not subject to certification;
- claims between £100,000 and £500,000 are subjected to a reduced, light-touch certification; and
- claims over £500,000 are subjected to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment leads to a reduced certification approach for these claims.

- 36** The Council's housing benefits, subsidy and base data returns, plus their National Non Domestic Rates return required amendment prior to certification and qualification letters were issued in relation to benefits, housing base data and pooled capital receipts returns. The reasons for the amendments and the qualifications have been reported to officers and improvements to strengthen the Council's arrangements for the preparation of claims and returns have been agreed.
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International Financial Reporting Standards

- 37** The national timetable for the implementation of International Financial Reporting Standards (IFRS) means that these will be first applied in the 2010/11 financial year. However, comparative figures for the 2009/10 financial year will be required.
- 38** Applying IFRS will have significant implications for the way in which local authorities prepare their annual financial statements. The Council has a project plan in place, with key milestones. The intention is to restate the 2008/09 financial statements before 30 June 2010.

Value for money and use of resources

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

I also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 39** 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.
- 40** 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.
- 41** The Council's use of resources theme scores are shown in Table 1 below.

Table 1 Use of resources theme scores

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

- 42** The key findings and conclusions for the three themes, and the underlying KLOE, are set out in my detailed Use of Resources report. The key theme findings are summarised below.

Managing Finances

- 43** The Council has shown signs of improvement over the 2008 assessment in terms of integrating financial planning with strategic and service planning processes. A new financial strategy is in place which is a clear improvement on the one used in prior years, and the financial challenges facing the Council in the medium term have been identified. Financial standing in the short to medium term is reasonable; with the

Council setting a balanced budget in 2009/10 and achieving an underspend in 2008/09. The savings targets for the next five years are challenging however, and the Council is fully aware of this and is investigating ways in which to achieve the targets.

- 44 The Council does not yet have a sound understanding of its costs and performance.
- 45 Budget monitoring arrangements are adequate and allow for action to be taken where adverse variances arise, however the Council acknowledges that a more robust challenge process needs to be put in place to ensure budget variances are reviewed and resulting actions are dealt with appropriately and in a timely fashion.
- 46 The commitment by both the finance team in terms of producing a timely and good set of accounts, complete with comprehensive working papers, as well as by members for their robust challenge and commitment to the financial statements is a significant improvement over prior years. The annual accounts contained only one material error, and were approved in accordance with statutory deadlines. The latest accounts and annual audit and inspection letter are available on the Council's website and accessible formats are used to publish information.
- 47 A treasury management policy and strategy is in place, in line with CIPFA guidance, that clearly outlines the bodies where investments can be made. Although the Council invested in Icelandic banks, their overall treasury management strategy is sound.

Governing the Business

- 48 The Council's vision for services is clear through its corporate planning and service planning. The approach to procuring and commissioning services in support of this direction is however underdeveloped. The Council recognises its weaknesses and has already delivered a procurement diagnostic through Improvement East funding.
- 49 There are adequate arrangements in place in respect of data quality with performance clearly monitored against priority indicators. There are concerns over data security and related business continuity due to the lack of off-site backups at the time of review. Processes are in place to rectify this in future years.
- 50 The Council has adopted and promotes the principles of good governance and training is provided to members. The Council has a clear purpose and vision and is committed to achieving this goal. It demonstrates a strong ethical commitment through its Standards Committee, information about which can be found on the website along with whistleblowing policies and how to make a complaint. Governance arrangements are in place for significant partnerships.
- 51 The system of internal control is effective and is supported by an internal audit unit with scrutiny through the Performance Select Committee. Risk management arrangements are in place but are considered weak. The operational risk registers are not considered by the Council to be effective and a complete overhaul of the risk management framework is due to take place in the next year.

