

Annual Audit Letter

Winchester City 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 non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Audit opinion and financial statements

- 1 I gave an unqualified opinion on the Council's accounts on 30 September 2009.
 - 2 The financial statements provided for audit were generally satisfactory. There was an improvement in the standard of working papers and financial reporting. This reflected the additional technical support that was made available to the finance team.
 - 3 A number of matters arose during the audit of the financial statements. However, none of these was significant enough to affect a reader's understanding of the accounts. The errors were mainly related to the presentation of information within the notes to the accounts and most were amended before I issued my opinion. The errors that were not adjusted were immaterial to the financial statements.
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Value for money

- 4 I issued an unqualified value for money conclusion on 30 September 2009 stating that in all significant respects, Winchester City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009. This represents an improvement over the previous year when the value for money conclusion was qualified.
 - 5 In my Use of Resources assessment, I concluded that the Council scored 2 out of a maximum of 4. This means that I have no significant concerns over the arrangements put in place by the Council and that those arrangements meet established professional practice and guidance and are operating effectively.
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Actions

- 6 There are however a number of areas where there is scope for further action. Our audit identified a number of key actions including:
 - sustaining the improvements in financial reporting and ensuring that the finance team has capacity to address key financial challenges during 2009/10;
 - embedding the Council's new treasury management arrangements;
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- continuing to develop the role of the Governance and Risk Management Groups; and
 - continuing to develop and update the Council's People Strategy and Workforce Development Plan.
- 7 I have also considered the wider impact of the recession on the Council and its financial position. This has confirmed that the Council should also determine its financial priorities, the level of service provision and potential savings in order to achieve financial balance over the period of its medium term financial strategy.

Independence

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

Financial statements and annual governance statement

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

Significant issues arising from the audit

- 9 I gave an unqualified opinion on the Council's financial statements on 30 September 2009. In carrying out the audit I focused on a number of risk areas. These included the reorganisation of the Finance Section, the requirement for improvement in fixed asset accounting, changes to the 2008/09 Statement of Recommended Practice and the Council's £1 million investment with Heritable Bank. I was pleased to note that the Council had generally satisfactory arrangements in these areas. Nevertheless a number of issues arose at the audit. The majority these were simply matters of presentation in the notes to the accounts and were not significant enough to affect a reader's understanding of the accounts.
- 10 There were a number of areas where errors were identified but the Council chose not to adjust its accounts. These included:
- adjustments to the revaluation of assets due either to an incorrect accounting treatment or errors in the valuation of assets shown within the draft financial statements;
 - an additional impairment needed in respect of City Offices and Abbey Mill; and
 - a reduction in the valuation of HRA dwellings that arose from the production of a list of the council dwellings that reconciled to the valuation in the balance sheet.
- 11 These items were not material and in my view did not distort the understanding of the financial statements. All matters arising from the audit of the financial statements were reported in detail to the Principal Scrutiny Committee in September 2009.
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Material weaknesses in internal control

- 12 During the audit we reviewed the work carried out by Internal Audit in respect of significant financial systems. This review highlighted the following weaknesses.
- Over payments to staff totalling £43,000 (the majority relating to casual staff.) These have been recovered or recovery action is being considered.
 - Inadequate separation of duties within the creditor payments system.
- 13 Our work also identified the need for a more effective arrangement to monitor the completion of control account reconciliations during the financial year. There was also a need for a more formal control account process in respect of the payroll system. The Council is taking action to address each of these issues during 2009/10.
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Accounting Practice and financial reporting

- 14 I considered the qualitative aspects of your financial reporting during the course of the audit. I recommended that the Council improve its arrangements in respect of the valuation of fixed assets and capital accounting. In particular the Council should ensure that:
- a reconciliation between the 'Orchard' system and the financial ledger is completed on a regular basis;
 - it can support the valuation of council dwellings within the financial statements; and
 - the accounting requirements of the implementation of International Financial Reporting Standards can be met through the Council's fixed asset register.
- 15 Overall I am pleased to report that there was a significant improvement in the quality of accounts preparation and financial reporting. Clearly a key task for the Council will be to sustain this improvement going forward particularly at a time of considerable change in local authority reporting requirements including the introduction of International Financial Reporting Standards.

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

- 16 The new UoR assessment framework is more demanding than the previous assessment. It is broader in scope and embraces wider resource issues such as people and workforce planning, and the use of natural resources. It also places more emphasis on considering outcomes for local people.
- 17 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.
- 18 In forming my scored use of resources judgements, I have used the methodology set out in the Audit Commission's 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 of performance.
- 19 The use of resources scores for the Council are shown in Table 1 below.

Table 1 Use of resources scores

Use of resources theme	Scored judgement
Managing Finances	2
KLOE 1.1 - Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	3
KLOE 1.2 Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	2
KLOE 1.3 - Is the organisations financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	2
Governing the Business	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?	2
KLOE 2.2 - Does the organisation produce relevant and reliable data and information to support decision-making and manage performance?	2
KLOE 2.3 - Does the organisation promote and demonstrate the principles	3

Use of resources theme	Scored judgement
and values of good governance?	
KLOE 2.4 - Does the organisation manage its risks and maintain a sound system of internal control?	2
Managing Resources	2
KLOE 3.1 - Is the organisation making effective use of natural resources?	Not applicable in 2008/09
KLOE 3.2 - Does the organisation manage assets effectively to help deliver its strategic priorities and service needs?	Not applicable in 2008/09
KLOE 3.3 - Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?	2

Overall conclusion

20 The Council has put in place arrangements that are consistent with established professional practice and guidance, that meet statutory requirements and operate effectively. There are therefore no scores less than 2 in our assessment, and this has enabled me to provide an unqualified value for money conclusion to the Council. It should be noted that in the previous year 2007/08 the value for money conclusion was qualified. There is therefore clear evidence of the Council's improvement.

Managing finances

- 21** The Council has arrangements in place to meet minimum requirements to manage its finances, with strengths in the area of financial planning.
- 22** There is a three year financial strategy in place. However this shows an underlying budget gap. The strategy that was approved in July 2009 was updated in October 2009 and forecasts a gap of £1.7 million in 2010/11 rising to a gap of over £3.7 million in 2014/15. The strategy assumes no significant increase in income levels over that period. The strategy sets a framework within which the Council can determine its financial priorities. The Council will clearly need to make some difficult decisions about its priorities, the level of service provision and potential savings in order to achieve financial balance over this period.
- 23** The poor state of the public finances nationally is also likely to affect local government bodies. The Council has already begun to feel the impact of the economic downturn and the banking crisis. Nevertheless it managed its overall expenditure within its original and revised budgets in 2008/09. In 2009/10 the Council has begun to address the continuing downturn in income streams and interest receivable and the increasing cost pressures from for example the reduction in planned savings from staff turnover. It has identified additional savings from corporate training, recruitment and supplies and services within its revised General Fund budget for 2009/10. These challenges are likely to continue into the medium term as a result of increasing demand for services set against a tightening financial outlook.

Value for money and use of resources

- 24 The impact on treasury management strategies across the public sector has been immediate. The Council had a £1 million investment in Heritable Bank, which went into administration in October 2008. The Council has therefore reviewed this investment against the requirements of its Treasury Management policy and practices and concluded that its procedures had been followed. The Council has accounted for this investment in accordance with professional guidance from 'Cipfa' and has taken the prudent approach of charging the estimated impairment loss of £0.316 million to its Income & Expenditure account in 2008/09.
- 25 The Council has also adopted a more cautious approach to its investment strategy preferring to invest with the Governments Debt Management Office since the collapse of the Icelandic Banks. An Informal Scrutiny Group of members has been set up to review the Council's Treasury Management policy and procedures and to consider any improvements that might be made. The Terms of Reference for this panel were approved in September 2009.
- 26 Financial leadership is evident across the Council with Management Team and Members meeting on a monthly basis at 'Leader's Board' to review and challenge the Council's financial performance. This fosters a good level of financial understanding before performance is formally reported to Cabinet and Scrutiny.
- 27 The Council compares its costs with its nearest neighbours using Audit Commission profiles and has reviewed back office services to determine whether costs can be reduced without adversely affecting services. The Council has a record of achieving its efficiency targets and can demonstrate some success through the use of competition and contestability through the outsourcing of services.
- 28 Budget monitoring information is produced on a timely basis. It is reliable, understandable and relevant. Budget holders can access both financial and non-financial performance information and members receive financial reports that are clear and that highlight key issues and risks.