Managing Resources

- 52 The Council has a productive and skilled workforce. Survey results show that staff satisfaction is high and sickness levels are low compared with other councils. A new performance system is now in place for all staff, including clearer targets and

Value for money and use of resources

assessment of performance alongside newly developed values and behaviours. The Council recognises the need for a workforce strategy to consider its workforce in terms of its longer strategy vision and corporate objectives. The Council has secured partnership support from Essex County Council to improve this area of weakness.

- 53** The Council has identified key people management goals and has managed its staff well through organisational changes. Staff are well supported and although there have been a number of changes and redundancies, staff satisfaction levels are positive.
- 54** The Council has well established people management policies and practices in place, including diversity. It has access to strategic HR advice through its partnership with Essex County Council and has reached Level 2 of the Equality Standard, and diversity considerations are written into service plans and committee reports.

VFM Conclusion

- 55** I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body.
- 56** Based on the Use of Resources assessment, which was linked to the criteria set out above, I concluded that the Council met the minimum standards during 2008/09 for five of the nine criteria assessed. For the remaining criteria, weaknesses in the Council's arrangements for securing value for money were identified. In particular I assessed that for the following criteria the Council did not put in place adequate arrangements to:
- have a sound understanding of its costs and performance and achieve efficiencies in its activities;
 - commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money;
 - manage its risks and maintain a sound system of internal control; and
 - manage its assets effectively to help deliver its strategic priorities and service needs.
- 57** I issued a qualified value for money conclusion stating that the Council did not have adequate arrangements in place. Although weaknesses in the Council's arrangements are still present, we recognise the improvements made when compared to prior years and that the Council is responding to their known weaknesses.

Financial standing

- 58** The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. The impact on treasury management strategies has been immediate, but there are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams.
- 59** There are further challenges for policy priorities where patterns of demand for services are changing. I have reflected on the wider environmental, specific issues and risks and the Council's response.
- 60** The financial position of the Council is becoming increasingly challenging, in particular due to:
- increased use of balances to support the budget in 2009/10. The use of reserves has increased to £0.34 million; and
 - medium term financial planning identifying funding gaps in the region of £0.25 million in 2010/11, rising to £1.3 million in 2013/14.
- 61** The Council is responding to this challenge, and the medium term financial strategy considers the impact of the economic downturn and addresses the finding shortfalls identified. The implications of this are understood and the challenges faced are being acknowledged by the Council as a whole.
- 62** The Council invested a total of £2.2 million in Icelandic banks in September 2007, which suffered a default following the collapse of the Icelandic banking system. The Council are awaiting confirmation that an agreement has been reached to compensate creditors of Landsbanki equal to (or exceed) 83p in the pound. The Council has sufficient reserves to cover the remaining loss.
- 63** Though the economic downturn is presenting specific issues and risks to the Council, I am satisfied that it is taking appropriate steps to respond. However, this is an area I will continue to consider closely when assessing how the Council makes effective use of resources during my 2009/10 audit.

Audit fees

64 The audit has been delivered and concluded within the planned fee.

Table 2 Audit fees

	Actual	Planned	Variance
Financial statements and annual governance statement	£73,000	£73,000	£0
Use of resources and performance reviews 2007/08	£36,970	£36,970	£0
Data quality 2007/08	£15,560	£15,560	£0
Whole of government accounts	£2,815	£2,815	£0
Total audit fees	£128,345	£128,345	£0

Closing remarks

- 65** I have discussed and agreed this letter with the Chief Executive and the Chief Finance Officer. I will present this letter at the Performance Select Committee on 2 February 2010 and will provide copies to all members.
- 66** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Table 3

Report	Date issued
Audit and inspection plan	May 2008
Opinion audit plan	December 2008
Annual Governance Report	September 2009
Opinion on the financial statements	September 2009
Value for money conclusion	September 2009
Annual audit letter	December 2009
Use of resources report	December 2009
Managing performance and organisational assessment	December 2009

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

Availability of this letter

- 68** This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

Paul King
District Auditor
December 2009

The Audit Commission

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

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

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

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