Governing the business

- 29 The Council's Community Strategy sets out the vision of intended outcomes but does not clearly set out the inequalities and diversity of the local community. There is a good level of engagement with local communities, partners and hard to reach groups in identifying priorities for local improvement. There is an opportunity to demonstrate more fully the Council's understanding of inequalities and how the Council is narrowing the gap between vulnerable groups and the rest of the community. Equality impact assessments for all services have begun to be prepared and they are planned to be completed in 2010.
- 30 There is limited evidence of outcomes achieved in 2008/09 from procuring quality services tailored to local needs. Major procurement arrangements for waste collection, leisure centre and IT are being reviewed and options considered for when the contracts come to and end in 2010. There are also examples of service redesign and improving access to users for example through local access points, IT developments and collaborative working with other councils. The Council also collaborates on the joint provision of Internal Audit services and the appointment of the Head of Revenues with neighbouring councils.

- 31 The Council has arrangements in place for data quality, although further improvements could be made to ensure that its policy is applied to all business areas, includes relevant national standards and covers data quality arrangements in partnerships. Improvements have been made to the Council's 'Covalent' data performance system and there are plans to further utilise this system. Further training could be made available to members on data quality to enable them to demonstrate that they can effectively challenge management to ensure that all relevant data is provided. The Council has also been working to achieve the Government Connect requirements to ensure data security requirements are met.
- 32 The Council demonstrates that it has good governance arrangements through the Standards Committee which monitors member ethical issues, the Leader Board and the Corporate Management Team. A 'Governance Group' has been set up to monitor progress against the actions detailed in the annual governance statement and this has been instrumental in securing the implementation of improvements during 2008/09. The Council has a number of partnership arrangements with other organisations and good working relationships exist with the local strategic partnership. There is a partnership toolkit dated 2006, although the Council should ensure that it clearly explains its requirements of partners' risk management and performance outcome reporting.
- 33 The Council strengthened its risk management by reforming the Risk Management Group in October 2008 to ensure that risks are actively monitored in accordance with its risk management strategy. Risk updates are provided to Management Team and will be provided to the Principal Scrutiny Committee on a quarterly basis. Risks relating to partnerships are considered in the risk register.
- 34 Whistle blowing and fraud policies set out arrangements to manage the risk of fraud and corruption. The Council participates in the National Fraud Initiative, undertakes employee checks and has a policy for dealing with sanctions and prosecutions.
- 35 The Principal Scrutiny Committee delivers the core functions of an audit committee. The Council has standing orders, financial regulations, codes of conduct and a scheme of delegation are in place. The internal financial control for key systems is reviewed annually by Internal Audit and the Annual Governance Statement provides an open self-assessment and details governance issues and actions that have been taken to date.

Managing resources

- 36 The Council's People Strategy and Workforce Development Plan sets out details of the priority areas for the Council in relation to its workforce for a five year period from 2005/06, although overall outcomes are not reported upon. Recruitment via the new Hampshire Recruitment Portal has led to an increase in staff applying and reduced administration costs.

Value for money and use of resources

- 37 The Council has an on-line appraisal process with competency assessment and development process, although individual objectives are not clearly linked to business plan objectives. Investors in People standard has been met demonstrating a commitment to managing and supporting changes whilst involving the workforce. Staff costs are monitored by Finance and the Human Resources Section control vacancy management and monitor sickness, training and ethnic profile. The Council has staff policies in place which relate to equality and diversity, as well as a Talent Management Scheme.

VFM conclusion

- 38 I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. For 2008/09 the Audit Commission specified the use of resources KLOE for the Council as set out in Table 1 as the relevant criteria for the VFM conclusion at the Council.
- 39 Where the scored judgement is 2 or above, I conclude that the VFM criteria has been met. Therefore, as the Council scored 2 in all categories I was able to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Audit fees

40 Table 2 below sets out the comparison of actual to planned audit fees for 2008/09.

Table 2 **Audit fees**

	Actual	Planned	Variance
Financial statements and annual governance statement	£94,890	£94,890	0
Value for money	£35,550	£35,550	0
Whole of Government Accounts	£1,750	£1,750	
Total audit fees	£132,190	£132,190	0
Non-audit work	0	0	0
Total	£132,190	£132,190	0

41 The audit was completed in line with the planned fee that was agreed with the Council.

Closing remarks

- 42 I have discussed and agreed this letter with the Chief Executive, Corporate Director (Governance) and the Head of Finance. I presented this letter at the Principal Scrutiny Committee on 16 November 2009 and will provide copies to all committee members.
- 43 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	June 2008
Supplementary Fees Letter	June 2009
Opinion interim report	September 2009
Annual Governance Report	September 2009
Use of Resources 2008/09	October 2009
Annual Audit Letter	November 2009

Patrick Jarvis
District Auditor
November 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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